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CHEMONICS INTERNATIONAL INC

ASSESSMENT OF THE AGRICULTURAL MARKETING LOAN GUARANTEE FUND (AMLGF)
Agricultural Marketing Investment Project (AMIP)

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Republic of Guinea

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ACRONYMS

AFD	Agence Française de Développement
AMIP	Agricultural Marketing Investment Project
AMLGF	Agricultural Marketing Loan Guarantee Fund
BCRG	Central Bank of the Republic of Guinea (Banque Centrale de la Republique de Guinee)
BICIGUI	Banque Internationale de Commerce et de l'Industrie de la Guinee
CGAP	Cooperative Group to Assist the Poorest
L/C	Letter of Credit
FICA	Agricultural Marketing Foundation (Fondation pour l'Investissement et la Commercialisation Agricole)
GNF	Guinean Francs
GOG	Government of Guinea
LGP	Loan Guarantee Program
MOAL	Ministry of Agriculture and Livestock
MOPC	Ministry of Plan and Cooperation
PACD	Project Assistance Completion Date
PRIDE	Programme Integre pour le Developpement de l'Entreprise
PRIDE/Finance	Non-bank Financial Institution Established from the PRIDE Program
SEGIR FS IQC	Support for Economic Growth and Institutional Reform Financial Services Indefinite Quantity Contract
SGBG	Société Generale des Banques en Guinée
UIBG	Union Internationale de Banques en Guinee
USAID	United States Agency for International Development
VITA	Volunteers in Technical Assistance

EXECUTIVE SUMMARY

The project team of Kenneth Peoples and Chris Barltrop (the team) visited Conakry from June 27 to July 11 at the request of USAID/Guinea and in cooperation with the Government of Guinea (GOG) Discussions during the visit focused on the practical effects of the Agricultural Marketing Loan Guarantee Fund (AMLGF) and options for most effectively applying the USAID funding to achieve the Agricultural Marketing Investment Project (AMIP) objectives

The team sought advice from a wide range of GOG officials, USAID/Guinea staff, and Guinean institutions and individuals involved in AMIP The team received much support and cooperation, and all who shared their views helped the team better understand the issues This section summarizes the team's findings and recommendations, and provides an action plan

A Findings

1 The project grant agreement between USAID and the Republic of Guinea, as amended provided, among other things, a trust fund to support 50 percent guarantees of loans from approved commercial banks to Agricultural Marketing Foundation (FICA) members to support their agricultural marketing activities Successful implementation of the Loan Guarantee Program (LGP) required

- *FICA membership to match targeted borrowers* The original project design of loans from \$100,000 to \$300,000 targeted large agricultural wholesalers involved primarily in exports Support for this group would stimulate food production by improving market access Actual FICA members, however, were small traders with inadequate business expertise to manage meaningful projects FICA efforts to prepare business plans for FICA members often resulted in plans that did not reflect commercial realities or the intended fund use and could not lead to a sustainable strengthening of agricultural marketing

- *Careful credit analysis and loan administration* To manage risks and contain losses, the banks needed to conduct adequate independent credit analysis of borrowers, visit borrowers' operations, and adequately monitor the funds' use and project implementation Instead the commercial banks relied on FICA project preparation and the AMLGF guarantees, which lowered the banks's credit standards

- *Ongoing FICA and AMLGF oversight* Ongoing FICA/AMLGF oversight of borrowers was essential to ensure that business plans were followed, funds were used for their intended purposes, and trade receipts were applied to loan repayments Involvement seems to have existed during project inception and after project failure However no meaningful, ongoing monitoring or project implementation assistance appeared during the project

- *An adequate loan repayment culture* FICA borrowers had to use the loan for their intended purpose and place adequate importance on loan repayment In practice, neither was often the case

2 Original project assumptions proved invalid based on

- *Targeted client base* The original market of export wholesalers without access to bank financing that could be aided by a partial guarantee never materialized

- *Bank enthusiasm* While the project assumed active bank participation, the banks recognized that losses were inevitable and sought to limit their participation

- *FICA effect on borrower performance* The effect that FICA would have on borrower performance — essentially making non-bankable projects bankable through its intervention with the borrower — was overestimated

3 A mid-project review and attempt to restructure the loan guarantee approach did not make useful changes in the project design Reducing the minimum loan amount and expanding the client base could not address the fundamental market constraints

4 Further modification or extension of the AMLGF framework is unlikely to produce any significant improvement in results, leaving USAID and the GOG with an opportunity to reallocate the funding to more productive uses

5 The Trust Fund term expired on September 30, 1998 Article 4 of the Trust Fund agreement requires that the assets be disposed of as stated there unless USAID and the GOG agree otherwise in writing

6 Based on the information provided to the team, the original dollar value of USAID's initial capital contribution to the Trust Fund appears to be intact, and a portion of the income can meet all remaining obligations

7 While the GOG cannot receive any funds from the Trust Fund, according to Section 2 6 of the Trust Fund agreement, the GOG can agree with USAID to convert the Trust Fund into a local currency fund to support agricultural marketing activities as provided in Article 4 of the Trust Fund agreement The recipient organization(s) can certify that no funds have been or will be provided to any GOG institution, agency, or official

8 The PRIDE/Finance Business Plan is a reasonable course of action to achieve financial viability The plan has been well prepared and the issues affecting the financial viability of PRIDE/Finance adequately addressed Only time will tell whether it can be implemented in practice given the constraints of the Guinean environment and the human resources available

9 AMLGF does not constitute an independent, ongoing, viable concern having market value Maintaining AMLGF as a trustee is unnecessary for any of the team's recommended options

B Recommendations

The future of the Trust Fund includes some competing interests USAID may wish to ensure that the funds are used only for their original purpose, if at all, since allocation to other objectives would require a full reassessment of the level and direction of support it is willing to provide to the Guinean economy The Central Bank of the Republic of Guinea (BCRG) may be most interested in ensuring access to the foreign exchange and minimizing the borrowing needed to deal with recapitalization of the Credit Mutuel The Ministry of Agriculture and Livestock

(MOAL) may be most interested in channeling the funds into the agricultural sector The Ministry of Plan and Cooperation (MOPC) may prefer broader support for rural development The team's discussions with interested parties aimed at understanding these objectives and developing options to best satisfy these diverse interests The team took these various interests into account and developed the following recommendations The action plans for these recommendations are listed in Section C

B1 Recommendation 1 — Dissolve AMLGF

The existing AMLGF component design is not suited to current conditions in Guinea, and the project's time period, after two extensions, is about to expire In the team's opinion, continuing AMLGF as presently constituted, even with a substantial refocus on meeting the project's original objectives, is unlikely to produce meaningful results and is not a viable option

B2 Recommendation 2 — Dispose of the Trust Fund Assets

The options narrow to whether USAID and the GOG wish to expand support for PRIDE/Finance and, if so, whether that additional support should be limited to the current Trust Fund or should include the additional $2 6 million originally intended to supplement the Trust Fund Alternately, all funds can be de-obligated and returned to the U S Treasury

Terminate the project Terminate the project in accordance with Section 5 3 of the Trust Fund agreement and reprogram the funds Transfer the remaining principal and interest from the participating banks' accounts in New York to the U S Treasury and de-obligate the remaining $2 6 million

Terminating the project would end a program that has been unable to achieve measurable results and release USAID and GOG staffing resources for more productive activities This option does not represent a foreign exchange outflow for the BCRG since the $2 million has remained on deposit in New York It recovers USAID funding deposited with private commercial banks that could not be used for its intended purpose

Reallocate existing funds Instruct the depository banks to sell the Trust Fund's assets on deposit in New York to the BCRG for conversion to local currency as provided in Article 4 of the Trust Fund agreement, as amended The Guinean francs (GNF) proceeds would be deposited into restricted accounts established by USAID at the commercial banks to form a successor fund Subject to agreement between USAID and PRIDE/Finance, all or part of these GNF funds would be allocated by USAID to PRIDE/Finance as grant funding in support of microfinance lending Disbursements would be contingent on compliance by PRIDE/Finance with agreed upon improvements in its performance ratios Standby (or "clean") letters of credit (L/C), issued by the Guinean depository banks would be an appropriate mechanism to accomplish these transfers automatically The terms of these standby L/Cs would require PRIDE/Finance and its auditors to certify compliance with the conditions of each drawing Any funds remaining after the standby L/C expires would be automatically transferred to a USAID account and reallocated by mutual agreement between USAID and the GOG in conformity with the original project agreements The interest on the undrawn restricted deposits would be paid to PRIDE/Finance as interest income until the standby L/C expires The remaining $2 6 million would be de-obligated

Recommendation The team recommends that the GNF proceeds of the Trust Fund assets sale provide grant funding to PRIDE/Finance This grant funding would supply lendable funds sufficient to allow a meaningful increase in the lending portfolio and move PRIDE/Finance toward its break-even volume Disbursements would be controlled by setting up a domestic standby L/C with a Guinean depository bank that would permit periodic drawings by PRIDE/Finance based on presentation of certified statements confirming compliance with certain financial performance indicators

However these funds alone may be insufficient to allow PRIDE/Finance to reach break-even volume and achieve financial viability, according to its business plan Unless PRIDE/Finance obtains funding from other sources sufficient to reach a break-even volume, the funds provided would be absorbed over time by operating losses without leaving a permanent result [1]

This recommendation meets the BCRG's objective of gaining the foreign currency, complies with the MOAL's objective of using the funds to support agricultural development, addresses the MOPC's interest in furthering rural development, lengthens the life of PRIDE/Finance, and caps direct-funding support by USAID at the current $2 million

B3 Recommendation 3 — Support Sustainable Results

Besides channeling the assets of the Trust Fund to PRIDE/Finance, the team recommends supporting entry of PRIDE/Finance into the Guinean interbank market using, as a catalyst, the additional $2 6 million in obligated, but undisbursed, funding

The additional $2 6 million would be invested in a trust account with a depository institution in the United States and used to collateralize issuance of standby L/Cs in favor of Guinean banks lending to PRIDE/Finance or covering PRIDE/Finance bonds issued to Guinean banks The amounts available would increase over time as PRIDE/Finance achieves objective and reasonable benchmarks demonstrating positive profitable growth toward a break-even volume A U S manager would issue the standby L/Cs and extensions as PRIDE/Finance demonstrates performance and need for the funds Interest on the $2 6 million would pay for the L/Cs fees and the fund manager This support for local funding would extend the approach taken in Recommendation 2 sufficiently to ensure that PRIDE/Finance can reach break-even loan volume according to its business plan Increases in availability under the standby L/Cs would be automatically suspended if the targets were not achieved, without needing USAID oversight or intervention

This approach would provide PRIDE/Finance with

- Lower borrowing costs during the standby L/C period by lowering the creditor's credit risk while PRIDE/Finance progresses toward viability

- Certainty of adequate lendable funds to achieve the break-even point in a controlled fashion, providing that the evolution of PRIDE/Finance's financial condition and performance is appropriate

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[1] The funding from the Trust Fund may be combined with funding from other sources such as The Cooperative Group to Assist the Poorest (CGAP) to enable PRIDE/Finance to achieve a break-even volume without recourse to the supplemental funding dealt with in Recommendation 3 Indeed USAID and CGAP could jointly develop a funding program to achieve this result with CGAP assuming the primary monitoring role on behalf of USAID which does not wish to apply the resources or local expertise to perform this role This approach is beyond the scope of this assessment however so this recommendation only assumes use of the assets of the Trust Fund

- Relief from pressure to develop an independent depository capability, allowing it to avoid incurring the related operation costs and control risks of institutions taking public deposits and simplifying supervision by the BCRG

- Access to the Guinean money market

The standby L/C would be structured with a time limit, forcing PRIDE/Finance to eventually seek independent funding Once PRIDE/Finance becomes credit worthy, the banks will be motivated to fund PRIDE/Finance without the support of the standby L/C to justify a higher interest rate

Funding stability would require that drawings under the standby L/C be based on an increase in lending risk based on failure by PRIDE/Finance to support agreed upon financial performance indicators, not non-renewal of bank funding due to a tightening in market liquidity Documentation must conform to this objective

Activation of this additional support would require that PRIDE/Finance be able to certify compliance with the financial performance indicators so that independent access to the Guinean financial market is foreseeable In principle, no drawings should be necessary if financial viability is achieved, in which case the standby L/C would expire and the covering funds be released If, after activation a drawing does occur, claims on all Guinean bank lending to PRIDE/Finance would be honored, but no new lending would be covered The standby L/C would be not be renewed, and any remaining funds would be returned to the U S Treasury

The level of supplemental funding should be verified before final implementation of this recommendation The simplified financial projections prepared by the team, based on information received from PRIDE/Finance, show a need for supplemental support of approximately $1 million, somewhat less than the $2 6 million available Should the Cooperative Group to Assist the Poorest (CGAP) provide this funding, the supplemental support from USAID may not be necessary The actual level of maximum support agreed to should correspond with revised projections developed by PRIDE/Finance and be reviewed on behalf of USAID to ensure that PRIDE/Finance has access to sufficient funding and can reach a break-even volume Over-funding should be avoided The actual level should be made available to PRIDE/Finance *in toto* as long as it continues to meet the agreed upon performance indicators even after it has reached the break-even volume This approach permits PRIDE/Finance to confirm reaching the level of profitability needed for funding access to the Guinean financial sector

B4 Recommendation 4 — Set Conditions

Independence PRIDE/Finance is, and is likely to remain, fragile Ultimate success of USAID's additional support will require that the GOG assure a positive, enabling environment, including the following

- Formalization of the non-bank financial institution's legal and regulatory framework The objective should be to ensure that the legal framework is clear and that the regulatory involvement also is clear and limited to that which is essential to protect depositors and market stability

- Assurance of continued independence PRIDE/Finance does not receive GOG support but provides essential support to rural development The priorities must remain

- Financial viability to assure its continued existence and ability to serve the rural markets
- Management focus on achieving financial viability while serving rural markets

PRIDE/Finance does not have the resources to support larger GOG objectives Any initiative to divert funding from its core objectives will reduce PRIDE/Finance's ability to support rural markets and must be avoided Any involvement by GOG in the management or operations of PRIDE/Finance would undermine management's sense of responsibility for achieving these results and must be avoided

Disbursement control The current AMLGF structure requires a Trust Fund managed by a trustee, with decisions on the issuance of guarantees and honoring of claims made by a Board of trustees This was necessary since the decision-making process had to be based on an evaluation of the underlying factors and, in theory, active oversight by the trustee in the underlying transaction to ensure that the Trust Fund was protected

Recommendations 2 and 3 require a controlled expansion of funding support based on PRIDE/Finance meeting specific performance targets Since these performance targets can be defined in advance, control can be limited to simple, objective verification of compliance Such controlled disbursement can most efficiently be achieved through standby L/Cs in conformity with the rules and procedures established for such transactions in International Chamber of Commerce publications

The accounts that will hold the Trust Fund's GNF proceeds should be established in a trust account that clearly reflects their status Instructions on the funds' use should be specific and provide for drawings under the L/C by PRIDE/Finance If the L/C expires before all drawings are made, the instructions should provide for automatic release of the funds to a USAID account for reallocation as determined by USAID and the GOG

The supplemental funds provided in Recommendation 3 should be deposited in a bank that is not related to any participating bank in Guinea but whose L/C would be acceptable to the Guinean banks This is advised to prevent any conflict of interest in case a drawing becomes necessary The U S account may be managed on behalf of USAID if deemed necessary Grant management in financial sector transactions is included in the Support for Economic Growth and Institutional Reform Financial Services Indefinite Quantity Contract (SEGIR FS IQC) project description, so the contractual vehicle is already available to USAID This could be accomplished at a modest cost

Implementation of the proposed support for PRIDE/Finance must be contingent on satisfactory completion of acceptable arrangements with participating banks If the banking system is unwilling to participate in the mechanism proposed in Recommendation 3, then an alternative control mechanism would have to be developed [2]

No deposit taking by PRIDE/finance from the public PRIDE/Finance must agree not to seek deposits from the public until it has established its ability to borrow from the Guinean financial market without external support The additional operating and security costs required to adequately control the hazards of managing a deposit base of private deposits would substantially increase the break-even volume and void the financial projections

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[2] Early discussions with one bank suggested that there should be no problem with the recommended disbursement control

No change in management No change in management of PRIDE/Finance may occur by order or decree of the GOG except for reason of financial insolvency, which terminates the ability of PRIDE/Finance to receive any additional resources under the GNF trust or U S trust established with USAID funds

No targeting of portfolio composition A suggestion was made that PRIDE/Finance maintain 40 percent of its portfolio in agriculture The team does not agree PRIDE/Finance will have the greatest effect on rural development and agriculture, the most important sector in the rural area for more than 85 percent of the population, by financing the most productive users of funds In any case, the boundaries between agricultural and non-agricultural use may be blurred and difficult to police

B4a Ancillary Recommendations

Administrative action and implementation The decision regarding the Trust Fund and transfer of the trust assets must occur by the Project Assistance Completion Date (PACD) Though the Trust Fund agreement does not have a disposition deadline, USAID authority to take numerous related actions expires with the PACD Accordingly USAID must decide how the trust assets should be allocated and transfer them by the PACD All claims and other obligations must be provided for or satisfied by this date

AMLGF can be liquidated and its charter canceled at any time Its obligations, paid from the Trust Fund, must be satisfied before the trust assets are reallocated and transferred AMLGF also must wind up its affairs and be liquidated before September 30 Employee severance, administrative expenses, and loan guarantee claims also should be satisfied by then Office furniture, equipment, and vehicles — all AMIP property — should be disposed of according to the project grant agreement before the PACD

Achieving a structure that accomplishes the recommendations above with minimal need for ongoing involvement by USAID will require very careful structuring of agreements and documents, plus fine-tuning the level of support to most realistically conform to the expected evolution of PRIDE/Finance This will require an appropriate level of implementation support

C Action Plan

The following action plan details the steps and items that must be addressed in implementing the team's recommendations If USAID decides not to accept Recommendation 2 and chooses to terminate the program, then only items 1 and 2 need to be implemented If Recommendation 2 is accepted, items 1, 2, and 3 should be implemented If Recommendation 3 is accepted, items 1 through 4 should be undertaken Careful attention should be paid to select the relevant alternatives under the action items that relate to the particular recommendation accepted

C1 Develop Trust Fund Disposition Agreement between USAID and GOG

C1a Action Negotiation of Disposition Agreement — Issues to be Covered

- Sell hard currency to CBRG and transfer funds to new GNF trust account
- Establish new GNF trust or blocked account for conditional benefit
- Define purposes of new trusts for quarterly conditional funding to PRIDE/Finance
- Resolve final AMLGF administrative expenses

- Resolve claims against loan guarantees
- Transfer loan recoveries to new GNF trust (Recommendation 1) or banks (Recommendation 2)
- End trusteeship of AMLGF and provide for closing of AMLGF and charter cancellation

C1b Action Address Outstanding Commitments of Trust Assets

- Resolve all outstanding claims on loan guarantee
  - Claims
    - Option 1 Provide a reserve to cover outstanding but unsatisfied claims
    - Option 2 Satisfy outstanding claims before PACD
      - Sub-option 1 Pay off guarantee
      - Sub-option 2 Deny claim as ineligible use of proceeds
  - Recoveries
    - Option 1 Transfer all recoveries into the account of the transferred trust asset
    - Option 2 Allow banks to have 100 percent of the recovery to encourage collection

- Resolve all allowable administrative expense issues
  - Obtain final statement of AMLGF expenses
  - Review and confirm expense budget
  - Transfer confirmed final expense amount to account for AMLGF operational expenses

C1c Disposition and Transfer Trust Assets

- USAID and BCRG enter into an agreement for the sale of the remaining U S dollar denominated trust assets in exchange for equivalent amount of GNF

- Transfer GNF equivalent of trust assets to trust account of Guinean bank for quarterly transfer to PRIDE/Finance, provided financial standards are met
  - Option 1 Establish trust account, managed by the bank's trust department as trustee, and provide funds to PRIDE/Finance quarterly as financial standards are met (confirmed by audit) Missing standards for two quarters trigger disbursement of remaining L/C amount to USAID account for reallocation for new activity
  - Option 2 Establish standby L/C backed by trust funds The terms of the L/C would allow draws quarterly by PRIDE/Finance, provided standards are met Missing standards for two quarters trigger disbursement of remaining L/C amount to USAID account for reallocation to new activity

- Income from GNF trust should be paid each quarter to PRIDE/Finance, net of any bank fees for managing the Trust

C2 Winding Up AMLGF's Affairs

- USAID and GOG create agreement on close down of AMLGF

- Board of Directors adopts close-down plan

- Obtain a final accounting of all AMLGF administrative expenses
  - Give employees notice of AMLGF closing

- Determine employee severance
  - If written employment agreement, pay severance following agreement formula
  - If prior trustee policy, pay severance following policy
  - Otherwise, pay severance of reasonable amount appropriate for Guinea, consistent with Guinean law and related to salary, position, and length of service

- Obtain final expense accounting on line items electricity, water, rent, etc

- USAID confirms administrative expense accounting

- Transfer the confirmed expense amount to the local bank administrative account

- Pay administrative expenses

- Transfer remaining trust assets as set forth above
  - Transfer AMIP property used by AMLGF according to USAID-GOG agreement

- GOG issues decree withdrawing the charter of AMLGF

C3 Agreement Between USAID and PRIDE/Finance

- Cooperative agreement to set forth terms and conditions of receiving agreed upon quarterly amounts, provided specified objective-quantifiable standards are met

- Establish standards that PRIDE must meet quarterly as confirmed by independent accountants Standards include
  - Increasing loan volume (percent per quarter)
  - Positive return on assets (quarter by quarter)
  - Positive net-interest margin
  - Declining negative operating expense margin (quarter by quarter)
  - Increasing total interest income (decreasing loss)

- Establish amount of each tranche and final standards based on more thorough analysis of PRIDE/Finance financial statements and plans

- Failure to meet during subsequent quarter, PRIDE/Finance given six months to meet standards to gain additional funding or access to funding terminates permanently from GNF (Recommendation 1) trust or (Recommendation 2) standby L/C and remaining funds transferred to USAID account for reallocation or reprogramming as determined by USAID and the GOG

- After PRIDE/Finance has obtained $2 million from the GNF trust, PRIDE/Finance may submit request quarterly to the U S Trust basis for a standby L/C to back debt borrowings as set forth below, *provided* PRIDE/Finance continues to meet the same performance standards each quarter

C4 Commit Additional $2 6 Million to Support PRIDE/Finance Reaching Break-Even

- Establish trust fund in U S bank in income-producing account

- Engage Trust management to manage funds and cause standby L/C to be issued
  - Accept PRIDE/Finance debt-funding requests accompanied by audited and certified statements of meeting performance standards
  - Direct bank to issue standby L/C (100 percent) collateralized by trust assets to back bank borrowing or PRIDE/Finance bonds for purchase by banks
  - Authorize reissue of standby L/C to support rollover of outstanding PRIDE/Finance borrowing or bonds as long as PRIDE/Finance meets financing standards
  - Should PRIDE/Finance fail to meet performance standards, a new L/C will not be issued for a new borrowing or bond Borrowings with standby L/C will be resumed if standards are met in the time frame of the standby L/C
  - Should PRIDE/Finance continue to fail to meet performance standards and repayment of any borrowing as it comes due, the standby L/C triggers and all other bank borrowings or PRIDE/Finance bonds are due and payable from the standby L/C
  - Upon default on any debt borrowing, PRIDE/Finance can no longer make any request for standby L/C to support debt borrowing
  - All standby L/C pay claims of debt or bond as the debt or bond matures
  - Any funds in the U S trust remaining after default are returned to the U S Treasury

- Trust manager manages trust income
  - Provides for trust management fees
  - Provides for L/C fees

ANALYSIS OF FINDINGS AND RECOMMENDATIONS

A Findings

In assessing the Agricultural Marketing Loan Guarantee Fund (AMLGF), the team reviewed the purposes of the fund and the organizational and operational structure of the Trust Fund and AMLGF, which was created to administer the Trust Fund as trustee [1] The team then studied the organizational and operational history of the Loan Guarantee Program (LGP), from the delays in establishing the Trust Fund and AMLGF to the long process of negotiating agreements with Guinean banks and developing loans for the LGP The team also reviewed the organizational and operational history of the Agricultural Marketing Foundation (FICA), whose members were the original intended recipients of guaranteed loans These findings focus on the LGP results, assess some of the original assumptions, and address issues relating to the future of the Trust Fund, AMLGF, and the $2 6 million of USAID funds obligated, but not yet disbursed, for the LGP component of Agricultural Marketing Investment Project (AMIP)

A1 LGP Not Successful

The project grant agreement between USAID and the Republic of Guinea, as amended, provided, among other things, a trust fund to support 50 percent guarantees of loans from approved commercial banks to FICA members to support their agricultural marketing activities

A loan guarantee program, to have any chance of success, should be based on the following concepts

Clients who

- Are committed to long-term business development and building long-term business and banking relationships
- Will properly use technical and financial support to expand their businesses
- Have demonstrated existing capacity close to the level needed to implement projects without outside assistance

Projects that

- Are fundamentally sound but marginally beyond the client's existing capacity
- Would be bankable if incremental financial resources and effective implementation support were provided

Advisers who

- Have the technical competence to successfully run comparable businesses in similar countries

[1] Fundamental to the AMLGF component is recognizing that the Trust Fund and AMLGF are separate and distinct legal entities having different functions and rules of operations The Trust Fund consisted of the monetary grant provided by USAID as capital to support loan guarantees covering eligible borrowers at approved commercial banks AMLGF is the corporate Trust Fund manager established to act as trustee and administer the Trust Fund assets in accordance with the purposes established by agreement of the benefactor (USAID) and the beneficiary (GOG) AMLGF is the fiduciary manager of the assets owned by the Trust Fund To avoid confusion this report will refer to the overall loan guarantee program as the LGP to distinguish discussions and comments relating to the Trust Fund manager

- Have credible reasons for not wanting to leverage that expertise by running their own companies
- Are committed to protecting the pool of guarantee funds placed with them in trust by pro-actively enforcing successful project implementation

Essentially, the technical assistance must make projects work that otherwise would not work The guarantee should assure the banks that the technical advisers are so serious and confident in the effectiveness of their support that they are willing to share, by participating, in the risk The guarantee should *not* be intended as a loss-sharing process The original project design generally recognized these elements However the LGP was not successful for a number of reasons

FICA membership to match targeted borrowers FICA members who were encouraged and supported by FICA to request a guaranteed loan were not the type of borrowers intended by AMIP for the LGP The original AMIP consisted of two components 1) private and export marketing promotion and assistance through a Guinean trade promotion and marketing foundation, and 2) improved access to funding for short-term export finance and longer-term capital investments relating to agricultural marketing Loans were to be from $100,000 to $300,000 The guarantee fund was essentially an export-financing facility designed by a contractor who had substantial expertise in establishing export credit programs The AMIP components were carefully designed to be mutually supportive, thereby increasing the chance for success of each

Given the level and state of the Guinean economy, this loan range necessarily meant that the financial component saw large agricultural businesses and wholesalers involved primarily in exports as the target group While the program permitted agricultural producers to obtain financing, it focused more on upstream businesses handling and dealing with food products for export Support for the targeted group would stimulate food production by improving market access Producers would be indirectly served by receiving market signals for more demand through higher prices for agricultural produce destined for export

The LGP presumed the existence of such a pool of larger businesses that needed a guarantee for loans of this size to obtain export and domestic sales financing However actual FICA members were small traders who had inadequate business expertise to manage meaningful projects FICA did not develop a membership organization that mirrored the LGP design A few notable points are worth mentioning

- FICA membership grew rapidly to 555 members by 1995 and dropped precipitously to about 80 members in 1996

- Nearly all members needed help developing a business plan and developing information for a loan application

- Few members were involved in exporting agricultural products, and all applied for either pre-shipment finance or a loan for expansion or modernization, financing the banks would consider to be high risk

The fact that the resulting FICA membership pool did not reflect the original targeted type of businesses for receiving loans should have raised a caution about the appropriateness of the LGP to serve its intended purposes The fact that members had to have business plans developed for them indicated their limited business experience That they were not exporters but businesses

2.

seeking pre-export financing called into question whether the export credit LGP design was suitable for their needs The small size of the businesses who borrowed raised questions about their ability to perform their business plans or their resources to cover the debt if their plans failed The result is somewhat predictable The business plans prepared for FICA members through independent consultants often did not reflect commercial realities nor the intended use of the funds

Guinean banks, as noted below, were less equipped to lend to these smaller, less-experienced non-export oriented entrepreneurs Indeed the low Guinean loan repayment culture and the poor judicial enforcement of loan agreements would strongly suggest than no financing facility could be structured for this environment for these loan amounts that would enable a bank to lend safely with a reasonable expectation of repayment The high losses of the FICA short-term credit facility which is similar to the pre-shipment financing but with lower amounts, should have been a strong caution signal about the future of lending under the LGP Lending in an environment with a high level of non-repayment weakens, not strengthens, agricultural marketing by reducing the working capital made available to the sector

Careful credit analysis and loan administration Adequate independent credit analysis of borrowers, visits to borrower's operations, and adequate monitoring of funds use and project implementation by the banks was necessary to manage risks and contain losses However many banks did not go beyond discussions with the borrower, and neither visited the borrower's business operations nor verified the borrower's plan before extending the loan The banks did nor follow up after extending loans to verify that borrowers used the loan proceeds for the purposes stated in their applications Instead the commercial banks relied on the dossiers prepared by FICA consultants on the members' behalves and on the AMLGF guarantee, undertaking a lower level of due diligence for these loans In effect the LGP lowered the banks' credit standards

At first glance the lower level of due diligence appears to have contributed to the subsequent loan defaults and the failure of the LGP AMIP managers noted this and proposed that bank officers in agricultural lending receive more intensive training Closer observation, however, indicates that the banks accurately assessed the likely outcome While the banks did not have extensive experience in agricultural lending, especially production credit, no amount of training in agricultural lending techniques could redress a fundamental deficiency in the Guinean business culture the non-repayment of loans

Loan officer training could not compensate for fundamental LGP weaknesses, particularly those introduced through alterations to the AMIP The LGP was designed as an export-credit, loan guarantee facility The loans that the LGP tried to promote are typical products offered with most export-credit guarantee programs Guinean banks were interested, indeed enthusiastic, about this prospect, which complemented their current primary banking activity import/export finance transactions A review of the eligible loans for guarantee under the LGP will help explain this point The Operating Procedures outline three types of loans eligible for guarantee under the program

- *Pre-shipment finance* These are pre-export loans, providing businesses with working capital to buy or produce the goods they intend to export For production of agricultural products for export, this provides credit to purchase seed, fertilizer, and crop protection chemicals The financing would occur for the period up to the time that the borrower receives payment from an exporter, a letter of credit (L/C), or other payment mechanism from the foreign purchaser of the goods In the case of the LGP, guarantee coverage for pre-shipment finance includes loans for production, harvest, collection, transformation, packaging, transportation, conservation, storage, and ship-loading of agricultural products for export

- *Post-shipment finance* This covers transit time and allows the exporter to provide delayed payment (seller finance), allowing the foreign buyer time to distribute and receive payment for the products Delayed payment is used to improve the terms of sale and encourage sales in a competitive market Certainty of payment can be assured by including in the buyer's import L/C that payment will be made 30, 60, or 90 days after presentation of documents The bank that opened the L/C assumes responsibility for making the payment to the seller at the end of the delay period, regardless of whether or not the buyer reimburses the bank The seller's bank can then discount the expected future payment, providing the seller with immediate funding despite the delay in payment by the buyer

- *Loans for expansion and modernization* Guarantee coverage is available for improving the productive capacity of the agricultural enterprises, particularly cold storage, irrigation systems, agricultural machinery, or processing equipment Equipment, technical assistance, and construction could all be financed and covered by the guarantee Loans could be made for up to five years

Guinean banks have much experience in post-shipment finance, which constitutes a major portion of their banking business This business is very suitable for the Guinean business culture because of the high degree of bank control over money flow Documentary credits are highly structured transactions with uniform documentation developed and approved by the International Chamber of Commerce Banks use approved documentation and follow the prescribed procedures This ensures the safe and orderly exchange of money for goods across national borders Every provision of the L/C has a purpose steeped in years of banking experience in trade finance The provisions have been tested in many national courts as to whether the rules fairly reflect the basis of the bargain between buyers and sellers of different countries Importers and exporters the world over can be assured that they are getting what they contracted for through the use of L/Cs through banks experienced in trade finance transactions Today the rules are well accepted by businesses ard banks engaged in international commerce, and those that fail to follow these standardized rules are avoided

Documentary credits require intensive administration and attention to detail to ensure that the exchange of money and title to goods occurs properly and at the appropriate time The bank controls the money throughout the process and assures that the exchange of title to the goods against payment is controlled This is a type of banking business that Guinean banks are able to successfully conduct in the low Guinean repayment environment They are less experienced with pre-shipment finance or loans for expansion and modernization These types of loans are essentially business working capital and long-term investment loans, both of which require good credit analysis of the business to determine whether sufficient cash flow to service a loan would be generated by the proposed business activity

Most LGP loan applications presented to the banks consisted of those requiring pre-shipment financing The borrowers needed funds to purchase or produce goods they could sell To perform the proper credit analysis, Guinean loan officers needed training to analyze loans relating to agribusiness activities The AMIP technical assistance provided a number of bank officers with this training But even with this training, the banks had to select good borrowers, perform the proper analysis, and undertake the appropriate loan administration measures There were deficiencies in each of these steps, suggesting that pre-export and long-term credits had substantial risk of nonpayment and, analysis will show, were not appropriate for the Guinean business environment

Ongoing FICA and AMLGF oversight Aside from the banks' responsibility to administer loans and monitor the borrowers' activities, both FICA and AMLGF also should have undertaken efforts to ensure that the FICA-member business plans were followed One of FICA's fundamental purposes was to promote the agribusiness activities of its members through marketing, providing product information, restructuring government rules and regulations to facilitate commerce, and helping members access financing through the LGP The ultimate success of FICA depended on the ability of its members to expand their businesses, and some of that success was viewed as a result of FICA services Key to FICA-member success was access to sufficient working capital to enable business growth Without an adequate, reliable source of financing, most member business was limited to a series of single transactions taking advantage of discreet opportunities

Accordingly FICA should have had a strong interest in seeing the success of the LGP as a centerpiece of their own success When the FICA members did not measure up to the more substantial businesses expected by the AMIP designers, FICA, by necessity, needed to upgrade its membership criteria and shore up their deficiencies to improve their chances of success Most of the FICA-member dossiers submitted to commercial banks were rejected immediately because they did not make business sense, did not reflect the member's stated intentions upon interview, or were not in the perceived competence of the borrower Only five FICA-member projects were selected and ultimately financed from dossiers FICA helped prepare, all of these loans ended in default A sixth loan was extended and repaid under the program FICA should have carefully reviewed all prepared dossiers and only allowed submission of those that had a high likelihood of success FICA needed some early successes to demonstrate to the banks that their members, though not meeting the originally designed target pool, could nevertheless perform good business and were credit worthy Thorough review and due diligence on FICA's part was essential to verify that each member selected indeed intended to implement its plan and had the ability and resources save for the requested financing, to do so A revised FICA operation appears to be moving toward this approach today

Prior to obtaining a loan, FICA needed to educate its members on the basic fundamentals of commercial finance, business planning, and business administration, and stress the paramount importance of repaying the loan according to its terms to have continued access to financing After the loans were disbursed, FICA should have been involved in the implementation stage to ensure that the borrowers were using the funds according to their stated plans and, when receipts were received, were making loan payments as they came due As the members' advocate, FICA was in a position to encourage and persuade the borrowers to develop the appropriate loan repayment ethic as an important step to building and growing their businesses These responsibilities may not have been evident to FICA management or its technical adviser However given the nature of the Guinean business environment and the character of the member pool, success of the LGP largely depended on active and aggressive efforts by FICA to ensure that its members' business plans were quality plans and were properly implemented This pre-loan training and post-loan monitoring is similar to PRIDE/Finance's microfinancing training model that seems to have generated very high loan repayment for the Guinean environment

AMLGF had similar responsibilities though from a different perspective The success of AMLGF depended upon the LGP being used and a substantial pool of guaranteed loans being developed

AMLGF needed to have the best borrowers presented early for loan guarantees and for those borrowers to perform properly to demonstrate to bankers that a bankable business existed among FICA-member agribusiness activities AMLGF should have thoroughly scrutinized the business plans at the onset to ensure that the business being financed was real, and that management was capable and seriously intended to implement the plan This application scrutiny needed to be followed by monitoring and contact with the business to ensure that the borrower used the funds properly and implemented the business plan It matters little that the bank also has responsibility — even primary responsibility — for performing this function If the borrowers did not perform according to the plan and defaulted, AMLGF would be called on to cover half the loss, the banks would stop making loans, and the LGP would be at a standstill, as it is at present Only successful borrowers would increase the loan pool and give AMLGF real value as a going concern by providing a viable loan insurance service that added value to the credit-risk management process AMLGF had a fiduciary responsibility to increase the guaranteed loan pool and protect the assets of the LGP

Adequate loan repayment culture Fundamental to any successful loan program is a pool of borrowers who honor loan agreements and repay loans according to agreed terms Guarantees do not solve the problem of non-repayment A guarantee will only reduce a lender's loss by the amount or percentage of the guarantee, but the risk remains the same FICA members neither had a strong loan repayment culture nor the intention to use the funds as presented in their business plans In fact, the LGP loan performance results demonstrate that members believed that once the loan funds were obtained, they could use the funds for any purpose and did not have to repay their loans

This is the key reason the LGP did not succeed There is very little a bank can do to correct a general popular attitude that loans do not have to be repaid No amount of loan agreement restrictions or loan structure can combat the moral hazard that a borrower will have a fundamental unwillingness to repay a loan [2] Approaches that try to minimize this moral hazard include

- Controlling the use of funds by providing credit in-kind rather than cash For example, providing credit through suppliers for the purchase of inputs for the intended business activity, such as seeds, fertilizer, or crop protection chemicals in the case of agricultural producers

- Getting the borrower's clients to agree to pay the bank, not the borrower, for the delivery of the produce

- Monitoring the borrower through periodic, unannounced visits to his or her operation to ensure that the funds are being used for the intended purposes

However, these and other methods do not substitute for borrowers believing they have a real obligation to repay the loan In Guinea, the general public appears not to place sufficient importance on loan repayment The high rate of illiteracy and the inexperience with financial

[2] A basic tenet of banking is that a bank cannot successfully deal with a dishonest client

institutions are contributing factors The effect is that the risk of lending is raised, resulting in a reduction of the credit available to fund economic growth [3]

A2 Original Project Assumptions Proved Invalid

Targeted client base The AMIP paper discussed an expected FICA-member base of larger agribusiness wholesalers and processors already engaged in business They were expected to use the LGP to expand their business and undertake export and market-development activities for the products in which they traded The LGP would act as a catalyst for a higher level of business activity by increasing access to financing By supporting and financing their activities, FICA and Guinean banks, through the LGP, would create a demand-pull of more production and other service activity in the agricultural sector at large This approach is not unreasonable provided that all of the conditions exist to allow it to happen

However the originally targeted pool of export wholesalers and other agribusinesses without adequate access to bank financing that could be aided by a partial guarantee did not materialize [4] It is not clear whether FICA did not target this group of larger businesses, these businesses did not want to join, USAID changed the focus away from export marketing, or political or other pressure resulted in a focus on much smaller and less experienced businesses to form the FICA membership When the members attracted to FICA did not provide a pool of viable projects that warranted loans from $100,000 to $300,000, there should have been a reevaluation of the program Instead the AMIP worked with the membership pool that existed rather than consider whether this pool included businesses that were capable of undertaking the types of market development and export activities envisioned by the original design This is important This original loan range is reasonable for the critical mass of business activity necessary to engage in export transactions The extra effort that must go into developing and securing import and export agreements for the sale of goods — quality standards, shipping, handling and perishability, storage, local delivery, as well as financing — are costly and warrant transactions of sufficient size to justify these costs This is the reason for the original higher loan range for loan guarantees

This is not to say that small exporters are not present worldwide They are However smaller transactions involve higher cost, lower margin, and a higher level of risk Smaller business units often have less experienced and less capable management and business acumen In addition, the administrative costs of extending smaller loans increase a bank's administrative costs and lower its margin to cover the risk of loss When a market is trying to develop new export opportunities, targeted opportunities should be of sufficient size to maximize the probability of success and justify the governmental assistance to promote them Larger transactions will have much greater and more visible effect in downstream production increase and other economic activity

In any event, the AMIP coordinator should have recognized that redirecting the original program to serve the pool of smaller businesses had inherent problems Several deficiencies of the resulting FICA membership should have suggested the redirection would not succeed, including

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[3] It should be noted that a credit culture does not materialize without effort Borrowers must fear default even more than the banks This requires that borrowers truly believe that they have more to gain by honoring their obligation than by failing to do so In the last century this belief was reinforced with debtors prisons deportation and other more draconian remedies

[4] The number of Guinean businesses meeting these criteria is likely to be small They probably are already engaging in export activities have a working relationship with a bank do not need FICA and AMLGF services and financing and do not want to help their potential competition by joining FICA

- Low level of business experience in the types of business activities targeted for promotion
- Small size of business activity
- Low level of personal resources to support the business
- Low level of literacy
- Low loan-repayment ethic

Together these deficiencies gave a strong warning that the LGP would not succeed This group of businesses had many difficulties to overcome in order to learn how to do business successfully under the program

The original program was designed to support economic development and the generation of foreign exchange earnings on a wholesale basis, thus promoting broad-based agricultural development In effect the original program was abandoned in favor of social intervention on an individual basis

Bank enthusiasm Banks are generally enthusiastic about mechanisms that lower their risk and ensure a higher return [5] But where, as here, the risk of loss is high, the guarantee does not prevent the bank from incurring expected losses, and therefore, the guarantee provides an inadequate incentive Accordingly the bank's participation in the program was more likely due to a belief that they were obliged to participate than from an expectation that it would be successful The operational results are instructive After a few loans were approved, the banks stopped further lending under the LGP After the loans went into default, the banks discontinued the program with various arguments about why the failure occurred

While the project assumed active bank participation, the banks recognized that losses were inevitable and sought to limit their participation From the time that the original AMIP paper was completed in July 1992 and the loan guarantee program opened for operation in mid-1997, the following changes occurred that lowered bank interest in the program or expectation of profitability

- The minimum loan size for eligible borrowers was lowered to $25,000

- The FICA agribusiness promotion activity was restricted to domestic markets in May 1996

- The FICA-member pool resulted in mostly smaller businesses, 79 percent did not request loans within the original loan range

- The LGP assets on deposit with the participating bank had to be deposited with their New York correspondent and beyond their active use

- The FICA small credit program resulted in 95 percent non-repayment

By the time the loan guarantee program opened for business, the Guinean banks had a strong belief that the guaranteed loans would not be repaid There was insufficient communication with the banks to learn their views on the program and understand their concerns It appears that the

[5] By lowering the risk on half the loan a low implied rate can be assigned on that portion of the loan By maintaining a blended rate on the entire loan at normal market rates the yield on the unguaranteed portion is effectively raised making the transaction more attractive to the bank

banks may have delayed their entry into the program as long as possible, resulting in almost a year from the execution of the trust agreement to the banks entering into protocols with AMLGF, and another year before the first LGP loans were extended As soon as the loans entered default, the banks stopped lending under the program One bank reported that it added a provision to its loan loss reserve from the inception of the program because it anticipated that it would result in losses At least one participating bank never extended a LGP loan

FICA impact on borrower performance FICA significantly overestimated the effect it would have on member-borrower performance Product market information dissemination, business-planning assistance, trade fairs, marketing training, commercial bank training, and other business services could not make essentially non-bankable projects bankable FICA failed to provide adequate support to ensure that members properly executed their business plans

A3 Restructuring Ineffective

A mid-project review and attempt to restructure the loan guarantee approach did not make useful changes in the project design Reducing the minimum loan amount and expanding the client base could not address the fundamental market constraints

AMIP changes were made for various reasons, primarily to improve the ability of FICA to develop a sustainable trade organization with its membership and to help FICA attract additional members Most of these changes lowered the chances of a successful LGP

Lowering the loan amount eligible for a loan guarantee As discussed above, lowering the loan size to meet the more modest needs of the majority of FICA members did not mean that they would receive loans and be able to conduct successful business transactions Lowering the minimum loan amount brought in lower-capacity borrowers and actually increased the training needs Reducing the minimum loan amount and expanding the client base could not address the fundamental market constraints that made loans to these borrowers extremely risky with a high likelihood of loan losses

The FICA program was redirected to the domestic markets as the exclusive targets for marketing promotion and assistance in May 1996 This action occurred almost a year before the banks approved any loan and AMLGF issued any guarantees Refocusing the FICA program on domestic markets recognized that FICA members needed to develop the ability to sell their products and generate revenues domestically before spending valuable capital resources on the more demanding export business This made sense for Guinea's level of economic development and the business and operational experience of FICA's members

However a similar review of the LGP should have occurred That review would have revealed that the LGP was essentially an export credit guarantee program that should be canceled if FICA was no longer able to support export marketing

Further study to develop a more domestic financing facility would have found, particularly through the disastrous small credit facility of 1994-95, that such a lending program would not be successful under the current environment When the LGP is viewed as an entirely domestic financing program, the banks have a significantly higher risk of loss They are least interested in production credit or financing agribusiness working capital Without the ability to control funds and uses, the bank is left with less effective moral hazard management techniques — collateral, providing supplies rather than cash, and extensive monitoring regarding uses of proceeds — to try to ensure loan repayment In addition, the reduction in transaction size necessitated by the shift to a domestic focus made such loans less cost effective

Broaden the LGP to non-FICA members FICA membership was neither restrictive nor expensive Membership fees were inexpensive compared to other loan-related expense and would not discourage potential borrowers In fact the very high number of 555 FICA member during its organizational period proves this point Most members joined with the expectation that they would then receive a loan and were quite willing to become members to apply for a loan Desire for a loan does not mean credit worthiness The bottleneck to the development of a loan guarantee pool is the lack of bankable projects

The bank statements that the FICA membership requirement was too restrictive on the LGP were an indication that the banks believed that there were not bankable businesses among FICA members However, the converse, that there were bankable non-FCA members available, was not necessarily true, and only one materialized

A4 Extension of the LGP Not Justified

Further modification of the AMLGF framework is unlikely to produce any significant improvement in results, leaving USAID and the Government of Guinea (GOG) with an opportunity to reallocate the funding for more productive uses Further extension of the loan guarantee program in its current form is not justified

The LGP has not worked As shown above this failure was due to fundamental differences between the assumptions behind the design and the project as it was implemented Redressing the weaknesses evident in this program would not change the fundamental issues that prevent such a program from succeeding Some suggestions, which are discussed below, have been made on further modification of the program to make it more suitable to the Guinean environment However even if modified, the team believes there would be few, if any, new transactions under this program and therefore seems little point in continuing it

Interest coverage Bank and project officials maintain that a portion of the loan interest should be guaranteed, as is the case in other export guarantee programs This would be a big mistake The underlying weak fundamentals of the borrowers, their business plans, and their non-payment of loans cannot be cured by interest coverage This would only enable a bank to reduce its losses slightly but could lessen the incentive to ensure recoveries The delays in declaring default and in collecting the loan may generate high-penalty interest fees that will help defray a bank's costs, but not produce performing loans Such charges, if permitted, would encourage banks with unrecoverable loans to maintain the loans on the books to continue claiming half the interest due, thus introducing moral hazard One of the few successes of the LGP program is that the restrictions on the guarantee terms were sufficient to prevent depletion of the trust assets even though the primary program was not successful This suggests that the loan guarantee structure was properly designed but could not be implemented in the Guinean business environment

More agricultural lending training A commonly reported reason for the lack of LGP success is the lack of agricultural bank expertise of the bank loan officers However limited the loan officers' expertise in agricultural lending, additional training would not have produced a performing loan pool As stated above, no amount of training will improve the moral hazard of a borrower who is determined not to repay a loan Indeed the more training that the loan officers receive, the more likely they would be even more conservative in their lending practices

Through this training they will learn in detail the various risks for lending to the agricultural sector and the banking approaches and techniques for minimizing these risks As they learn that more risks exist than they previously thought, their reaction would be to increase the quality of the borrower they seek before allowing a loan to be approved

Convert AMLGF to a leasing program A suggestion has been raised that the LGP should be modified into a successor trust to permit AMLGF to support leasing transactions of equipment and machinery for businesses engaged in agribusiness activities Initially leasing may make sense in Guinea Leasing is the most rapidly growing form of financing business use of equipment and machinery worldwide, including for the agricultural sector Leasing provides the lessor some advantages over bankers because they are able to manage lease payments or repossession of the leased equipment if default occurs Having title to the equipment or machinery gives a legal advantage in most jurisdictions over seizing collateral pledged to a loan In addition lessees tend to recognize that the lessor owns the equipment and that his lease payment is tied to its use Failure to repay a loan does not seem to make borrowers believe that the bank should own everything they bought with the loan proceeds that they decline to repay

Leasing is a very specialized form of financing that requires very careful study by those with substantial experience in markets of similar business culture Policies and procedures must be tailored to the types of actions that are likely to effect proper lease payment, equipment maintenance, and orderly surrender of the equipment upon default or at the end of the lease term The leasing structure does not cure cultural behavior that does not place value on living up to debt obligations Commercial leasing specialists should undertake very careful study of the Guinean market As this is a very profitable business for those able to develop the appropriate business model for Guinea, this should be a purely business venture supported by private capital This may result in recommendations for legislative and regulatory changes to improve the climate for equipment leasing in Guinea Leasing could be an important financing vehicle Guinea under the right business environment

However, this should be a commercial decision based on business economics Some of the banks may already be looking at this possibility, and, if a viable market exists, there is no reason why they should not initiate this type of financing

The same systemic risk factors that apply to the original LGP are likely to apply to leasing transactions Building the institutional infrastructure to properly manage a leasing operation would require a substantial investment AMLGF has not demonstrated an ability to manage credit risk nor has it built any infrastructure that could be useful to a leasing company The team sees no reason to assume that such a conversion would be successful and does not believe this is a viable option

Clear signals The team findings show that the original AMIP thinking was reasonable but inappropriate for the Guinea environment No modification in the program was going to improve that environment The team believes that several indicators warned of the ultimate LGP failure, including

- Reduction of the eligible loan size
- FICA membership different from the AMIP paper
- Restriction to domestic marketing promotion
- The $300,000 small credit-access program, which was undertaken in 1994-95, was a failure, with 21 of 22 loans never repaid

The failure of the FICA small-loan credit facility is particularly instructive since it involves the same institution that is supposed to be helping LGP clients This poor experience should have warned USAID and the contractor that there might be a severe problem with a non-repayment culture among FICA members that would also be experienced in the LGP The defaulting borrowers were from the same FICA membership that the LGP was designed to serve The default on the smaller loans should have been a strong indication that the defaults would also occur on much larger loans Unfortunately the failure was blamed primarily on the lack of professional credit analysis and inadequate controls

Legal remedies do not appear to support debt collection Reports were many that the courts tend to favor the individual borrower, including for taking possession of collateral supporting the loan upon default Until the general Guinean non-repayment behavior is redressed, starting with court enforcement of collateral rights, commercial lending in Guinea in situations where the bank does not have control of the funds throughout the loan transaction should be avoided This is precisely the approach followed by the Guinean banks, which are well aware of the hazards of lending in their market Close observation would have noted this danger before AMLGF was operational

These warning signals should have triggered a more serious review of the fundamental assumptions behind the LPG In essence the project should have been canceled

A5 Trust Fund Agreement Expired

The Trust Fund term expired on September 30, 1998 Article 4 of the Trust Fund agreement requires that the assets be disposed of as stated there unless USAID and the GOG agree otherwise in writing

USAID and the GOG entered into the Trust Fund agreement on July 25, 1995, which provided for the end of the Trust Fund term to coincide with the end of the program grant agreement on September 30, 1997 The Trust Fund agreement was amended as of September 30, 1997, among other things, to extend the Trust Fund term until September 30, 1998 This amendment paralleled a similar amendment extending the project completion date of the project grant agreement for an additional year to enable final activity on the formation of FICA and the LGP An additional one-year extension of the project assistance completion date (PACD) was executed on September 29, 1998, to give USAID sufficient time to decide how to address residual program issues, including the subject of this assessment However the Trust Fund agreement was not amended a second time, with the Trust Fund term ending September 30,1998

A fair reading of the Trust Fund agreement, as amended, requires that the Trust Fund be disposed of at the end of the Trust Fund term as provided in Article 4 The first sentence of Article 4 states that the assets of the Trust Fund shall be disposed of as provided in Article 4, *"unless the parties agree otherwise in writing"* (emphasis added) While the main subject of Article 4 provides for the conversion of the Trust Fund,[6] the team has concluded that this complicated procedure is unnecessary and inappropriate The provision for the mutual agreement of USAID and GOG should control for several reasons

[6] The conversion was to occur through transfer of the U S dollar denominated assets of the Trust Fund to the Central Bank of the Republic of Guinea (BCRG) and to transfer the Guinean francs (GNF) equivalent of those assets to AMLGF s account which shall constitute a successor Trust Fund Thereafter AMLGF and the successor Trust Fund would be offered for sale to the Guinean private sector according to procedures agreed upon by USAID and the GOG

- The primary purpose of the Trust Fund was use of the assets to support the development of the LGP as designed by the AMIP Paper If successful Article 4 provided for the continuation of the LGP as a private entity through the conversion and sale of the Trust Fund and AMLGF to the Guinean private sector This would preserve the commercial value established by LGP and enable the ongoing business to continue as a privately owned Guinean concern Unfortunately the LGP was not successful and the original purpose for the conversion and sale did not occur Article 4 provided for alternative resolutions of the Trust Fund as agreed by the parties USAID and the GOG already have had discussions on potential alternative uses of the Trust Fund assets consistent with AMIP's original general purpose These discussions include making the trust assets available for the support of PRIDE/Finance as discussed in the recommendations

- The fact that the Trust Fund term expired on September 30, 1998, and was not extended along with the project grant agreement to September 30, 1999, has caused no harm The Trust Fund agreement does not have a timetable for disposition of the Trust Fund the parties already have begun discussions regarding their disposition, and the ultimate disposition will be consistent with the agreement The team recommends, however, that a plan for the disposition of the assets of the Trust Fund be adopted and essentially implemented by the extended PACD This will ensure that USAID will have full authority and funding to implement the agreement reached by USAID and the GOG on disposition of the Trust Fund In reaching agreement on final disposition of the remaining assets, the parties should make certain that all outstanding guarantees of loans have been satisfied [7]

- It should be noted that the Trust Fund agreement reserved the right for USAID to terminate the Trust Fund at any time unilaterally due to the default or incompetence of AMLGF or "*other changed circumstances*" (emphasis added) The unilateral termination would result in USAID and the GOG reprogramming the uncommitted assets of the Trust Fund Triggering this provision is unnecessary given the clear language of Article 4 for the parties to agree on the disposition of the Trust Fund Nevertheless the substantial changes to the original AMIP and the adverse effects on the LGP are sufficient in the team's opinion to constitute changed circumstances permitting the triggering of this provision should USAID consider such action necessary

If the USAID (benefactor) and GOG (beneficiary) cannot agree on a purpose consistent with the original intentions for which the trust was created, then the trust can be considered to have failed and in accordance with the law of trusts, the trust assets would revert to the benefactor This interpretation is further supported by the fact that Section 2 6 of the Trust Fund agreement provides that the GOG shall not be entitled to any payments from the Trust Fund

A6 Trust Funds Intact

Based on the information provided to the team the original dollar value of USAID's initial capital contribution to the Trust Fund appears to be intact, and a portion of the income can meet all remaining obligations

[7] This does not mean all claims should be paid The proceeds of one loan under claim were used to import coffee to Guinea process the coffee before importation and sell the coffee in Guinea After having completed this deviation from the loan agreement the borrower still failed to repay the loan The actual use of the loan is not allowed by the LGP and therefore not eligible for guarantee coverage This claim is in dispute The parties should provide for the payment of the claim if ultimately resolved in the bank s favor or if not transfer of the reserve in the same manner as the remainder of the trust assets

The team understands that the majority of the Trust Fund assets are on deposit with three Guinean commercial banks, with the dollars invested in money market instruments through these banks' correspondents in New York These funds are understood to be under dual signature control of AMLGF with counter-signature of USAID This arrangement appears reasonable and appropriate, and should ensure that the funds are fully preserved, as indicated on the listings provided to the team, which indicate that $1 million is deposited with the Societe Generale des Banques en Guinee (SGBG) and $500,000 each in the Union Internationale de Banques en Guinee (UIBG) and the Banque Internaionale de Commerce et de l'Industrie de la Guinee (BICIGUI), plus accrued interest [8]

The preservation of the principal of the Trust Funds should be noted as a success of the project design that care was taken to structure the placement of the assets in trust in a manner that would minimize their risk of loss or devaluation As a result USAID and the GOG have these assets available for reallocation to other activities similar to the original purposes of supporting increased business activity in the agricultural sector

A7 No Impediments

While the GOG cannot receive any funds from the Trust Fund, according to Section 2 6 of the trust agreement, the GOG can agree with USAID to convert the Trust Fund into a local currency fund to support agricultural marketing activities as provided in Article 4 of the Trust Fund agreement The recipient organization(s) can certify that no funds have been or will be provided to any GOG institution, agency, or official

According information provided the team, the assets of the Trust Fund (except for the office expense account) are held in the New York correspondent banks of the Guinean banks participating in the LGP The funds are invested in income-producing instruments, the income of which is the property of the Trust Fund and has been use to pay claims on loan guarantees, and, during the past year and a half, AMLGF's administrative expenses Funds can be transferred from the accounts with the signatures of AMLGF and USAID officials Once USAID and the GOG agree on the disposition of the Trust Fund and the remaining claims on guarantees or AMLGF administrative expenses are provided for, the funds can be sold to the Central Bank of the Republic of Guinea (BCRG) for the then-equivalent in Guinean francs (GNF) and transferred according to the disposition agreement

The Trust Fund agreement is silent on the use of the assets of the Trust Fund after dissolution of the trust, other than that it should be determined by mutual agreement between GOG and USAID

A8 PRIDE/Finance Business Plan

The PRIDE/Finance Business Plan is a reasonable course of action to achieve financial viability The plan has been well prepared and the issues affecting the financial viability of PRIDE/Finance

[8] This does not constitute confirmation that the funds indeed exist as stated We understand that PriceWaterhouseCoopers is conducting an audit of AMLGF This audit should include verification that signature authority on file with the banks conform to and are supported by appropriate Board resolutions that the account names properly reflect that the ownership by the Trust Fund (rather than AMLGF which is the trustee not owner of the funds) and through direct communication with the investing banks in New York that the funds are on deposit under appropriate conditions and controls

adequately addressed Only time will tell whether it can be implemented in practice given the constraints of the Guinean environment and the human resources available

Business plan PRIDE/Finance has prepared a comprehensive business plan that thoroughly discusses its organizational history, its market and customers, business operations, and business strategy for the next five years The business plan is complete with financial statements detailing its operational history and with financial projections for its future operations that management believes are attainable within the plan period The PRIDE/Finance business plan is particularly thorough for a financial institution of its size of assets and operation The high level of detailed discussion particularly with respect to its business strategy to reach financial viability, indicates a great deal of time, effort and serious thinking have gone into preparing the business plan

The team believes that the business plan, as presented, represents a reasonable course of action to achieve the business goals of PRIDE/Finance, including achieving financial viability While the team considers some of the financial projections to be based on somewhat optimistic assumptions, the team is not prepared to challenge these projections as we lack a comprehensive understanding of the market and business of PRIDE/Finance Recent operations not meeting the plan suggest that some assumptions are optimistic This is the nature of a business plan It is a plan or guide of what management hopes to achieve during the projected period, but it is only a guide of desired company performance Circumstances often change altering actual performance above or below the projections

After completion it becomes a management tool for assessing current operations against the plan to determine what adjustments can and need to be made to continue positively along the lines of the plan As external circumstances change, management must change the assumptions of the plan to reevaluate where they can be given the new environment On balance, successful companies achieve growth in the direction of the plan and constantly reevaluate the validity of the fundamental bases upon which the plan is built Whether PRIDE/Finance will be able to achieve this business plan will depend on the constraints on the environment as it evolves and the ability of management to use its available human and other resources to meet the projected results

The team agrees with management that key factors in achieving the business plan targets are

- Access to lendable funds
- Access to credit-worthy clients
- Operational efficiency and control

While the latter two are reasonably controllable by management, access to lendable funds has so far been controlled by donors and represents a severe constraint on PRIDE/Finance's ability to achieve its plan targets For this reason the current income-generating risk assets are approximately half the level anticipated in the business plan This is a serious variance that must be corrected if the plan is to have any relation to reality This deficiency can only be corrected by additional donor funds or funds from other sources sufficient to allow PRIDE/Finance to reach break-even volume, as indicated in the business plan Additional technical assistance and operating subsidies, as recently approved in the cooperative agreement with USAID, do not solve this problem

Seeking public deposits as an alternate source of funding substantially increases the risk of moral hazard and operating expenses, and the need for regulatory supervision and therefore should be avoided Obtaining wholesale funding from the Guinean financial system without outside support will not be possible until PRIDE/Finance has become profitable and is able to achieve financial viability, thus after the break-even volume has actually been achieved Deposit-taking should only be reconsidered after a regulatory and supervisory regime is in place for microfinance institutions and PRIDE/Finance has attained three years of consecutive operations above the break-even volume level or three years of consecutive profitability without donor funding or administrative assistance

The structure of the business plan's financial analysis suggests a zero-based approach and detailed budgeting for every unit, then consolidation up to an institutional whole This provides substantial detail to the extent that the overall message may be lost in the detail Missing, for example, is a concise balance sheet and profit-and-loss statement or other statement usually produced by a financial institution (rather than a project) that would give a concise overview of the expected results planned In principle the budgeting process should first involve establishing institutional financial targets In the second stage, individual units plan how they will contribute to achieving these targets The third stage consolidates these individual plans and reconciles differences between the overall targets and the consolidation of individual budgets, resulting in adjustments to ensure that the overall targets are met

Current operations USAID has supported the development of PRIDE/Finance and recently committed an additional $1 8 million to support equipment, technical assistance, and operating costs over the next few years PRIDE/Finance, with help from Volunteers in Technical Assistance (VITA) and financial support from USAID, has developed a solid operational base and has overcome many of the challenges involved in operating a microfinance institution in Guinea However overcoming these challenges requires a complex credit management and internal control process that is inherently expensive Even assuming continued strengthening of the management process, two key elements are critical

- Operating costs must be brought in line with operating income, principally through raising interest-differential income and increasing the average transaction size to improve efficiency and contain costs These changes may run counter to the original philosophy of serving only the poorest of the poor, but are absolutely essential if the institution is to survive to serve anyone

- The volume of outstanding good loans must be increased so that volume-sensitive interest differential and fee income increases to offset the relatively volume-insensitive, head-office administrative expenses

PRIDE/Finance recognizes these imperatives and already has taken action to implement increases in interest rates and individual transaction size These actions are within the management control of PRIDE/Finance However increasing the volume of good loans depends not only on sound lending opportunities but also on access to lendable funds PRIDE/Finance estimates in its business plan that it can reach financial viability with a volume of loans outstanding of some $5 million (GNF 6 6 billion), assuming all other assumptions prove correct Its current level of loans outstanding is only $1 3 million (GNF 1 6 billion), well below its business plan target and well below the break-even volume The major constraint is lack of lendable resources Resolving this issue requires implementation of one or both of the following options

- Develop a domestic deposit base This has been under discussion in PRIDE/Finance, but there are appropriate concerns with the added operational costs required to handle increased and unpredictable cash flows and with the added control needed to ensure that these deposits are applied appropriately

- Increase institutional sources of funding, whether on a grant basis from donors or on a wholesale basis from the Guinean financial sector

The Guinean experience with the Credit Mutuel has shown that control issues are important Developing a rural deposit base in parallel with a lending activity is expensive and high risk Accepting deposits from the public would change the nature of PRIDE/Finance and increase the repercussions of failure The potential effect of losses to depositors would require a high level of prudential supervision from the BCRG Experience has shown that the risks inherent in depository institutions in Guinea are difficult to control and should not be undertaken lightly Increased supervision would be costly for the BCRG and PRIDE/Finance Taking deposits from the public should be viewed as a last resort if no other funding source is available

Donor grant funding to build a low-cost pool of lendable funds would increase interest differential margins and lower the break-even lending volume But donor grant funds are limited It is uncertain whether sufficient grant funding will be available to reach a break-even point In any case, without a domestic source of funding, PRIDE/Finance's ability to grow and ultimately to be sustainable would be constrained

If PRIDE/Finance can indeed be financially viable at a risk-asset level of $5 million based on a market cost of funds, as claimed in its business plan, and realistically could expand beyond that level, then access to domestic money markets becomes a high priority Using the limited donor funds available as a catalyst to secure entry into the domestic money market could leave a self-sustaining funding mechanism If successful, this approach could preserve some of the donor funds for further reallocation to other developmental efforts once PRIDE/Finance had demonstrated to the financial markets that it no longer needed external support and was credit worthy in its own right

Annex D shows a break-even analysis and tentative projections for PRIDE/Finance The data shown and projections made are based on actual information as reported by PRIDE/Finance and on the assumptions reviewed with management The results tend to confirm management's estimate of the break-even volume of GNF 5 billion The team did not independently verify either the data or assumptions

Consistent with AMIP purpose Using the Trust Fund to support PRIDE/Finance would comply with the original intent of supporting marketing of agricultural products, though indirectly, since any improvement in commerce and industry in rural towns and villages directly or indirectly improves the domestic market for agricultural produce This approach, however is consistent with the AMIP design to finance exports of agribusiness wholesalers thereby increasing demand and production in rural areas

A key element of the original AMIP loan guarantee program was support for private sector initiatives to expand marketing of agricultural products Using the Trust Fund to support PRIDE/Finance as a private sector institution without GOG participation would conform to the original objectives of the project, providing that PRIDE/Finance retains that independence Funds owned by PRIDE/Finance must continue to be used exclusively in support of its private sector lending program and its own operating costs, not the GOG or its activities This is consistent with Section 2 6 of the Trust Fund agreement that the GOG is not to receive payments from the Trust Fund or its successor activities

A9 AMLGF Unnecessary

AMLGF does not constitute an independent, ongoing, viable concern having market value Maintaining the AMLGF as a trustee is unnecessary for any of the team's recommended options

AMLGF was originally conceived to be a Guinean nongovernmental organization to administer the LGP Guinean law did not provide for such an organization, so AMLGF was established by GOG decree The essential purpose of AMLGF was to act as trustee of the Trust Fund and administer the loan guarantee program These purposes are clearly stated in the Trust Fund agreement and the project grant agreement Disbursement of the first tranche of the Trust Fund was conditioned on the GOG establishing AMLGF for these purposes AMLGF is governed by its bylaws or *statuts*, the Trust Fund agreement, and the Statement of Operating Procedures, adopted by its Board of Directors on April 21, 1995

Continuation of AMLGF, indeed the sale of AMLGF to the Guinean private sector, was intended to occur if AMLGF developed a successful loan guarantee program and had value as an independent going concern However, a successful LGP did not materialize None of the approaches recommended by the team or under discussion between USAID and the GOG would require the continued expense of a corporate trustee Now that the Trust Fund date has expired and USAID and the GOG will mutually agree on the disposition of the Trust Fund, AMLGF is no longer needed

As a Guinean corporate entity, AMLGF should wind up its affairs in accordance with its bylaws and the GOG decree under which it was established While theoretically AMLGF could be sold or otherwise transferred to whomever the GOG, USAID, and Guinean law permits, AMLGF's value is questionable The Trust Fund agreement provides that AMLGF's authorized capital should be initially set at the value of the Trust Fund and that fully paid capital is set at $500 AMLGF bylaws permit capitalization of the Guinean equivalent of $6 million It appears that during the organization of the LGP that the incorporators believed that funds USAID transferred to the Trust Fund to support loan guarantees under the LGP were also the capitalization of AMLGF This is not the case The Trust Fund is a separate legal entity containing the funds provided by USAID in trust for the purposes set forth in the Trust Fund agreement AMLGF was only to be the trustee to administer those trust assets as provided in the Trust Fund agreement and Statement of Operating Procedures

AMLGF was never capitalized, but such capitalization was never necessary From its initial organization until September 30, 1997, the USAID contractor, Sheladia Associates, covered AMLGF administrative expenses under the Project Grant The Trust Fund agreement was amended on September 30, 1997, to allow the Trust Fund to be used to pay AMLGF operating expenses as provided in the USAID approved AMLGF budget The approach is consistent with most trust instruments allowing payment of trust related expenses to be paid by the trust All equipment in use by AMLGF belongs to the AMIP The team is not aware that AMLGF has any other assets or liabilities, it is a shell organization with no corporate substance

There is no date specific by which AMLGF must be wound up except for the practicality of its administrative expenses After USAID and the GOG agree on the disposition of the Trust Fund and the trust assets are transferred in accordance with that agreement, there will no longer be funds from which to pay any AMLGF expenses Winding up AMLGF's affairs should not be difficult The office equipment, vehicle and other personal property being used by AMLGF have been provided by the project grant and are the property of USAID to be disposed of in accordance with the project grant agreement Disposition of this property must be accomplished before the PACD

The only other major outstanding AMLGF obligations are to the AMLGF employees The team was informed that an employment agreement exists that includes termination procedures Those agreements should be reviewed to determine what specific severance is required by the agreements In the absence of severance provisions or agreements, the AMLGF employees should receive appropriate severance consistent with their service and Guinean law, with these costs reimbursed out of the assets of the Trust Fund These actions should occur as soon as possible to give employees adequate notice to search for alternative employment before the PACD

A10 Other Rural Financial Intermediaries

USAID has been actively supporting PRIDE/Finance and can directly influence the evolution of this institution [9] Reallocation of the Trust Fund to support PRIDE/Finance is the most obvious alternative, but the team nevertheless looked at other options The commercial banks are not designed to handle small rural credit and are not a potential participant at the retail level However several other channels exist that could represent alternatives to PRIDE/Finance These are summarized below

Other rural credit institutions The team sought the advice of Herve Bougault of the Groupe Agence Française de Developpement, which has been providing technical assistance to both the Credit Rural and the Crédit Mutuel, the two financial institutions that have had extensive branch networks outside of Conakry The team understands that

- The Credit Rural is well adapted to the Guinean environment and appears to be functioning well in support of agricultural production, although not yet at the break-even volume It is establishing branches in larger towns around the country and focuses on providing financing for expansion of existing successful agricultural activities It targets specific crops where it believes it has the expertise to evaluate the feasibility of proposed expansion efforts It will only work with clients who do not need technical assistance, and does not provide any training or other non-financial support As a result agents are able to handle some 550 clients each Conceptually this is a more commercially viable approach than the original concept behind PRIDE/Finance, that of targeting clients in a broad range of activities who lack the expertise to conduct meaningful business activities

  This activity is directly complementary to the village focus of PRIDE/Finance The major areas of cooperation are likely to be through the exchange of information on defaulters to ensure that borrowers who default on their obligations to one institution are not able to obtain financing from the other This cooperation is essential to reinforce credit discipline and ensure that the lending activities of the two institutions are not undermined Incremental funding through reallocation of the Trust Fund is not needed

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[9] While USAID may be provide financial support and exert a positive influence on PRIDE/Finance it must be recognized that it does not extend control over PRIDE/Financ USAID cannot guarantee the long-term success of this institution

- Credit Mutuel has experienced major difficulties resulting in the loss of its entire deposit base The structure of the Credit Mutuel is inherently unsuitable to Guinea Even with improved management, recapitalization by the GOG and other donors is unlikely to result in a viable institution over the long term The low probability of success argues for allocation of the Trust Fund to other more productive activities

Rural savings Conversion of rural savings from livestock and other tangible assets to financial savings may be more important for rural development than credit In some countries, a post office savings system that provides a safe store of value and does not risk depositor funds in lending activities is a major contributor to the financial system Passing those savings through the interbank market provides adequate separation and security to avoid the moral hazard problems experienced by Credit Mutuel Such a mechanism seems absent in Guinea Deposit-taking institutions typically use deposits for lending, leading to the control and management problems exemplified in the Credit Mutuel Reallocation of the Trust Fund to develop a vehicle for savings only is conceivable but would have to be based on conversion from financial support to foreign technical assistance Such a change would probably require reappropriation of the funds rather than a reallocation within the existing program

Leasing The team examined the proposal to sell AMLGF to an individual and to use the assets of the Trust Fund to support equipment leasing The team agrees that leasing can be a very positive mechanism for supporting capital investments, particularly in countries where property rights and the legal system do not adequately support asset-based lending by banks However, leasing is a highly specialized business that requires a very high level of technical and managerial expertise Developing that very specialized expertise takes time We suspect that the most appropriate way of introducing leasing into Guinea would be through a foreign leasing company with the requisite expertise and establishing an affiliate in Guinea (as was the case in Malawi) or one of the commercial banks setting up a leasing subsidiary The Guinean commercial banks probably have access to adequate institutional expertise, should the potential volume of leasing business justify developing this activity The team does not believe that the existence of a corporate shell and a block of funds held in trust for another purpose is sufficient justification for converting AMLGF into a leasing company

B Recommendations

The future of the Trust Fund includes some competing interests USAID may wish to ensure that the funds are used only for their original purpose, if at all, since allocation to other objectives would require a full reassessment of the level and direction of support it is willing to provide to the Guinean economy BCRG may be most interested in ensuring access to the foreign exchange and minimizing the borrowing needed to deal with recapitalization of the Credit Mutuel The Ministry of Agriculture and Livestock (MOAL) may be most interested in channeling the funds into the agricultural sector The Ministry of Plan and Cooperation (MOPC) may prefer broader support for rural development The team's discussions with interested parties aimed at understanding these objectives and developing options to best satisfy these diverse interests The team took these various interests into account and developed the following recommendations The action plans for these recommendations are listed in Section C

B1 Recommendation 1 — Dissolve the Agricultural Marketing Loan Guarantee Fund

The existing AMLGF component design is not suited to current conditions in Guinea, and the project's time period, after two extensions, is about to expire In the team's opinion, continuing the AMLGF as presently constituted even with a substantial refocus on meeting the project's original objectives, is unlikely to produce meaningful results and is not a viable option

B2 Recommendation 2 — Dispose of the Trust Fund Assets

The options narrow to whether USAID and the GOG wish to expand support for PRIDE/Finance and, if so, whether that additional support should be limited to the current Trust Fund or should include the additional $2 6 million originally intended to supplement the Trust Fund Alternately, all funds can be de-obligated and returned to the U S Treasury

Terminate the project Terminate the project in accordance with Section 5 3 of the Trust Fund agreement and reprogram the funds Transfer the remaining principal and interest from the participating banks accounts in New York to the U S Treasury and de-obligate the remaining $2 6 million

Terminating the project would end a program that has been unable to achieve measurable results and release USAID and GOG staffing resources for more productive activities This option does not represent a foreign exchange outflow for the BCRG since the $2 million has remained on deposit in New York It recovers USAID funding deposited with private commercial banks that could not be used for its intended purpose

Reallocate existing funds Instruct the depository banks to sell the Trust Fund's assets on deposit in New York to the BCRG for conversion to local currency as provided in Article 4 of the Trust Fund agreement, as amended The GNF proceeds would be deposited into restricted accounts established by USAID at the commercial banks to form a successor fund Subject to agreement between USAID and PRIDE/Finance, all or part of these GNF funds would be allocated by USAID to PRIDE/Finance as grant funding in support of microfinance lending Disbursements would be contingent on compliance by PRIDE/Finance with agreed upon improvements in its performance ratios Standby (or "clean") L/Cs, issued by the Guinean depository banks, would be an appropriate mechanism to accomplish these transfers automatically The terms of these standby L/Cs would require PRIDE/Finance and its auditors to certify compliance with the conditions of each drawing Any funds remaining after the standby L/C expires would be automatically transferred to a USAID account and reallocated by mutual agreement between USAID and the GOG in conformity with the original project agreements The interest on the undrawn restricted deposits would be paid to PRIDE/Finance as interest income until the standby L/C expires The remaining $2 6 million would be de-obligated

Recommendation The team recommends that the GNF proceeds of the Trust Fund assets sale provide grant funding to PRIDE/Finance This grant funding would supply lendable funds sufficient to allow a meaningful increase in the lending portfolio and move PRIDE/Finance toward its break-even volume Disbursements would be controlled by setting up a domestic standby L/C with a Guinean depository bank that would permit periodic drawings by PRIDE/Finance based on presentation of certified statements confirming compliance with certain financial performance indicators

However these funds alone may be insufficient to allow PRIDE/Finance to reach break-even volume and achieve financial viability, according to its business plan Unless PRIDE/Finance obtains funding from other sources sufficient to reach a break-even volume, the funds provided would be absorbed over time by operating losses without leaving a permanent result [10]

This recommendation meets the BCRG's objective of gaining the foreign currency, complies with the MOAL's objective of using the funds to support agricultural development, addresses the MOPC's interest in furthering rural development, lengthens the life of PRIDE/Finance, and caps direct-funding support by USAID at the current $2 million

B3 Recommendation 3 — Support Sustainable Results

Besides channeling the assets of the Trust Fund to PRIDE/Finance, the team recommends supporting entry of PRIDE/Finance into the Guinean interbank market using, as a catalyst, the additional $2 6 million in obligated, but undisbursed, funding

The additional $2 6 million would be invested in a trust account with a depository institution in the United States and used to collateralize issuance of standby L/Cs in favor of Guinean banks lending to PRIDE/Finance or covering PRIDE/Finance bonds issued to Guinean banks The amounts available would increase over time as PRIDE/Finance achieves objective and reasonable benchmarks demonstrating positive profitable growth toward a break-even volume A U S manager would issue the standby L/Cs and extensions as PRIDE/Finance demonstrates performance and need for the funds Interest on the $2 6 million would pay for the L/Cs fees and the fund manager This support for local funding would extend the approach taken in Recommendation 2 sufficiently to ensure that PRIDE/Finance can reach break-even loan volume according to its business plan Increases in availability under the standby L/Cs would be automatically suspended if the targets were not achieved, without needing USAID oversight or intervention

This approach would provide PRIDE/Finance with

- Lower borrowing costs during the standby L/C period by lowering the creditor's credit risk while PRIDE/Finance progresses toward viability
- Certainty of adequate lendable funds to achieve the break-even point in a controlled fashion, providing that the evolution of PRIDE/Finance's financial condition and performance is appropriate
- Relief from pressure to develop an independent depository capability, allowing it to avoid incurring the related operation costs and control risks of institutions taking public deposits and simplifying supervision by the BCRG
- Access to the Guinean money market

The standby L/C would be structured with a time limit, forcing PRIDE/Finance to eventually seek independent funding Once PRIDE/Finance becomes credit worthy, the banks will be

[10] The funding from the Trust Fund may be combined with funding from other sources such as The Cooperative Group to Assist the Poorest (CGAP) to enable PRIDE/Finance to achieve a break-even volume without recourse to the supplemental funding dealt with in Recommendation 3 Indeed USAID and CGAP could jointly develop a funding program to achieve this result with CGAP assuming the primary monitoring role on behalf of USAID which does not wish to apply the resources or local expertise to perform this role This approach is beyond the scope of this assessment however so this recommendation only assumes use of the assets of the Trust Fund

motivated to fund PRIDE/Finance without the support of the standby L/C to justify a higher interest rate

Funding stability would require that drawings under the standby L/C be based on an increase in lending risk based on failure by PRIDE/Finance to support agreed upon financial performance indicators, not non-renewal of bank funding due to a tightening in market liquidity Documentation must conform to this objective

Activation of this additional support would require that PRIDE/Finance be able to certify compliance with the financial performance indicators so that independent access to the Guinean financial market is foreseeable In principle, no drawings should be necessary if financial viability is achieved, in which case the standby L/C would expire and the covering funds be released If, after activation, a drawing does occur, claims on all Guinean bank lending to PRIDE/Finance would be honored, but no new lending would be covered The standby L/C would be not be renewed, and any remaining funds would be returned to the U S Treasury

The level of supplemental funding should be verified before final implementation of this recommendation The simplified financial projections prepared by the team, based on information received from PRIDE/Finance, show a need for supplemental support of approximately $1 million, somewhat less than the $2 6 million available Should the Cooperative Group to Assist the Poorest (CGAP) provide this funding, the supplemental support from USAID may not be necessary The actual level of maximum support agreed to should correspond with revised projections developed by PRIDE/Finance and be reviewed on behalf of USAID to ensure that PRIDE/Finance has access to sufficient funding and can reach a break-even volume Over-funding should be avoided The actual level should be made available to PRIDE/Finance *in toto* as long as it continues to meet the agreed upon performance indicators even after it has reached the break-even volume This approach permits PRIDE/Finance to confirm reaching the level of profitability needed for funding access to the Guinean financial sector

B4 Recommendation 4 — Set Conditions

Independence PRIDE/Finance is, and is likely to remain, fragile Ultimate success of USAID's additional support will require that the GOG assure a positive, enabling environment, including the following

- Formalization of the non-bank financial institution's legal and regulatory framework The objective should be to ensure that the legal framework is clear and that the regulatory involvement also is clear and limited to that which is essential to protect depositors and market stability

- Assurance of continued independence PRIDE/Finance does not receive GOG support but provides essential support to rural development The priorities must remain
  - Financial viability, to assure its continued existence and ability to serve the rural markets
  - Management focus on achieving financial viability while serving rural markets

  PRIDE/Finance does not have the resources to support larger GOG objectives Any initiative to divert funding from its core objectives will reduce PRIDE/Finance's ability to support rural markets and must be avoided Any involvement by GOG in the management or operations of PRIDE/Finance would undermine management's sense of responsibility for achieving these results and must be avoided

Disbursement control The current AMLGF structure requires a Trust Fund managed by a trustee, with decisions on the issuance of guarantees and honoring of claims made by a Board of trustees This was necessary since the decision-making process had to be based on an evaluation of the underlying factors and, in theory, active oversight by the trustee in the underlying transaction to ensure that the Trust Fund was protected

Recommendations 2 and 3 require a controlled expansion of funding support based on PRIDE/Finance meeting specific performance targets Since these performance targets can be defined in advance, control can be limited to simple, objective verification of compliance Such controlled disbursement can most efficiently be achieved through standby L/Cs in conformity with the rules and procedures established for such transactions in International Chamber of Commerce publications

The accounts that will hold the Trust Fund's GNF proceeds should be established in a trust account that clearly reflects their status Instructions on the funds' use should be specific and provide for drawings under the L/C by PRIDE/Finance If the L/C expires before all drawings are made, the instructions should provide for automatic release of the funds to a USAID account for reallocation as determined by USAID and the GOG

The supplemental funds provided in Recommendation 3 should be deposited in a bank that is not related to any participating bank in Guinea but whose L/C would be acceptable to the Guinean banks This is advised to prevent any conflict of interest in case a drawing becomes necessary The U S account may be managed on behalf of USAID if deemed necessary Grant management in financial sector transactions is included in the Support for Economic Growth and Institutional Reform Financial Services Indefinite Quantity Contract (SEGIR FS IQC) project description, so the contractual vehicle is already available to USAID This could be accomplished at a modest cost

Implementation of the proposed support for PRIDE/Finance must be contingent on satisfactory completion of acceptable arrangements with participating banks If the banking system is unwilling to participate in the mechanism proposed in Recommendation 3, then an alternative control mechanism would have to be developed [11]

No deposit taking by PRIDE/finance from the public PRIDE/Finance must agree not to seek deposits from the public until it has established its ability to borrow from the Guinean financial market without external support The additional operating and security costs required to adequately control the hazards of managing a deposit base of private deposits would substantially increase the break-even volume and void the financial projections

No change in management No change in management of PRIDE/Finance may occur by order or decree of the GOG except for reason of financial insolvency, which terminates the ability of PRIDE/Finance to receive any additional resources under the GNF trust or U S trust established with USAID funds

[11] Early discussions with one bank suggested that there should be no problem with the recommended disbursement control

No targeting of portfolio composition A suggestion was made that PRIDE/Finance maintain 40 percent of its portfolio in agriculture The team does not agree PRIDE/Finance will have the greatest effect on rural development and agriculture, the most important sector in the rural area for more than 85 percent of the population, by financing the most productive users of funds In any case, the boundaries between agricultural and non-agricultural use may be blurred and difficult to police

B4a Ancillary Recommendations

Administrative action and implementation The decision regarding the Trust Fund and transfer of the trust assets must occur by the PACD Though the Trust Fund agreement does not have a disposition deadline, USAID authority to take numerous related actions expires with the PACD Accordingly USAID must decide how the trust assets should be allocated and transfer them by the PACD All claims and other obligations must be provided for or satisfied by this date

AMLGF can be liquidated and its charter canceled at any time Its obligations, paid from the Trust Fund, must be satisfied before the trust assets are reallocated and transferred AMLGF also must wind up its affairs and be liquidated before September 30 Employee severance, administrative expenses, and loan guarantee claims should be satisfied by this time Office furniture, equipment, and vehicles — all AMIP property — should be disposed of according to the project grant agreement before the PACD

Achieving a structure that accomplishes the recommendations above with minimal need for ongoing involvement by USAID will require very careful structuring of agreements and documents, plus fine-tuning the level of support to most realistically conform to the expected evolution of PRIDE/Finance This will require an appropriate level of implementation support

C Action Plan

The following action plan details the steps and items that must be addressed in implementing the team's recommendations If USAID decides not to accept Recommendation 2 and chooses to terminate the program, then only items 1 and 2 need to be implemented If Recommendation 2 is accepted, items 1, 2, and 3 should be implemented If Recommendation 3 is accepted, items 1 through 4 should be undertaken Careful attention should be paid to select the relevant alternatives under the action items that relate to the particular recommendation accepted

C1 Develop Trust Fund Disposition Agreement between USAID and GOG

C1a Action Negotiation of Disposition Agreement — Issues to be Covered

- Sell hard currency to CBRG and transfer funds to new GNF trust account
- Establish new GNF trust or blocked account for conditional benefit
- Define purposes of new trusts for quarterly conditional funding to PRIDE/Finance
- Resolve final AMLGF administrative expenses
- Resolve claims against loan guarantees
- Transfer loan recoveries to new GNF trust (Recommendation 1) or banks (Recommendation 2)
- End trusteeship of AMLGF and provide for closing of AMLGF and charter cancellation

C1b Action Address Outstanding Commitments of Trust Assets

- Resolve all outstanding claims on loan guarantee
  - Claims
    - Option 1 Provide a reserve to cover outstanding but unsatisfied claims
    - Option 2 Satisfy outstanding claims before PACD
      - Sub-option 1 Pay off guarantee
      - Sub-option 2 Deny claim as ineligible use of proceeds
  - Recoveries
    - Option 1 Transfer all recoveries into the account of the transferred trust assets
    - Option 2 Allow banks to have 100 percent of the recovery to encourage collection

- Resolve all allowable administrative expense issues
  - Obtain final statement of AMLGF expenses
  - Review and confirm expense budget
  - Transfer confirmed final expense amount to account for AMLGF operational expenses

C1c Disposition and Transfer Trust Assets

- USAID and BCRG enter into an agreement for the sale of the remaining U S dollar denominated trust assets in exchange for equivalent amount of GNF

- Transfer GNF equivalent of trust assets to trust account of Guinean bank for quarterly transfer to PRIDE/Finance, provided financial standards are met
  - Option 1 Establish trust account, managed by the bank's trust department as trustee, and provide funds to PRIDE/Finance quarterly as financial standards are met (confirmed by audit) Missing standards for two quarters trigger disbursement of remaining L/C amount to USAID account for reallocation for new activity
  - Option 2 Establish standby L/C backed by trust fund The terms of the L/C would allow draws quarterly by PRIDE/Finance, provided standards are met Missing standards for two quarters trigger disbursement of remaining L/C amount to USAID account for reallocation for new activity

- Income from GNF trust should be paid each quarter to PRIDE/Finance, net of any bank fees for managing the Trust

C2 Winding Up AMLGF's Affairs

- USAID and GOG create agreement on close down of AMLGF

- Board of Directors adopts close-down plan

- Obtain a final accounting of all AMLGF administrative expenses
  - Give employees notice of AMLGF closing

- Determine employee severance
  - If written employment agreement, pay severance following agreement formula
  - If prior trustee policy, pay severance following policy
  - Otherwise, pay severance of reasonable amount appropriate for Guinea, consistent with Guinean law and related to salary, position, and length of service

- Obtain final expense accounting on line items electricity water, rent, etc
- USAID confirms administrative expense accounting
- Transfer the confirmed expense amount to the local bank administrative account
- Pay administrative expenses
- Transfer remaining trust assets as set forth above
  - Transfer AMIP property used by AMLGF in accordance with USAID-GOG agreement
- GOG issues decree withdrawing the charter of AMLGF

C3 Agreement Between USAID and PRIDE/Finance

- Cooperative agreement to set forth terms and conditions of receiving agreed upon quarterly amounts, provided specified objective-quantifiable standards are met
- Establish standards that PRIDE must meet quarterly as confirmed by independent accountants Standards include
  - Increasing loan volume (percent per quarter)
  - Positive return on assets (quarter by quarter)
  - Positive net-interest margin
  - Declining negative operating expense margin (quarter by quarter)
  - Increasing total interest income (decreasing loss)
- Establish amount of each tranche and final standards based on more thorough analysis of PRIDE/Finance financial statements and plans
- Failure to meet during subsequent quarter, PRIDE/Finance given six months to meet standards to gain additional funding or access to funding terminates permanently from GNF (Recommendation 1) trust or (Recommendation 2) standby L/C and remaining funds transferred to USAID account for reallocation or reprogramming as determined by USAID and the GOG
- After PRIDE/Finance has obtained $2 million from the GNF trust, PRIDE/Finance may submit request quarterly to the U S Trust for a standby L/C to back debt borrowings as set forth below, *provided* PRIDE/Finance continues to meet the same performance standards each quarter

C4 Commit Additional $2 6 Million to Support PRIDE/Finance Reaching Break-Even

- Establish trust fund in U S bank in income-producing account
- Engage trust management to manage funds and cause standby L/C to be issued
  - Accept PRIDE/Finance debt-funding requests accompanied by audited and certified statements of meeting performance standards
  - Direct bank to issue standby L/C (100 percent) collateralized by trust assets to back bank borrowing or PRIDE/Finance bonds for purchase by banks

- Authorize reissue of standby L/C to support rollover of outstanding PRIDE/Finance borrowing or bonds as long as PRIDE/Finance meets financing standards
- Should PRIDE/Finance fail to meet performance standards, a new L/C will not be issued for a new borrowing or bond Borrowings with standby L/C will be resumed if standards are met in the time frame of the standby L/C
- Should PRIDE/Finance continue to fail to meet performance standards and repayment of any borrowing as it comes due, the standby L/C triggers and all other bank borrowings or PRIDE/Finance bonds are due and payable from the standby L/C
- Upon default on any debt borrowing, PRIDE/Finance can no longer make any request for standby L/C to support debt borrowing
- All standby L/C pay claims of debt or bond as the debt or bond matures
- Any funds in the U S trust remaining after default are returned to the U S Treasury

- Trust manager manages trust income
  - Provides for trust management fees
  - Provides for L/C fees

D Exit Strategy

The team has noted that the recommended approach for making funding available to PRIDE/Finance for its growth to a break-even loan volume may not be successful Their business plan includes many variables that will require careful management to achieve their goal of sustainability Whether management successfully reaches this goal depends on its ability to operate with growing profitability given the difficult business environment PRIDE/Finance may fail this quest The determining event will be the failure of PRIDE/Finance to meet the performance indicators PRIDE/Finance will then be unable to certify to the bank that the standards have been met The bank will refuse to roll over its maturing loan or PRIDE/Finance bond If PRIDE/Finance cannot otherwise pay the maturing obligation, a draw on the L/C will be triggered Subsequent maturing obligations also will trigger draws on the L/C unless PRIDE/Finance can make payment Thereafter PRIDE/Finance will slowly reduce its loan volume to cover expenses until insolvency requires liquidation

To ensure that additional funding is not expended chasing a contemporaneous belief that break-even volume can still be achieved with slightly more funds, a predetermined cutoff point has been built into PRIDE/Finance's ability to access the recommended funding This gives PRIDE/Finance a greater incentive to work harder to meet the performance indicators or have all future funding cease without exception Should USAID and the GOG agree to implement the team's recommendations or a similar variation, the goal should be to have a fully operational funding plan based on the efforts and performance of PRIDE/Finance without the need for USAID monitoring and oversight Implicit in this decision is an understanding that continued funding is totally dependent on the actions of PRIDE/Finance Any future modification of this funding termination, *regardless of the proffered reason,* should be avoided as it will encourage efforts to persuade USAID and GOG officials to provide additional funding based on the social benefits achieved by PRIDE/Finance despite its lack of profitability and viability In fact USAID must consider, if it terminates funding to PRIDE/Finance, whether it should terminate the remaining technical assistance ($1 8 million) in favor of more productive uses The inherently high cost attributed to microfinance can easily absorb public assistance *ad infinitum* If PRIDE/Finance is unable to meet the performance indicators, then it should be allowed to fail Guinea has many competing needs for public and donor assistance that should not be denied for the benefit of any microfinance institution unable to reach financial viability This mechanism is designed to cut off funding swiftly when it is clear that management is unable to achieve the defined goal of financial viability This approach preserves the assets of the Trust Fund for Guinea's other competing needs This is not unlike a decision to terminate the Trust Fund now and reallocate those funds for the benefit of PRIDE/Finance

If PRIDE/Finance does not succeed and continued support for microfinance in the rural areas that support the agricultural sector is warranted, the funding could be made available to Credit Rural after it meets predetermined performance indicators In fact the recommended funding mechanism can be preprogrammed to make the funds available to Credit Rurale automatically if funding to PRIDE/Finance is terminated

E Summary of Assessment Methodology

E1 Review Existing Material

The team performed a careful review of the existing material on the AMLGF project provided by USAID/Guinea Documents included the AMLGF agreement and amendments 1,2,7, and 8, operating procedures, bylaws, AMIP project paper, the Trust Fund agreement and amendments 1 and 2, project progress reports written by George Callen, the report from the joint commission of USAID and GOG dated April 9, the 1999-2002 PRIDE/Finance business plan, World Bank reports, and circulars' issues relating to AMLGF

Once an adequate understanding of the project objectives and performance was achieved, discussions were held with USAID/Guinea staff and senior GOG officials, including the minister of Agriculture and Livestock, the minister of Plan and Cooperation, and the BCRG governor Discussions were also held with senior managers of the Guinean commercial banks participating in the project, the manager of AMLGF, management of PRIDE/Finance, and the representative of the Agence Française de Développement (AFD), which has been helping the Credit Mutuel and the Credit Rural Through these discussions, the team aimed to gain a sound understanding of the Guinean environment and insight into opportunities and constraints

E2 Examine Strengths and Weaknesses of the Existing Program

Five out of the six loans made under the guarantee program were not repaid as agreed, and the banks have not made further loans A sound underlying of the causes of this non-performance was essential as a starting point for identifying options and developing recommendations All relevant documentation was reviewed, including the original project description dated July 16, 1992, all relevant agreements between USAID and the GOG, and project documentation developed by Mr Callen starting October 10, 1997 Mr Callen's evaluation of the challenges facing the project was incisive and the team found no reason to disagree with any of his findings or recommendations on the operation of AMLGF, use of the Trust Fund, or results and viability of the LGP

The team reviewed the original project design, ensuing documentation, and actual activities of AMLGF against the context of the business and economic environment in Guinea Review of documentation was supplemented by detailed discussions with key individuals in Guinea who are actively involved in related activities and who understand the opportunities and impediments in Guinea

E3 Identify Options

A key objective in the identification of options was to ensure that

- The Trust Funds would be reallocated to private-sector support for agricultural marketing to ensure consistency with the underlying objectives of the original project

- The institution to be involved was the one most likely to achieve maximum results from application of the funds

- USAID involvement could be minimized through leveraging existing oversight activities or creating a self-monitoring mechanism conditioning funds disbursement upon achieving objective and quantifiable performance standards

E4 Develop Recommendations

The team focused on identifying the objectives of the AMIP, the interests of key GOG and other individuals, and technical options and constraints The team then reviewed options and developed an approach that balanced the various interests to ensure the most effective use of the funding provided by USAID to achieve the most sustainable effect on the Guinean rural economy The team started from the assumption that the Trust Fund assets would come into Guinea and be converted into local currency

Draft findings and recommendations were developed in detail at the beginning of the second week of the project Various ideas and alternatives were reviewed, discussed, and either incorporated or discarded as proved appropriate during further discussions or in light of further analysis of the documentation provided The assumptions were confirmed and tested, and the recommendations refined throughout the second week, culminating in completion of a semifinal draft of the full report by the end of the two-week mission

USAID counterparts throughout the mission reviewed in detail the findings and recommendations These recommendations represent the professional opinion of the team, based on the information available and the discussions held with the wide range of parties involved

ANNEX A

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ANNEX B

List of Documents Consulted

Agricultural Marketing Investment Project Paper, No 675-0221, July 15, 1992, 87 pp

Agricultural Marketing Loan Guarantee Fund Agreement (Accord de Subvention de Projet entre la Republique de Guinee et les Etats-Unis d'Amerique pour le Projet d'Investissement en Commercialisation Agricole) dated August 13, 1992

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Amendment No 2 to the Project Grant Agreement between USAID and the Republic of Guinea, June 9, 1994

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Agricultural Marketing Loan Guarantee Fund Bylaws

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Amendment No 7 to the Program [sic] Grant Agreement between USAID and the Republic of Guinea, September 10, 1997

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Le Fonds de Garantie des Prêts en Commercialisation Agricole (FGPCA), Diop, Ousmane, March 3, 1999, 12 pp

Termes de Reference pour l'Audit Financier de 1998, Guinea Rural Enterprise Development Project, Programme Integre pour le Developpement de l'Entreprise, Volunteers in Technical Assistance, 9 pp

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- Priority of Your Effort, October 14, 1997, Joseph Van Meter
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- Loan Status, December 22, 1997
- Status of Investment Funds, December 30, 1997, George Callen
- Status of Activities, December 30, 1997, George Callen
- Meeting at SGBG, January 12, 1998, George Callen
- Meeting at BPMG, January 13, 1998, George Callen
- Loan Follow-Up, January 15, 1998, George Callen
- Meetings with Consulting Firms, January 27, 1998, George Callen
- Consulting Firm Assessment, February 2, 1998, George Callen
- Agricultural Credit Survey, February 5, 1998, George Callen
- Survey of Agricultural Credit Needs, February 12, 1998, George Callen
- Appraisal of Loan Guarantee Fund Boards and Committees, March 11, 1998, George Callen
- AMLGF Transition Plan, March 20, 1998, George Callen
- Board of Director's role in AMLGF Closeout, March 30, 1998, George Callen
- Agricultural Credit Survey, April 2, 1998, George Callen
- Mission Report, meeting with the Minister of Agriculture and Livestock, April 9, 1999, Harry Birnholz
- Loan Status as of April 27, 1999
- Report of the Joint Commission of USAID and GOG dated April 9, 1999
- 1999-2002 PRIDE/Finance Business Plan
- Attachment B, Program Description, of the VITA Cooperative Agreement with USAID 6/99 - 12/02

ANNEX C

Assessment Terms of Reference and Amendment

36

UNITED STATES OF AMERICA
AGENCY FOR INTERNATIONAL DEVELOPMENT

1 Country of Performance Guinea Adv & Asst Services No [X]
2 Contract OUT PCE I-800-98 00015-00, Delivery Order No 800
(Incorporating FAR and AIDAR Clauses)

NEGOTIATED PURSUANT TO THE FOREIGN ASSISTANCE ACT OF 1961 AS AMENDED, AND EXECUTIVE ORDER 11223

3 CONTRACTOR (Name and Address)	4a ISSUING OFFICE
Chemonics International Inc 1 33 20th Street NW, Suite 600 Washington, D C 20036 Phone (202) 955-3300 Fax (202) 955 3400	USAID/Guinea, Contracts Office c/o American Embassy B P 603 Conakry, Guinea
TIN CEC	4b ADMINISTRATION OFFICE Same as Block 4a
5 PROJECT OFFICE USAID/Guinea/SO1 C/o American Embassy P O Box 603 Conakry, Guinea	6 PAYING OFFICE SUBMIT INVOICE TO USAID/Guinea/OFM c/o American Embassy P O Box 603 Conakry, Guinea
7 EFFECTIVE DATE June 26, 1999	8 ESTIMATED COMPLETION DATE July 30, 1999

9 ACCOUNTING AND APPROPRIATION DATA (See Page 11)

Amount Obligated	$48,008 00	MAARD No
Ceiling Price.	$48,008 00	Project No
Appropriation No		Budget Plan Code.
Allotment No		

10 The United States of America represented by the Contracting Officer signing this Order, and the Contractor agree that (a) this order is issued pursuant to the Contract specified in Block 2 above and (b) the entire Contract between the parties hereto consist of this Order and the Contract specified in Block 2 above.

11a NAME OF CONTRACTOR	11b UNITED STATES OF AMERICA Agency for Intern Development
BY J B Wells	BY: Gary C Juste
NAME John Bruce Wells	NAME Gary C Juste
TITLE Acting President	Title. Contracting Officer
DATE 6/25/99	DATE 6/22/99

AID 1420 61 Rev(a)

USAID / GUINEA
FUNDS AVAILABLE
APPROVED
6/22/99

37

UNITED STATES OF AMERICA
AGENCY FOR INTERNATIONAL DEVELOPMENT

1. Country of Performance: Guinea   Adv. & Asst. Services No[X]
2. Contract OUT-PCE-I-800-98-00015-00, Delivery Order No.800
(Incorporating FAR and AIDAR Clauses)

NEGOTIATED PURSUANT TO THE FOREIGN ASSISTANCE ACT OF 1961, AS AMENDED, AND EXECUTIVE ORDER 11223

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3. CONTRACTOR (Name and Address):

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CEC:

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4b. ADMINISTRATION OFFICE:

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6. PAYING OFFICE. SUBMIT INVOICE TO:
USAID/Guinea/OFM
c/o American Embassy
P.O. Box 603
Conakry, Guinea

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7. EFFECTIVE DATE:
June 26, 1999

8. ESTIMATED COMPLETION DATE:
July 30, 1999

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9. ACCOUNTING AND APPROPRIATION DATA: (See Page 11)
Amount Obligated: $48,008.00
Ceiling Price: $48,008.00
Appropriation No.:
Allotment No.:
MAARD No.:
Project No.:
Budget Plan Code.

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10. The United States of America, represented by the Contracting Officer signing this Order, and the Contractor agree that: (a) this Order is issued pursuant to the Contract specified in Block 2 above and (b) the entire Contract between the parties hereto consists of this Order and the Contract specified in Block 2 above.

11a. NAME OF CONTRACTOR:

BY:
NAME:
TITLE:
DATE:

11b. UNITED STATES OF AMERICA
Agency for Intern.Development

BY:
NAME: Gary C. Juste
Title: Contracting Officer
DATE:

AID 1420-61 (Rev'd)

OUT-PCE-I-800-98-00015-00

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STATEMENT OF WORK

1.1 BACKGROUND

The Guinea Agricultural Marketing and Investment Project (AMIP) is a $20 million project ($12 5 million AID Grant and $7 5 million in local currency counterpart equivalent) whose purpose is to promote growth and increased efficiency in agricultural markets The Governments of Guinea (GOG) and the United States signed the AMIP Project Grant Agreement on August 13, 1992

Two components comprise AMIP the Agricultural Marketing Foundation (AMF), a non-governmental organization known as FICA (French spelling), and the Agricultural Marketing Loan Guarantee Fund (AMLGF) AMF activities are designed to (a) assist the Guinean private sector to increase domestic and export marketing, (b) promote increased investments in agricultural production, processing and related activities, (c) provide a range of business services, and (d) serve as a forum for policy dialogue between the GOG and the private sector in order to bring about changes in the policy and regulatory environment

The purpose of the Agricultural Marketing Loan Guarantee Fund (AMLGF) is to (a) provide needed resources to financial institutions to increase short, medium and long-term credit for agribusiness activities, (b) develop an autonomous and sustainable private sector business institution, (c) strengthen commercial banks' capacity to increase lending to agri-businesses, and (d) provide training to institutions, individuals, and commercial banks participating in the Loan Guarantee Fund program

Formation of AMF and AMLGF was much more time-consuming than originally envisioned The start-up of AMLGF was impeded by the local commercial banks' lack of knowledge of rural agricultural activity, and their reluctance to enter into a sector known to have notoriously low loan repayment rates

The AMLGF offers loan guarantees to participating banks to enable the banks to increase the volume of credit available for marketing and export activities based on economic and financial feasibility The loan guarantee covers fifty percent of the lender's risk Loan sizes are in the range of $25,000 to $300,000 A presidential decree was signed on April 15, 1998 opening AMLGF to the agricultural sector in general Previously, the loan guarantees had only been available to FICA members

To establish the AMLGF, USAID obligated $4 83 million in two tranches Two million dollars have been committed to date and deposited in three commercial banks in New York. The interest generated is used for AMLGF operating expenses and guarantee coverage The $2 83 million remaining must be either committed or de-obligated prior to the AMIP Project Assistance Completion Date (PACD) of September 30, 1999

The AMLGF became operational in November 1996, and, through May 1997, 45 loan applications were submitted to two participating banks (*Societe Génerale des Banques en Guinee*, and *l'Union Internationale de Banques en Guinee*) Six loans were approved for a total amount of GNF 512 million, and, to date, five are in arrears (for a total value of GNF 158,123,997)

In early 1997, the Mission requested a performance audit by the Regional Inspection General's Office in Dakar (RIG/A), which concluded that AMIP had a number of issues that needed to be addressed As recommended by RIG, the AMIP PACD was extended from October 1, 1997 to September 30, 1998, to allow more time for the Loan Guarantee Fund to develop its potential, and for AMF to improve its chances for sustainability

Of the eight RIG recommendations, six were to be resolved during this initial extension period

(1) Performance indicators need to be revised or removed
(2) Improvement needed in indicator reporting
(3) The Mission is not measuring all relevant agricultural/commercial activities that are being undertaken
(4) AMF membership targets need to be reassessed
(5) The AMLGF needs more time
(6) Sustainability of the AMF is questionable

The remaining two RIG recommendations dealing with what constitutes an AMF member, and monitoring of the impact of rural roads, have since also been satisfactorily closed

A second one-year extension (October 1, 1998 to September 30, 1999) was effected to

(a) Allow the new USAID Director, and the new Natural Resource Management (NRM) Team Leader time to become fully versed in the ongoing AMIP project issues, to develop rational strategies in conjunction with the rest of the NRM team to address these issues, and to be in a better position to enter into a dialogue with the Guinean government on opportunities of common interest and/or action to be taken

(b) Ensure the best use and protection of project funds by

1 Finalizing an AMF Endowment Fund Agreement to be signed by the Governments which will ensure continued use of the fund to support mutually agreed-upon objectives after the end of the project,

2 Putting in place Endowment Fund Operating Procedures to be signed by AMF Control Committee,

3 Allowing time for the recent Presidential Decree opening AMLGF to non-AMF members to be utilized,

4 Negotiating an agreement with the GOG on the final disposition of both AMLGF tranches, and,

5 Studying options on revising the operating procedures for the AMLGF to increase use and impact of the fund

(c) Develop an institutionalization plan for AMF and AMLGF

(d) Complete installation and related training under the Leland Initiative for Internet connectivity in secondary Guinean cities

(e) Complete additional Winrock Farmer-To-Farmer volunteer programs

(f) Ensure continuity of funding for USAID project-funded personnel

(g) Allow for an orderly close-out of the project

Over the past few months, significant progress has been made with regard to the AMF Endowment Fund Unfortunately, however, under this current project extension there has not been any real progress registered under the AMLGF program Of the six loans made in early 1997, five are still in arrears Since then there have been no new loans

A recently-formed commission comprised of two representatives of the Ministry of Agriculture and one from USAID have recommended to the Minister of Agriculture and the USAID/Guinea Mission Director that the Loan Guarantee Fund be restructured to be used by PRIDE/Finance, a Guinean microfinance institution, for its agriculture-related loan portfolio This would help close a funding gap for PRIDE/Finance's Business Plan, which is designed to lead to the institution's financial self-reliance by 2002

1.2 TITLE

Title:

Assessment of the Agricultural Marketing Loan Guarantee Fund (AMLGF) performance under Agricultural Marketing and Investment Project (AMIP, 675-0221), and recommendation for use of the fund to support development objectives of USAID/Guinea and the Government of Guinea (GOG)

1.3 OBJECTIVE

The general objective of this effort is to conduct an assessment of AMLGF performance under AMIP, examine options, and make specific actionable recommendations for the future use of the fund to support development objectives of USAID/Guinea and the GOG

1.4 STATEMENT OF WORK

The Contractor shall:

- Assess the extent to which the Agricultural Marketing Loan Guarantee Fund has served its intended purpose, and summarize factors which have affected the AMLGF performance

- Assess the validity of the assumptions related to the achievement of the Loan Guarantee Fund's intended objectives

- Examine possible uses of the Loan Guarantee Fund by PRIDE/Finance and other financial intermediaries for providing agriculture-related credit to support activities implemented under the Mission's Natural Resource Management Strategic Objective

- Based on the GOG/USAID commission report, as well as the consultant's findings, make specific, actionable recommendations to USAID/Guinea and the GOG that can be effected by September 30, 1999, on how to modify the Loan Guarantee Fund in the best interests of the both Governments, so as to ensure its sustainable use for the intended purposes after the close of the AMIP project

- Develop detailed procedures for implementing the recommended option, following in-depth discussions with the participating banks, AMLGF, AMF, PRIDE, GOG and USAID officials

- Based on an assessment of prospects for its full utilization, recommend either the commitment or the de-obligation of the second tranche of AMLGF funds

<u>Suggested Methodology</u>

1 Review the present set-up, organization, and portfolio of the AMLGF

2 Review of AMLGF Agreement, Operating Procedures, bylaws, AMIP Project Paper, project progress reports, the report from the joint mission of USAID and GOG dated April 9, 1999, the 1999-2002 PRIDE/Finance Business Plan, and other documents as appropriate

3 Visit the AMF, PRIDE/Finance, borrowers, loan applicants, and other partners and entities to appraise credit worthiness and other appropriate information needed to promote the program

4

4 Meet with participating banks (*Societe Generale des Banques en Guinee, Union Internationale de Banques en Guinee*, and *la Banque pour l'Industrie et le Commerce en Guinée*), and other banks, as appropriate, to determine their interest in, and conditions for, participating in a modified AMLGF program

5 Visit the Central Bank of Guinea (BCRG), representatives of the Ministry of Agriculture and Livestock (MAEF), representatives of the Ministry of Commerce, Industry, and Small and Medium Enterprises, and other donor projects, as appropriate

1.5 REPORTS

The contractor shall present:

1 An Executive Summary of the key findings and recommendations in English and French, and in draft form prior to departure from Guinea

2 Ten copies in both English and French of the Final Report (with appendices), including a) an executive summary, b) an analysis of findings and recommendations under each of the tasks listed under Specific Responsibilities above, c) a summary of the assessment methodology; d) contacts made, e) documents consulted, and f) the assessment terms of reference

3 A diskette with final English and French versions of the report in MS-Word

4 Debriefings of USAID and representatives of the Ministry of Agriculture and Livestock two to three days prior to departure from Guinea These briefings will include a description of the analyses conducted and an outline of the recommendations and specific implementing procedures for the recommended option

The deliverable schedule is as follows

Deliverable	Due Date
Draft Executive Summary Report	3 days prior to departure from Guinea
Debriefings with USAID and MAEF	2 days prior to departure from Guinea
Final report in English (10 copies)	2 weeks after departure from Guinea
Final report in French (10 copies)	3 weeks after departure from Guinea
Diskette with final English and French versions of report	3 weeks after departure from Guinea

The Final Report shall include

a) An *Executive Summary* consisting of a 3-6 page document containing a clear, concise summary of the most critical elements of the findings and recommendations,

b) a *Table of Contents,*

c) the *Body* of the Final Report, which should not exceed 30 pages, and which should include the principal findings and recommendations, as well as a brief description of the assessment methodology, any other background information needed to support the findings and recommendations,

e) the *Appendices* of the Final Report should include, at a minimum, a copy of the assessment terms of reference, a list of the documents consulted, the individuals and organizations contacted, and any other analyses needed to support the recommendations of the consultant(s)

The body of the Final Report is to be translated into French by the contractor as part of this delivery order

1.6 TECHNICAL DIRECTIONS

Technical Directions during the performance of this delivery order shall be provided by the Project Officer as stated in Block 5 of the cover page pursuant to Section F of the contract.

1.7 TERM OF PERFORMANCE

a. Work shall commence on the date noted in Block 7 of the cover page. The estimated completion date is reflected in Block 8 of the cover page.

b. Subject to the ceiling price of this delivery order and the prior written approval of the Project Officer (see Block No. 5 on the Cover Page), the contractor may extend the estimated completion date, provided that the extension does not cause the elapsed time for completion of the work, including the furnishing of all deliverables, to extend beyond 30 calendar days from the original estimated completion date. Prior to the original estimated completion date, the contractor shall provide a copy of the Project Officer's written approval for any extension of the term of this delivery order to the Contracting Officer; in addition, the contractor shall attach a copy of the Project Officer's approval to the final voucher submitted for payment.

c. It is the contractor's responsibility to ensure that the Project Officer-approved adjustments to the original estimated completion date do not result in costs incurred that exceed the ceiling price of this delivery order. Under no circumstances shall such adjustments authorize the contractor to be paid any sum in excess of the delivery order.

d. Adjustments that will cause the elapsed time for completion of the work to exceed the original estimated completion date by more than 30 calendar days must be approved in advance by the Contracting Officer.

1.8 WORKDAYS ORDERED

a.

Functional Labor Category & Specialist	Work Days Ordered	Burdened Daily Rate	Fixed Total
Busin. & Fin. Spec. (Barltrop)	12	$1,412	$16,944
Busin. & Fin. Spec.	12	$1,412	$16,944
Total Labor:			$33,888

b. The individuals identified above are designated as key personnel pursuant to Section H.3. of the contract.

c. Subject to the ceiling price established in this delivery order and the prior written approval of the Project Officer, the contractor may adjust the number of workdays actually employed in the performance of the work by each position specified in this order. The contractor shall attach a copy of the Project Officer's approval to the final voucher submitted for payment.

d. It is the contractor's responsibility to ensure that the Project Officer-approved adjustments to the workdays ordered for each functional labor specialist do not result in costs incurred which exceed the ceiling price of this delivery order. Under no circumstances shall such adjustments authorize the contractor to be paid any sum in excess of the ceiling price.

1.9 CEILING PRICE

For Workdays Ordered	$33,888
For Other Direct Cost	$14,120
Ceiling Price	**$48,008**

The contractor will not be paid any sum in excess of the ceiling price.

1.10 DUTY POST

The duty post for this delivery order is Conakry, Guinea.

1.11 Contractor Qualifications

The Contractor shall provide a consultant or consultants with composite experience appropriate to a SEGIR/GBTI Level 1 Business and Finance Specialist and/or a Micro/Sector Economist in order to fulfill these terms of reference The consultant(s) should hold at least a Master's Degree in banking, business administration, agricultural economics or another related field, and must be capable of working effectively in both French (S/R-3 preferred) and English The consultant(s) must have extensive knowledge of/experience in commercial banking practices, loan guarantee funds, agricultural credit and marketing, and agribusiness development Experience with micro-finance institutions is also highly desirable, as is experience in carrying out similar assessments or studies

1.12 ACCESS TO CLASSIFIED INFORMATION

The contractor will not have access to classified information.

1.13 LOGISTIC SUPPORT

Transportation International air tickets, local travel, and other related services are to be provided by the contractor on a cost-reimbursement basis

No USAID secretarial support will be available to the team Access to USAID project reports and other information will be provided as necessary

All other logistical support shall be provided by the Contractor.

1.14 WORKWEEK

The contractor is authorized a five-day workweek in the field with no premium pay.

1.15 AUTHORIZED GEOGRAPHIC CODE

The authorized geographic code for procurement of goods and services under this order is 935.

1.16 RELATIONSHIP & RESPONSIBILITIES

The consultant is expected to be able to work with little direct supervision by USAID Technical orientation and directions will, however, be provided by the NRM Strategic Objective Team Leader and/or the AMIP Cognizant Technical Officer

1 17 ACCOUNTING & APPROPRIATION DATA:

MAARD No	675-0221-3-20473
BPC	GSS29221675 KG13
Appr	72X1014, ECN Y921111, Amount Obligated $33,094 49

MAARD No	675-0221-3-31154
BPC	GSS39321675 KG13
Appr	72X1014, ECN Y921112, Amount Obligated $14,913 51

Assessment of the Agricultural Marketing Loan Guarantee Fund Performance Under the AMIP Project
Contract number: PCE-I-9800015-00
Chemonics Consortium

I Labor

Labor Category	Firm	Daily Rate	Days	Total
Business and Finance Specialist I/Barltrop	Chemonics	$1,412	12	$16,944
Business and Finance Specialist I/Peoples	Prime	$1,412	12	$16,944
Total Labor			24	$33,888

II Materials

	Cost Category	Unit		Rate in US$	Total
		trips			
A	International Travel		2	$2,550	$5,100
B	Ground Transfers		4	$25	$100
		days			
C	In Country Travel (Conakry Taxis)		24	$10	$240
D	Per Diem		32	$205	$6,560
E	Visas		2	$60	$120
	Total Materials				$12,120
Grand Total					$46,008

Assessment of the Agricultural Marketing Loan Guarantee Fund Performance Under the AMIP Project
Contract number PCE-I-9800015-00
Chemonics Consortium

I Labor

Labor Category	Firm	Daily Rate	Days	Total
Business and Finance Specialist I/Barltrop	Chemonics	$1,412	12	$16,944
Business and Finance Specialist I/Peoples	Prime	$1,412	12	$16,944
Total Labor			24	$33,888

II Materials

	Cost Category	Unit	Rate in US$	Total
		trips		
A	International Travel	2	$3,388	$6,776
B	Ground Transfers	4	$25	$100
		days		
C	In Country Travel (Conakry Taxis)	24	$10	$240
D	Per Diem	32	$205	$6,560
E	Visas	2	$60	$120
F	Translation		$2,000	$2,000
	Total Materials			$15,796
Grand Total				$49,684

AMENDMENT OF SOLICITATION/MODIFICATION OF CONTRACT

1 CONTRACT ID CODE | PAGE 1 OF PAGES 1

2 AMENDMENT/MODIFICATION NO One (1)	3 EFFECTIVE DATE June 26, 1999	4 REQUISITION/PURCHASE REQ NO MAARD 675-0221 3 31154	5 PROJECT NO (If applicable) 675-0221

6 ISSUED BY CODE Contracts Office, USAID/Guinea c/o American Embassy P O Box 603 Conakry, Guinea	7 ADMINISTERED BY (If other than Item 6) CODE Same as Item 6

8 NAME AND ADDRESS OF CONTRACTOR (No , street, county, State and ZIP code) Chemonics International Inc , 1133 20th Street NW, Suite 600 Washington, D C 20036 Phone (202) 955-3300 Fax (202) 955-3400 TIN 86-771 4768 CEC		9A AMENDMENT OF SOLICITATION NO 9B DATED (SEE ITEM 11)
	X	10A MODIFICATION OF CONTRACT/ORDER NO OUT-PCE-I-800 98 00015-00 10B DATED (SEE ITEM 13) 6/26/1999
CODE / FACILITY CODE		

11 THIS ITEM ONLY APPLIES TO AMENDMENTS OF SOLICITATIONS

☐ The above numbered solicitation is amended as set forth in Item 14 The hour and date specified for receipt of Offers ☐ is extended, ☐ is not extended Offerors must acknowledge receipt of this amendment prior to the hour and date specified in the solicitation or as amended, by one of the following methods (a) By completing Items 8 and 15, and returning ____ copies of the amendment (b) By acknowledging receipt of this amendment on each copy of the offer submitted or (c) By separate letter or telegram which includes a reference to the solicitation and amendment numbers FAILURE OF YOUR ACKNOWLEDGMENT TO BE RECEIVED AT THE PLACE DESIGNATED FOR THE RECEIPT OF OFFERS PRIOR TO THE HOUR AND DATE SPECIFIED MAY RESULT IN REJECTION OF YOUR OFFER If by virtue of this amendment you desire to change an offer already submitted, such change may be made by telegram or letter, provided each telegram or letter makes reference to the solicitation and this amendment, and is received prior to the opening hour and date specified

12 ACCOUNTING AND APPROPRIATION DATA (If required)
MAARD 675 0221 3 31154 BPC GSS39321675 KG13 Appr . 72X1014, ECN Y921112
Amount Obligated $16,589 51 RC 6/30/99

13 THIS ITEM APPLIES ONLY TO MODIFICATIONS OF CONTRACTS/ORDERS, IT MODIFIES THE CONTRACT/ORDER NO AS DESCRIBED IN ITEM 14

X	A	THIS CHANGE ORDER IS ISSUED PURSUANT TO (Specify authority) THE CHANGES SET FORTH IN ITEM 14 ARE MADE IN THE CONTRACT ORDER NO IN ITEM 10A The FAA of 1961, as amended, and E O 11223
	B	THE ABOVE NUMBERED CONTRACT/ORDER IS MODIFIED TO REFLECT THE ADMINISTRATIVE CHANGES (such as changes in paying office appropriation data etc) SET FORTH IN ITEM 14, PURSUANT TO THE AUTHORITY OF FAR 43 103(b)
	C	THIS SUPPLEMENTAL AGREEMENT IS ENTERED INTO PURSUANT TO AUTHORITY OF
	D	OTHER (Specify type of modification and authority)

E IMPORTANT Contractor ☐ is not, ☒ is required to sign this document and return 1 copies to the issuing office

14 DESCRIPTION OF AMENDMENT/MODIFICATION (Organized by UCF section headings, including solicitation/contract subject matter where feasible)

The purpose of this modification is to (1) increase the Task Order Amount Obligated and Ceiling Price by $1,676 and (2) authorize a six-day work-week under the Task Order

The "$48,008 00" for "Amount Obligated" and "Ceiling Price" is replaced by "$49,684 00" throughout this Task Order

Except as provided herein, all terms and conditions of the document referenced in Item 9A or 10A, as heretofore changed, remains unchanged and in full force and effect

15A NAME AND TITLE OF SIGNER (Type or print) Thurston F. Teele Pres		16A NAME AND TITLE OF CONTRACTING OFFICER (Type or print) Gary C Juste
15B CONTRACTOR/OFFEROR (Signature of person authorized to sign)	15C DATE SIGNED 7-8-99	16B UNITED STATES OF AMERICA BY (Signature of Contracting Officer) / 16C DATE SIGNED

NSN 7540-01-152-8070
PREVIOUS EDITION UNUSABLE
30-105
STANDARD FORM 30 (REV 10 83)
Prescribed by GSA
FAR (48 CFR) 53 243

USAID / GUINEA
FUNDS AVAILABLE
APPROVED. RC 6/30/99

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ANNEX D

PRIDE/Finance Break-even Analysis

PRIDE/Finance Break-even Analysis

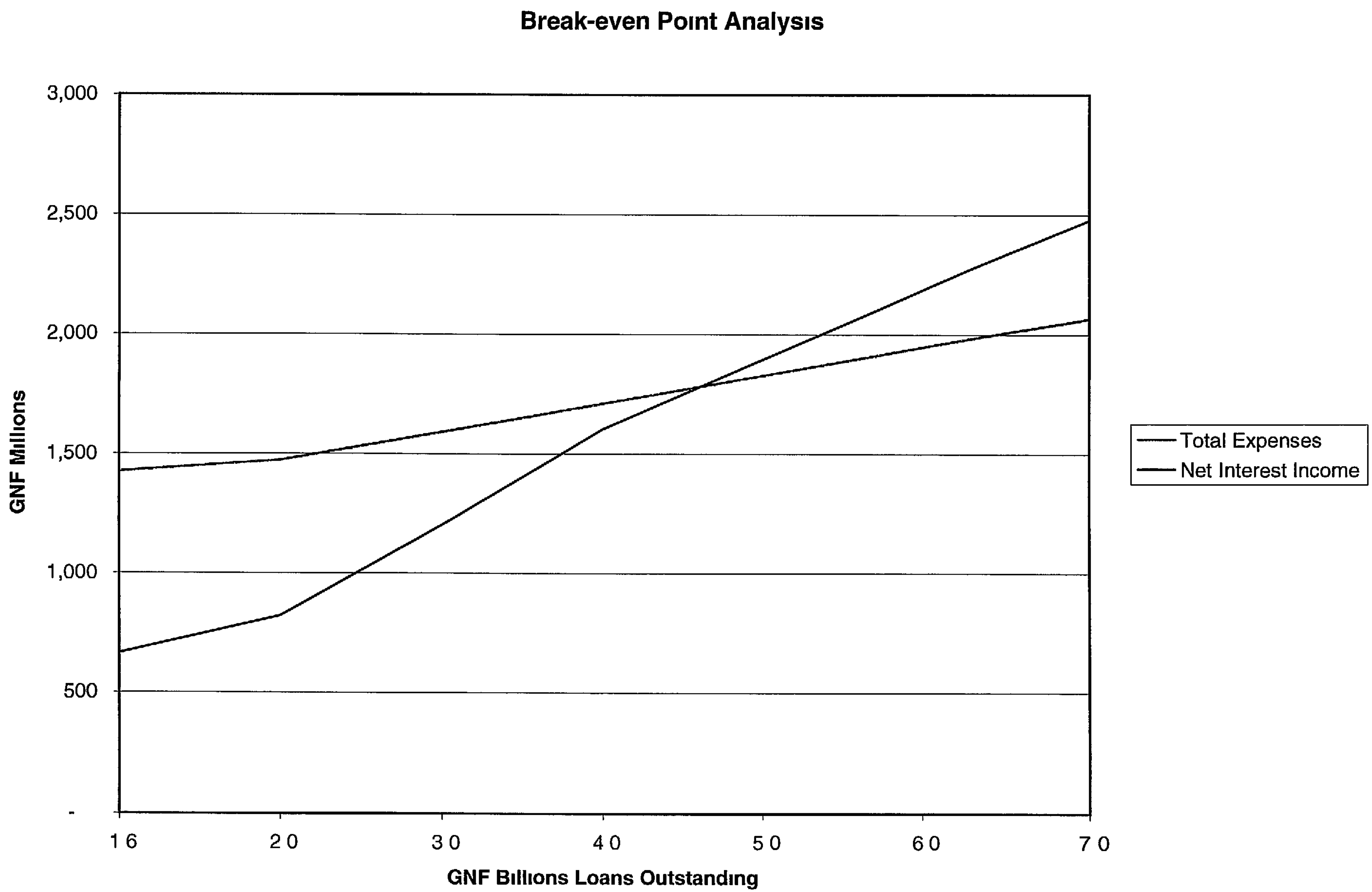
Chemonics/Prime

								Available	
Portfolio (Billions)	1 6	2 0	3 0	4 0	5 0	6 0	7 0		
(Millions)								GNF *	US$
Interest Income	664	821	1 202	1 602	2,003	2 403	2 804		
Interest Expense	-	0	0	0	108	218	328		
Net Interest Income	664	821	1,201	1,602	1 895	2,185	2 476		
HO overhead	616	616	616	616	616	616	616		
Branch overhead	619	619	619	619	619	619	619		
Variable	30	37	56	75	94	112	131		
Loan loss	160	200	300	400	500	600	700		
Total Expenses	1,425	1,472	1,591	1 710	1,828	1,947	2 066		
Net Income before Tax	(761)	(651)	(389)	(108)	66	238	410		
Average Assets									
Micro-loans	1,070	1,250	1,500	2,000	2,500	3,000	3,500		
Individual & FICA loans	534	750	1,500	2,000	2,500	3 000	3,500		
Liquidity reserve	160	200	300	400	500	600	700		
Total financial assets	1,764	2,200	3,300	4,400	5,500	6,600	7,700		
Grant/own funding	1,764	1,764	1 764	1,764	1,764	1,764	1 764		
Trust Fund assets		436	1,536	2,636	2,660	2,660	2,660	2,660	2
Remaining 2 6								3 458	2 6
PL480								3 000	
CGAP								1,197	0 9
Borrowings	-	0	0	0	1,076	2,176	3 276		
Total financial liabilities	1,764	2 200	3,300	4,400	5,500	6,600	7,700		
Return on assets	-43 16%	-29 59%	-11 80%	-2 45%	1 21%	3 61%	5 32%		

Micro rate	49%	From business plan
Individual rate	40%	From business plan
Borrowing rate	10%	Estimated at 4 5% above current T Bill rate
Micro loss rate	10%	Estimated
Individual loss rate	10%	Estimated
Liquidity target	10%	Estimated assuming no short term deposit liabilities
Inflation rate	5%	Estimated
% of branch cost variable	5%	Estimated
Exchange rate	1,330	Current
% portfolio in micro	50%	Estimated

Based on historical data provided by PRIDE/Finance and business plan estimates

PRIDE/Finance Break-even Analysis



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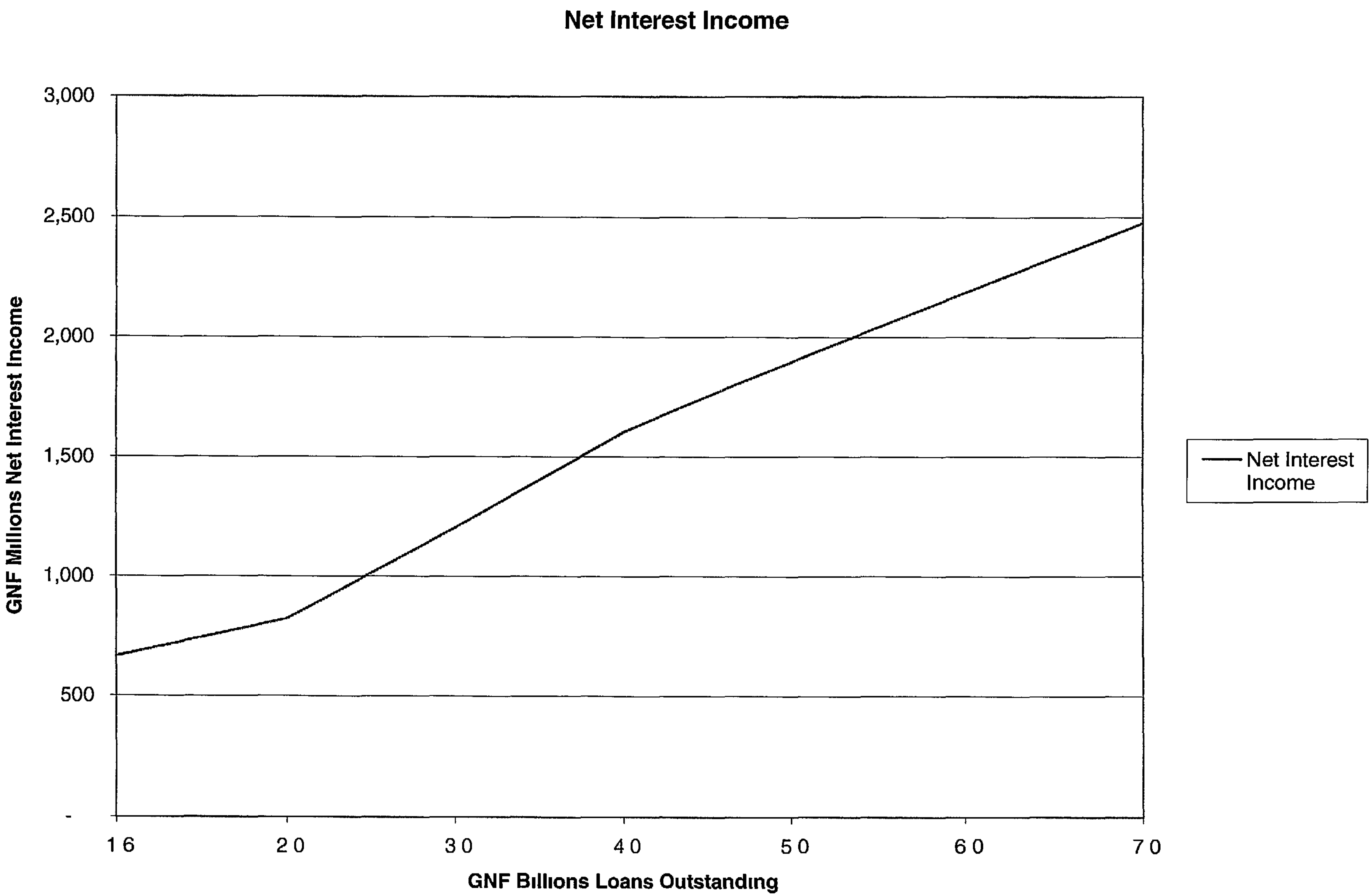
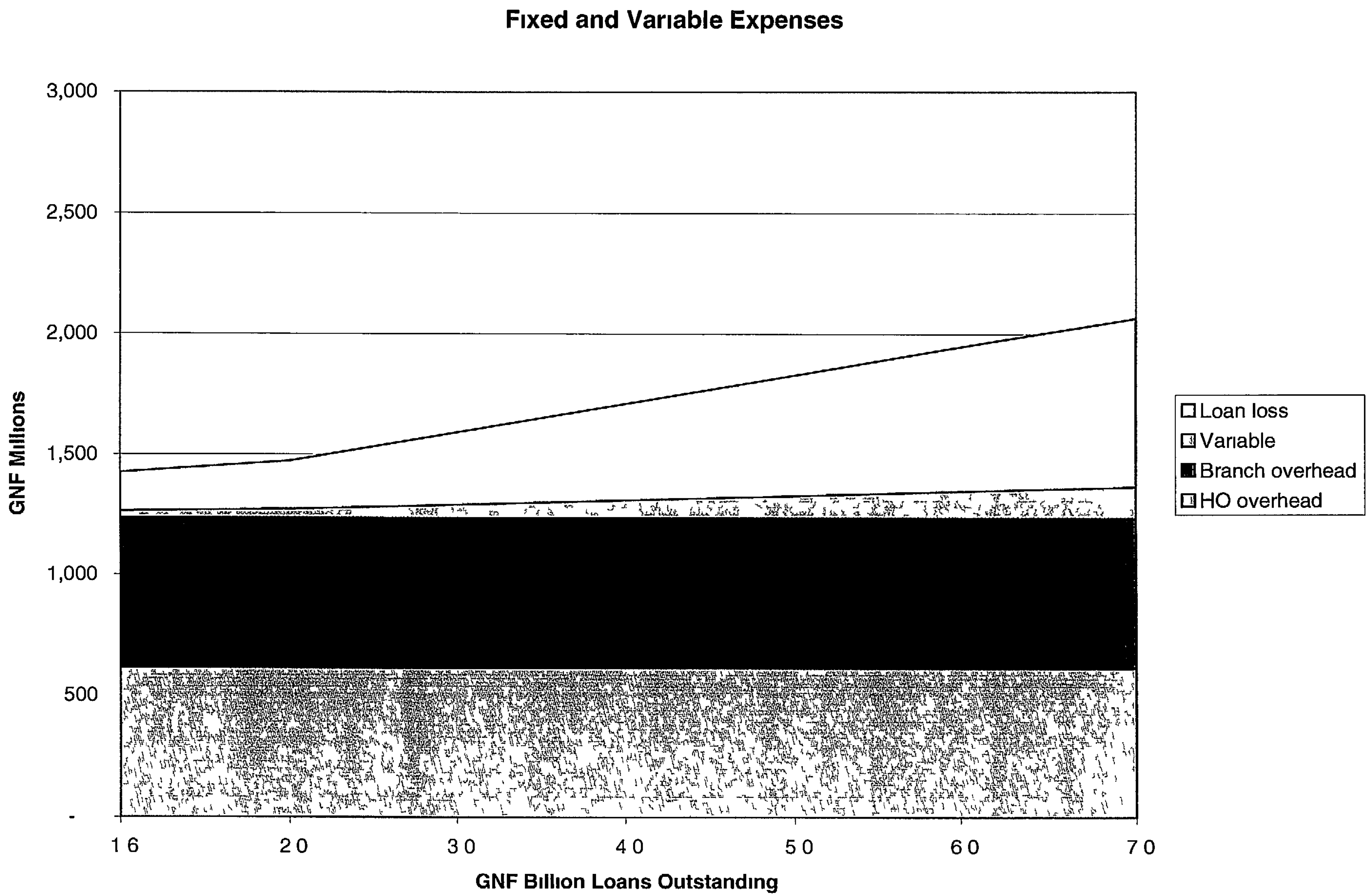
PRIDE/Finance Break-even Analysis

Chemonics/Prime



PRIDE/Finance Break-even Analysis

Chemonics/Prime



PRIDE/Finance Time Series Analysis

Chemonics/Prime

Year	1999	2000	2001	2002	2003	2004	2005	Available	
Portfolio target	1 6	2 0	3 0	4 0	5 0	5 5	6 0	GNF *	US$
Interest Income	738	913	1 335	1 780	2 225	2,470	2,715		
Interest Expense	-	0	0	0	108	163	218		
Net Interest Income	738	912	1 335	1,780	2 117	2 307	2 497		
HO overhead	616	646	679	713	748	786	825		
Branch overhead	619	650	683	717	753	790	830		
Variable	30	37	56	75	94	103	112		
Loan loss	160	200	300	400	500	550	600		
Total Expenses	1 425	1,534	1,718	1 904	2 095	2,229	2,367		
Net Income before Tax	(687)	(621)	(383)	(124)	23	78	130		
Cumulative Income/Expense	(687)	(1 309)	(1 692)	(1,816)	(1,793)	(1 715)	(1 584)	2 394	1 8
Average Assets									
Micro-loans	1 070	1 250	1 500	2,000	2 500	3,000	3 500		
Individual & FICA loans	534	750	1,500	2 000	2 500	2 500	2 500		
Liquidity reserve	160	200	300	400	500	550	600		
Total financial assets	1,764	2 200	3 300	4 400	5,500	6 050	6,600		
Grant/own funding	1,764	1 764	1 764	1 764	1,764	1 764	1 764		
Trust Fund assets		436	1 536	2 636	2 660	2,660	2 660	2,660	2
Remaining 2 6								3,458	2 6
PL480								3 000	
CGAP								1,197	0 9
Borrowings	-	0	0	0	1 076	1 626	2 176		
Total financial liabilities	1,764	2 200	3 300	4 400	5 500	6 050	6 600		
Return on Assets	-38 97%	-28 25%	-11 59%	-2 83%	0 42%	1 30%	1 97%		
Micro rate	49%								
Individual rate	40%								
Borrowing rate	10%								
Micro loss rate	10%								
Individual loss rate	10%								
Liquidity target	10%								
Inflation rate	5%								
% of branch cost variable	5%								
Exchange rate	1 330								

* at current rate of exchange Actual amount available in GNF will depend on the exchage rate at the time of the transaction

Based on historical data provided by PRIDE/Finance and business plan estimates

PRIDE/Finance Break-even Analysis

Chemonics/Prime