A.I.D. EVALUATION SUMMARY PART I

(BEFORE .. .LING OUT THIS FORM, READ THE ATTACHED INS . .UCTIONS)

IDENTIFICATION DATA

A. REPORTING A.I.D. UNIT:
USAID/Jamaica
(Mission or AID/W Office)
(ES# 4b/88)

B. WAS EVALUATION SCHEDULED IN CURRENT FY ANNUAL EVALUATION PLAN?
yes ☒ slipped ☐ ad hoc ☐
Eval. Plan Submission Date: FY 88 Q3

C. EVALUATION TIMING
Interim ☒ final ☐ ex post ☐ other ☐

D. ACTIVITY OR ACTIVITIES EVALUATED (List the following information for project(s) or program(s) evaluated; if not applicable, list title and date of the evaluation report)

Project #	Project/Program Title (or title & date of evaluation report)	First PROAG or equivalent (FY)	Most recent PACD (mo/yr)	Planned LOP Cost ('000)	Amount Obligated to Date ('000)
532-0105	Jamaica Agricultural Development Foundation Technical Assistance June 20, 1987	85	8/88	1,000	1,000

ACTIONS

E. ACTION DECISIONS APPROVED BY MISSION OR AID/W OFFICE DIRECTOR

Action(s) Required	Name of officer responsible for Action	Date Action to be Completed
1. Review and respond to evaluation findings by JADF and AID. Schedule Project presentation based on joint JADF/AID review of evaluation findings.	R.L. Owens	January 29, 1988
2. Review status of Technical Support Grant (532-0105) to JADF by AID and JADF.	R.L. Owens/ P. Lerner	March 31, 1988
3. Program PL 480 Title II Commodities for monetization and use by JADF during FY 1988.	R.L. Owens	Begun in September 1987 and to be a continuous action throughout FY 1988.

(Attach extra sheet if necessary)

APPROVALS

F. DATE OF MISSION OR AID/W OFFICE REVIEW OF EVALUATION: mo 9 day 1 yr 87 (Draft Report)

G. APPROVALS OF EVALUATION SUMMARY AND ACTION DECISIONS:

	Project/Program Officer	Representative of Borrower/Grantee	Evaluation Officer	Mission or AID/W Office Director
Signature Typed Name	Richard Owens	Keith Roache	Ruby Baker	Myron Golden Actg. Director
Date:	1/12/88	29/1/88	5/13/88	

H. EVALUATION ABSTRACT (do not exceed the space provided)

ABSTRACT

This project, which is being implemented by the Jamaica Agricultural Development Foundation (JADF), began in 1984 with the purpose of promoting and developing sustainable agriculture and agribusiness by providing medium and long term financing and technical assistance to the agricultural sector. Its primary source of funding is the proceeds from the sale of bulk cheese and butter donated under the PL-480 Title II program and processed in Jamaica. This mid-term evaluation was carried out to:

1. Assess the JADF's achievements to date against the original project goals.
2. Test the continued applicability of the original project assumptions.
3. Determine the JADF's fulfillment of its developmental role.
4. Determine its ability to properly assess and guide project proposals.
5. Assess the future potential for JADF to be financially viable and self sustaining.
6. Provide USAID and JADF management with a strategic planning document.

Methodology included examination of project documentation and the JADF's files, extensive interviews with USAID and JADF management and staff, JADF clients and other financial institutions in Jamaica, and visits to specific project sites.

Major Findings and Conclusions

.. The JADF is a properly functioning private sector institution with very capable permanent staff addressing some of the real developmental financing needs of the agricultural community in Jamaica.

.. With the exception of a few areas, all important goals, priorities and verifiable indicators are being met.

.. Client perceptions of the JADF were generally favorable, but perceptions by other financial institutions were not particularly strong.

.. The JADF is in acceptable financial condition for near term viability, but a number of financial and management issues (identified by the evaluation) need to be addressed to ensure the organization's viability over the longer term.

I. EVALUATION COSTS

COSTS

1. Evaluation Team

Name	Affiliation	Contract Number OR TDY Person Days	Contract Cost OR TDY Cost (US$)	Source of Funds
Robert L. Wagner Melville S. Brown	International Science and Technology Institute, Inc.		$14,494	P D & S

2. Mission/Office Professional Staff Person-Days (estimate) 5

3. Borrower/Grantee Professional Staff Person-Days (estimate) 5

A.I.D. EVALUATION SUMMARY PART II

J. SUMMARY OF EVALUATION FINDINGS, CONCLUSIONS AND RECOMMENDATIONS (Try not to exceed the 3 pages provided)
Address the following items:

- Purpose of activity(ies) evaluated
- Purpose of evaluation and Methodology used
- Findings and conclusions (relate to questions)
- Principal recommendations
- Lessons learned

Mission or Office: USAID/Jamaica

Date this summary prepared: December 1987

Title and Date of Full Evaluation Report: Evaluation of Jamaica Agricultural Development Foundation June 20, 1987

The project began in 1984 with the purpose of promoting and developing sustainable agriculture and agribusiness to improve the social and economic well-being of the people of Jamaica by providing medium and long term loans, equity investments, credit guarantees, research and training grants, and technical assistance to the agricultural sector. The implementing agency, the Jamaica Agricultural Development Foundation (JADF) was incorporated in 1984 as a non-profit private sector venture capital institution through the efforts of USAID in conjunction with Land o' Lakes Inc. and Rockefeller Brothers Fund of the U.S., and Grace Kennedy & Company Limited of Jamaica. Its primary source of funding is the proceeds from the sale of bulk cheese and butter donated under the PL-480 Title II program and processed in Jamaica.

This evaluation was carried out to:

1. Assess the JADF's achievements to date against the original project goals.
2. Test the continued applicability of the original project assumptions.
3. Determine the JADF's fulfillment of its developmental role in meeting the needs of its client base.
4. Determine its ability to properly assess and guide project proposals.
5. Assess the future potential for JADF to be financially viable and self sustaining, given its history to date, its potential client base, and the anticipated ultimate discontinuance of USAID concessionary assistance.
6. Provide USAID and JADF management with a document that can assist them in their strategic planning efforts for JADF's future.

Methodology included examination of project documentation and the JADF's files and financial statements, extensive interviews with USAID and JADF management and staff, JADF clients and other financial institutions in Jamaica, and visits to specific project sites.

Major Findings and Conclusions

As of May 1987, the JADF had approved loans, equity investments and/or grants for 52 of 240 project proposals (22%). Of these, 37 represent loan, equity or combination loan/equity for a total of J$22.7 million (approximately US$4.1 million), and 17 represent grants totalling almost J$2.2 million (approximately US$0.4 million). As of 3/31/87, eight new projects were being seriously evaluated and seven potential projects were awaiting further feasibility studies. Principal and interest payment problems are being experienced for some 27% of the outstanding loan portfolio. The procedures used to appraise, approve and monitor projects are complete and thorough.

Client perceptions of the JADF were generally favorable. Negative comments related to slowness in appraisals and approvals, and apparent lack of flexibility (in eyes of client) when cash flow problems arose within a project. Perceptions by other financial institutions were not particularly strong, indicating a lack of knowledge of the goals and methods of JADF. Some viewed JADF as direct competition. With the exception of a few areas, all important goals, assumptions, priorities and verifiable indicators are being met.

The balance sheet for 3/31/87 and projected income statement for the year ending 6/30/87 (see Tables I, II and III attached) show the JADF to be in acceptable financial condition for near term viability, however the organization has a cost structure which is entirely too high for its revenues, and without major changes in cost structure, JADF is minimally viable over the longer term.

After three years of operation, the JADF is a properly functioning private sector institution with very capable permanent staff, addressing some of the real developmental financing needs of the agricultural community in Jamaica. It is able to thoroughly assess credit, equity and grant requests, and to disburse funds while also monitoring past investments. It is meeting project expectations in a number of areas including orientation towards exporters, new entrepreneurs, projects which assist Jamaica in decreasing its dependence on imported food, and in providing grant assistance for studies, publications, training and other uses which positively impact on the agricultural and agro-industry sectors. JADF has also offered clients a significant level of technical assistance during project design and implementation stages.

Its relationship with USAID is functioning well, and it has sufficient liquidity to continue to operate in the near term. However, its future viability is threatened by a number of negative factors which soon must begin to receive serious continual attention. The primary issues which must be addressed are:

1. JADF's net margin is too low to allow it to be more than marginally profitable without USAID grant assistance.
2. JADF's level of principal and interest past due, the risk nature and geographical dispersement of its portfolio, plus the number of loan and equity projects it now has, indicate that there is a danger that projects no longer can be adequately monitored nor assistance provided by the single staff person in this function.
3. The volume of new projects has dropped significantly, giving rise to the possibility that future portfolio growth may be too limited. Additionally, the proper future role of the JADF is not well understood in the financial and agricultural communities, nor has JADF itself addressed the issue of what type f institution it should be in terms of the mix of type of investment, types and sizes of its clients, and other types of business in which it might wish to be involved.addition to project activities, the JADF has responsibility for estimating future commodity needs in order to obtain approval and timely shipment of the commodities.

4. The data available to management does not represent a coordinated and complete management information system.

5. The level of involvement of the JADF Managing Director in the Trafalgar Development Bank's Loan Committee, and his potential responsibility in management of the new USAID-funded Agricultural Research Project.

6. The technical assistance grant has not been used very extensively to date, not has much activity taken place on a number of uses for which it was originally planned.

7. The levels at which JADF project analysis staff are allowed to make decisions on approvals and changes without Board approval are too low.

8. The inherent dichotomy between the desire for immediate measurable success (e.g. capital formation for a "viable and self-sustaining" institution), and the job of meeting truly developmental needs.

9. JADF's dependence on the sale of surplus dairy commodities from the U.S. to finance its portfolio. Partial or total disruption of commodity flows seriously inhibits JADF's ability to continue to use private sector outlets for funding of its activities.

RECOMMENDATIONS

1. JADF must carefully explore all opportunities to both increase revenue as well as reduce costs as a percentage of average earning assets. (A number of options are suggested under this recommendation.)
2. JADF should immediately increase the project implementation and monitoring staff by one or more professionals.
3. JADF should undertake the effort to define for itself what its business should be, determine what targets it should set for different types of loans, investments and grants, and analyze how it can best go about obtaining new customers in a cost efficient manner. It would be proper to use technical assistance grant funds to accomplish this.
4. A management information system reporting on the status of existing projects, information on new proposals, projections and earnings, balance sheets, cash flows, portfolio impacts and other information considered necessary by management should be developed.
5. Review all existing and future involvement of JADF management outside of JADF, limiting them where possible to those that have direct benefits to JADF's goals.
6. JADF should make a plan for the use of technical assistance grant funds, showing how they will be used before the end of the grant period and how each of the targets described in the original agreement will be addressed.
7. The JADF management should draw up a revised approval limits plan, and present the case for the revisions to the Board of Directors. Also, in instances where projects have to be presented for Board approval, the responsible project analyst should make an oral presentation. This will improve the quality of the analysis and enable others to see what the Board regards as key factors.
8. USAID should review its own goals, and ponder whether it is better to have private development institutions which in the long run may become self-sustaining only by abrogating some or all of their developmental role, or whether it is more important that the clients of those private development institutions become viable and self-sustaining even if it means USAID and other donor support for longer periods of time.
9. USAID should take great care ot protect JADF from both disruption in regular shipments of dairy commodities or lack of sufficient offsetting commodities in an emergency. Shortfalls in commodity sale funding should be otherwise compensated.

SUMMARY (continued)

ATTACHMENTS

K. ATTACHMENTS (List attachments submitted with this Evaluation Summary; always attach copy of full evaluation report, even if one was submitted earlier)

Full Evaluation Report

L. COMMENTS BY MISSION, AID/W OFFICE AND BORROWER/GRANTEE

The JADF Board of Directors is taking the evaluation very seriously. It was a topic of discussion at the 1987 Board retreat. JADF management has been tasked with including a plan for the implementation of the evaluation recommendations in the Revised 1988/89 Foundation Business Plan. This will be accomplished by the end of March 1988. The evaluation was well received by all parties; JADF Board of Directors, JADF staff and the USAID.

PLEASE SEE ADDENDUM I FOR COMMENTS

BORROWER/GRANTEE COMMENTS

Opening Statement

JADF accepts most of the recommendations and have already taken steps to implement the relevant chan suggested. However, there are some recommendations that need more intensive examination in the context of the Foundation's operating environment and Board policy before they can be accepted and implemented. More specifically, with regard to:

Recommendation #3

JADF's client base is somewhat restricted by USAID and by its defined operational stance of being a "demand-responsive" institution. It has been geared to respond to those clients who have identified a profitable and feasible opportunity in the agricultural sector. Loan targetting, a "supply-leading" approach, is in conflict with cost efficient operations. In any event, the establishment of long term goals in the absence of an assured source of capital is more of an academic than a practical exercise. Loan exposure to any particular sub-sector is monitored as the Foundation grows and develops.

Recommendation #5

Management will review future involvement and limit it as far as possible to only those that have direct and immediate benefits to JADF's goals. This however, will limit the extent to which a previously enunciated goal of the Foundation, of assuming a leadership role in the Jamaican agricultural sector can be achieved.

Recommendation #8

Management is committed to the self sustenance and longevity of the institution. Any institution that is destined to rely on subsidies indefinitely is not likely to attract or retain the calibre of staff it requires.

General Comments

Given the information that was available at the time of the report, and the assumption that further increase of the capital base was in doubt, the report represents an objective analysis of the Foundation's activities. It has been very useful in bringing to the fore, issues regarding revenue and costs within a development-oriented institution, seeking to facilitate and work with a restricted clientele (with incomplete proposals) in a high risk sector. Management fully supports the position of ensuring minimum disruption in the supply of commodities and the structuring of commodity flows on a timely basis.

International Science and Technology Institute, inc.

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EVALUATION OF JAMAICA AGRICULTURAL DEVELOPMENT FOUNDATION (JADF)

Prepared for:

U.S. Agency for International Development
Kingston/Jamaica

By:

International Science and Technology Institute, Inc.
1129 - 20th Street, N.W., 8th Floor
Washington, D.C. 20036

June 20, 1987

EVALUATION OF JAMAICA AGRICULTURAL DEVELOPMENT FOUNDATION (JADF)

Prepared for:

U.S. Agency for International Development
Kingston/Jamaica

By:

Robert L. Wagner
Melville S. Brown

International Science and Technology Institute, Inc.
1129 - 20th Street, N.W., 8th Floor
Washington, D.C. 20036

June 20, 1987

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EXECUTIVE SUMMARY

EVALUATION OF JAMAICA AGRICULTURAL DEVELOPMENT FOUNDATION (JADF)

BACKGROUND

The data for this report was gathered over a two week period in Jamaica during early June, 1987. It is intended to be neither a financial audit nor a complete management audit. The overview it provides, however, should serve both USAID in its desire to understand an organization it has helped to create, as well as the Board of Directors, management and staff of JADF as they attempt to cope with strategies for its future.

The primary sources of input to this report were written information provide by the USAID Mission in Jamaica (including the original Project Proposal from September, 1983), material of a financial, project and policy nature provided by JADF, and oral inputs from JADF management, staff and clients.

JADF was incorporated in January, 1984, as a non-profit private sector venture capital institution, whose stated objective is to promote and develop sustainable agriculture and agribusiness to improve the social and economic well-being of the people of Jamaica. Its founders were Land O'Lakes, Inc., and the Rockerfeller Brothers Fund from the United States, and Grace Kennedy & Co. Ltd. of Jamaica, with support from USAID. Its primary funding source is the proceeds from the sale of bulk cheese and butter provided by the U.S. Government under its PL-480 Title II food grant program.

JADF currently has a staff of seventeen people, twelve of whom are professionals, and all of whom are Jamaican.

PORTFOLIO DESCRIPTION

JADF had received approximately 240 project proposals as of the end of May, 1987, and had approved loans, equity investments or grants for 52 separate projects (some had both loan and equity or both loan and grant components). A breakdown of these is as follows:

- Loans:
  - 32 approved
  - Total approved J$18,742,563
  - Average loan size J$585,705
  - Largest loan J$1.9 million (until the more recent J$2.9 million loan to Jamaica Poultry Breeders)
- Equity Investments:
  - 13 approved (8 in combination with loans)
  - Total approved J$5,633,750
  - Average grant J$433,365

- Largest investment J$1 million
- Largest combination debt/equity investment J$2,006,000
- 6 common stock investments; 6 cumulative preference shares investment; 1 written off the books

o <u>Grants</u>:

- 17 approved (2 in combination with loans)
- Total approved almost J$2.2 million
- Average grant J$129,000
- Largest grant J$800,000

o <u>On-going Projects</u>

- Of original 37 loan, equity and loan/equity projects:

    o One equity investment written off
    o One loan withdrawn prior to disbursal
    o Five loans legally recalled (payment demanded)
    o Remaining 30 project commitments equal J$22.7 million
    o Industry breakdown of thirty remaining projects:

        - <u>Aquaculture</u>: 1 project J$633,650
        - <u>Traditional Crops</u>: 8 projects average J$599,888; total exposure J$4.8 million
        - <u>Non-Traditional Crops</u>: none
        - <u>Livestock/Beef/Dairy</u>: 7 projects, average J$896,571; total exposure J$6.3 million
        - <u>Ornamental Horticulture</u>: 6 projects average J$628,333; total exposure J$3.8 million
        - <u>Agro-Industrial</u>: 6 projects average J$541,333; total exposure J$3.2 million
        - <u>Other</u>: 2 projects (TDB & NDF) total exposure J$1,400,000

    o Size breakdown by JADF exposure:

        - J$500,000 and under: 13 projects
        - J$500,001 to J$1 million : 13 projects
        - Over J$1,000,000 million: 4 projects

    o Size breakdown by total project size (all sources)

        - J$500,000 and under: 6 projects
        - J$500,001 to J$1 million: 6 projects
        - J$1,000,001 to J$2.5 million: 6 projects
        - J$2,500,001 to J$5 million: 5 projects
        - J$5,000,001 to J$10 million: 2 projects
        - Over J$10 million: 3 projects

- Matrix of Export, Local, New and Expansion Projects (2* are combined export/local):

	NEW	EXPANSION
EXPORT	15* projects	4 projects
LOCAL	4 projects	7 projects

- Loan/Equity Investment Terms:

  -- Loan Tenor: average just over 6 years, with average grace period on principal repayments of 1.3 years. Longest tenor ten years; longest grace period 4 years. Maximum redemption period for cumulative preference shares 10 years.
  -- Interest rates fixed at 15% of 12 loans; 18% for 12 loans, 10% for 2 loans.
  -- Normal maximum exposure limit per project: J$2 million
  -- Debt to equity ratio: maximum 2.33 to 1 (70% debt/30% equity)
  -- Collateral: required in addition to personal guarantee
  -- JADF Equity Portion: may not exceed clients equity
  -- Requirement for audited financial statements

- Disbursements (as of 3/31/87):

  -- Loans J$11.0 million (73% of commitments)
  -- Equity J$4.0 million (76% of commitments)
  -- Grants J$628,283 (49% of commitments)

- Past Due/Problems Loans:

  -- Seven loans
  -- Amount past due J$189,725
  -- Total loans past due J$2.4 million (20.3% of outstanding)
  -- Loan interest past due on two other loans totalling J$760,000 (additional 6.4% of outstanding)

PROJECT APPRAISAL/APPROVAL/MONITORING PROCEDURES

The procedures used to appraise, approve and monitor projects are very complete and thorough. A typical analysis will examine corporate and individual sponsors, description of proposed activities, management, markets, sources of inputs, production capability, equity capital and financing plans, economic and social inputs, production capability, equity capital and financing plans, economic and social impact projections, financial projections, and collateral. Applications for grants are not quite so rigorous, but follow the same pattern.

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Projects with loan and equity components are analyzed and if acceptable, recommended by the Technical Services staff, and sent to an internal committee of three four review before being finally sent to the Board of Directors for approval. Grants are prepared by the Marketing Manager (who oversees this activity) and are generally also approved by the board. Turndowns are usually for lack of information or inability of the client to meet minimum project standards.

After Board approval, project implementation and monitoring responsibilities are passed to the Project analyst for loan and equity projects, and the Marketing Manager for grants. Projects are visited monthly during the implementation stage or if there are problems of any sort. Payments which are over 90 days past due and any other serious problems receive the attention of the Deputy Managing Director.

PERCEPTIONS OF JADF

Client perceptions of JADF are generally favorable, indicating that availability of term credit at reasonable rates for agricultural projects and the possibility of equity being available if required were primary reasons for choosing JADF. Negative comments related to slowness in appraisals and approvals, and apparent lack of flexibility (in eyes of client) when cash flow problems arose within a project.

Perceptions of other financial institutions wee not particularly strong, indicating a lack of knowledge about goals and methods of JADF. Some such as ACB and one commercial bank view JADF as direct competition.

BASIC PROJECT ASSUMPTIONS

All important goals, assumptions, priorities and verifiable indicators are being met except:

- JADF has not utilized the volume of commodities anticipated. As of 3/31/87, (3 years into program) approximately US$9 million of the estimated US$26 million to be provided in commodities over the 6 years of the program had been received.
- Plans for developing domestic dairy production have for the most part foundered on the realities of the poor economics for this sector.
- JADF has not made policy decisions as to targets for mix of loans, equity and grant projects, and sector goals.
- JADF has had little successful integration with other agricultural development organizations in Jamaica such as JNIP, AGRO 21 and others.
- Almost none of the targets for the use of the US$1 million in Technical Assistance Grant Funds appear to have been met, including revising operating manuals and policies, providing for a high visibility public

relations program, developing a policy for payback of equity investments, and providing a business advisory service on a fee basis.

FINANCIAL ANALYSIS/FINANCIAL VIABILITY

The balance sheet for 3/31/87 and projected income statement for the year ending 6/30/87 (see Tables I, II, and III attached) show JADF to be in acceptable financial condition in terms of JADF's ability to continue to function as expected for the near term at least. However, the analysis of the current status, and the future financial projections show that JADF has a cost structure which is entirely too high for the revenues it takes in. Without the continuing use of the US$1 million technical assistance grant (OPG) its equity or directly from the sale of commodities for funds to cover total operating expenses. The future projection which postulates the elimination of the technical assistance grant due to expire in August, 1988, highlights this fact very clearly. Without major changes in its cost structure (as a % of average assets) and/or revenue structure, JADF is minimally viable over the longer term. It is particularly notable that JADF faces this financial situation despite the fact that its primary source of funds is derived from a zero % interest, non-repayable grant from USAID.

CONCLUSIONS AND RECOMMENDATIONS

After three years of operation, JADF is a properly functioning private sector institution with very capable permanent staff, addressing some of the real developmental financing needs of the agricultural community in Jamaica. It offers clients in a wide variety of sizes and agricultural sectors a significant level of technical assistance, loans and equity. Its relationship with USAID seems to be functioning well, and it has sufficient liquidity to continue to operate in the near term.

However, as described in the financial analysis section above, JADF faces serious long range problems, the threat from which must be dealt with as soon as possible. It if does not address theses issues, it will not easily survive without continual, long term assistance from donor organizations. While this problem is common to many development finance institutions worldwide, it need to be the case if aggressive measures are taken to improve revenue and cost factors.

The key issues are:

1) JADF's revenues are too low in comparison to the costs required to generate those revenues. As a % of average earning assets, revenues presently are 16.4% before the 6.1% effect of the USAID grant funds. Expenses total 19.3% of avenge earning assets, showing that without the grant assistance, JADF would be losing money. Although hard and fast projections are difficult to make, it seems clear that the situation will also exist in the future.

Recommendation:

JADF should seek out all opportunities to increase revenues and decrease costs as a percentage of average earning assets. This can be accomplished by such tactics as:

- Charge fees for project design and implementation assistance.
- Charge higher interest rates on loans and cumulative preference share investments, to the extent that the market will allow. (To properly perform its stated function, JADF must act and be visioned as a private sector financial institution, not as a provider of low cost financial services. The lower the interest rate, the less room JADF has to be venture capital oriented.)

- Place a greater proportion of assets in higher yielding investments such as preference shares with profit sharing "kickers".

- Develop other interest or fee based financial services.

- Consider selling the J$400,000 investment in Trafalgar Development Bank unless there is evidence that TDB will be able to earn a return on equity and pay dividends that will make the investment more attractive than bank C/D's.

- Increase the average size of JADF loan and equity investments.

- Increase the relative proportion of assets in investments requiring little analysis and monitoring work, such as bank C/D's or well collateralized loans to "blue chip" companies.

- Determine if JADF can utilize less costly analysis methods that appear to be used by other development finance companies in the region.

- Require improved project proposals from clients, rather than having JADF do feasibility and design analysis.

- Under no circumstances borrow funds for placing in loans and equity investments unless all costs for placing those funds are not only covered by the revenues generated, but also sufficient extra revenues are generated to pay for interest.

- Review the concept of providing loan guarantees backed up by cash deposits, as doing so may actually bring about a net reduction in profits.

2) JADF's level of past due principal and interest, and the inherent risk level and geographic dispersion of projects is such that additional personnel are required to properly monitor disbursed loans and equity investments.

Recommendation:

Hire at least two additional, qualified persons for the Project Analysis (implementation and monitoring) Group. In the meantime, consider diverting one of the junior members of the technical services staff to this function.

3) The volume of new projects has dropped from about 12 per month to 5 per month since the beginning of 1987, and the number of export and non-traditional projects has decreased as a percentage of those.

Recommendation:

JADF should determine company policy regarding the desired mix of new, expansion, export market, local market, agriculture sectors and project size that it wishes to target, and should then establish a realistic, effective promotion plan, using other developmental institutions in Jamaica where possible, to improve the flow of quality projects for financing It never, however, should lower its professional loan/investment standards to accomplish volume increases.

4) There appears to be no coordinated, complete, management information system. This may be hindering management's ability to recognize and deal with portfolio and financial issues.

Recommendation:

JADF should undertake a project to upgrade, increase and better coordinate its reporting system.

5) Less than 40% of the US$1 million Technical Assistance Grant has been used to date.

Recommendation:

While it is recognized that JADF had a late start in beginning the use of these funds due to a former litigation problem, and that their use is now increasing, JADF management still should make a plan for the use of the remaining funds before the end of the scheduled grant period in August, 1988, showing how each of the targets described in the original grant agreement will be addressed or changed.

6) There is an apparent dichotomy between the desire for JADF and like institutions to engender "development" where it does not presently exist, while at the same time becoming viable and self-sustaining organizations without donor assistance.

Recommendation:

USAID should review its own goals and ponder whether it is better to have private development finance institutions which become self-sustaining only by abandoning some or all of their developmental role, or whether it is more important either that the <u>clients</u> of those organizations become viable and self-sustaining or that the institutions influence a more rapid evolution of the existing financial structure within a country, even though that may mean that donor assistance may be required for the development finance institutions for much longer periods of time.

7) JADF is heavily dependent on the continued flow of funds from the sale of commodities to finance increased loan/investment volume. The potential for disruption of this flow exists (and has occurred before) which would make it very difficult for JADF to properly fulfill its intended charter.

<u>Recommendation</u>:

USAID should closely monitor the availability of surplus dairy commodities and ensure that if not available, other commodity programs or other funding sources are structured on a timely basis.

TABLE I

BALANCE SHEET

Assets	J$ 6/30/85	J$ 6/30/86	J$ 3/31/87
Cash and short term deposits	9,030,100 1/	9,457,296 1/	9,487,954 1/
Loans (Net of Reserves)	1,685,604	6,638,272	11,378,641
Investments	1,789,750	1,475,000	4,049,000
Reimbursable grants	40,000	80,000	117,749
Accounts receivable and prepayments	370,878	6,168,617	6,147,797
Inventories	14,213,407	61,089	- 0 -
Fixed assets	433,340	409,750	1,061,249
Total Assets	27,563,079	24,290,024	32,242,390

1/ Short term deposits = 8,488,294 (85 Est.)
8,936,645 (86)
9,025,564 (87)

Liabilities			
Refundable grants	1,513,756	2,266,835	- 0 -
Accounts payable	3,517,104	104,923	362,696
Equity Funds			
Capital fund	23,397,704	21,885,850	31,789,949
Operating fund/(deficit)	(865,485)	32,416	90,745
Total Liabilities & Equity	27,563,079	24,290,024	32,242,390

TABLE II

PROFIT AND LOSS ACCOUNT

Revenues	J$ 12 months to 6/30/85	J$ 12 months to 6/30/86	J$ 9 months to 3/31/87
Interest on deposits	731,131	1,333,698	1,160,886
Interest on loans	43,768	749,155	1,125,209
Interest - other	---	232,477	116,988
Non-refundable grant from USAID	144,500	733,748	820,321
Miscellaneous	5,493	13,886	*
Dividends	---	167,432	212,500
Total Revenues	924,892	3,230,396	3,435,898

Expenses			
Expenses under operating grant 2/	---	343,345	820,321
Operating expenses	1,790,377	2,041,145	2,097,816
Total Expenses	1,790,377	2,384,490	2,918,137
Operating surplus/(deficit) for period	(865,485)	845,906	517,761
Other Income	---	51,995	(459,432)1/
Surplus/(deficit) for period	(865,485)	897,901	58,329
Surplus (deficit) at beginning of year	---	(865,485)	32,416
Surplus/(deficit) at end of year	(865,485)	$ 32,416	$ 90,745

* Included in Interest - other

1/ Special grant for disaster relief to farmers plus ordinary grants

2/ Recurring and non-recurring

TABLE III

Income Statement Indicators

	12 months to		
	6/30/86	6/30/87 1/	Future 2/
	% of Average Earning Assets		
REVENUE			
Loan Interest	5.2	7.1	6.6
ST Investment Income	9.2	7.3	6.8
Dividends/Equity Gains.	1.2	1.3	1.3
Other	2.1	0.7	0.5
Project Disbursement Fee	--	--	0.3 (est.)
TA Grant Personnel Exp.]		1.7	--
TA Grant Other Expenses]	5.1	4.4	--
TOTAL REVENUE	22.8	22.5 3/	15.5
EXPENSES			
Personnel Costs/ Management Fees	*(included below)	4.4	3.1
Other Personnel costs covered by Grant	+(included below)	1.7	1.3 4/
Administrative/Operating Expenses	14.0*	7.1	5.4
Other Expenses covered by Grant	2.4+	4.4	1.0 4/
Provision for Bad Debt	*(included above)	1.7	3.0
Total Expenses before non-reinb. grants	16.4	19.3	13.8
Surplus (Deficit) before non-reib. grants	6.4	3.2	1.7
Non-Reimbursable Grants	1.1	2.9	--
Net Surplus (Deficit)	5.5	0.3	1.7
Return on Avg. Total Assets before grant	4.2	2.4	1.3
Return on Avg. Total Assets after grant	3.6	0.2	1.3

1/ Based on extrapolation of nine month results to 3/31/87.

2/ Any future 12 months after discontinuance of USAID technical assistance grant.

3/ If recalled loans were excluded from these figures, the net effect would be a decrease in the surplus before non-reimbursable grants to approximately 2.2% leaving a net deficit for 1987.

4/ Based on estimates by JADF management of recurring costs now covered by USAID technical assistance grant.

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<u>APPENDICES</u>

EVALUATION

JAMAICA AGRICULTURAL DEVELOPMENT FOUNDATION (JADF)

BACKGROUND

This evaluation has taken place during a period of over two weeks in Jamaica collecting input, and almost two weeks of analyzing it, refining it, and coordinating this report. By definition, it is not intended to be a complete audit of JADF in either the financial or management sense. It is, however, a relatively detailed overview of JADF's operations to date and future potential.

Purpose

The purpose of this evaluation is to:

1. Assess JADF's achievements to date against the original project goals.

2. Test the continued applicability of the original project assumptions.

3. Determine JADF's fulfillment of its developmental role in meeting the needs of its client base.

4. Determine its ability to properly assess and guide project proposals.

5. Assess the future potential for JADF to be financially viable and self sustaining, given its history to date, its potential client base, and the anticipated ultimate discontinuance of USAID concessionary assistance.

6. Provide USAID and JADF management with a document that can assist them in their strategic planning efforts for JADF's future.

Methodology

The primary sources of input for this evaluation include:

- Written information such as the original Project Proposal (9/83), the Transfer Authorization of 9/3/85), client project files, proposed project turndown files, JADF policy papers, financial statements, data sheets provided by JADF, other internal reports of JADF, the original project proposal (9/83), the Transfer Authorization for 4/84, and

- Extensive interviews with JADF management and staff, the USAID project advisor, other USAID staff, JADF clients (including visits to specific project sites) and other financial institutions in Jamaica including commercial banks, Government institutions, and a merchant bank.

Brief History of JADF

JADF was incorporated in Jamaica in January, 1984 as a non-profit private sector venture capital institution. The Ministry of Finance and Planning approved venture capital company status, giving JADF tax relief until June, 1994, although technically, JADF must apply for renewal of this status every three years.

JADF was formed as a result of efforts during 1983 by USAID in conjunction with Land O'Lakes Inc. and Rockefeller Brothers Fund from the U.S., and Grace, Kennedy & Co. Ltd., of Jamaica. The latter three comprise the founding members of JADF. There is a Board of Directors of ten, composed of a banker, attorney, veterinarian/corporate executive, accountant, three persons in various farming activities in Jamaica, representatives from two of the founding institutions, and the Managing Director of JADF. The Board is very actively involved in both project approval decisions and policy issues. Initial members were selected by the founders, but all changes are now initiated an approved by the existing Board.

The stated objective of JADF is to <u>promote and develop sustainable agriculture and agribusiness to improve the social and economic well-being of the people of Jamaica</u>. The Foundation intends to accomplish this by providing medium and long term loans, equity investments, credit guarantees, research and training grants, and technical assistance to individual Jamaicans, to private sector companies which are at least 51% owned by Jamaicans, and/or to certain Jamaican organizations (such as other lenders or research/training institutions) which directly affect the private agriculture sector in Jamaica. JADF has been in operation for approximately three years, and approved its first loan/equity investment in October, 1984.

JADF's equity funds come entirely from proceeds arising from the sale in Jamaica of butter and cheese (and soon, some butter oil) which is donated in bulk form via USAID under its PL-480 Title II food grant program and processed locally. The agreement with USAID does not provide for any set level of commodities to be shipped over the estimated six years of project funding which was originally projected to end in 1990. Instead, annually (sometimes more frequently) agreements are negotiated between JADF and the U.S. Government based on:

1. JADF's estimate of how much cheese and butter can be absorbed by the Jamaican economy over the proposed period.

2. The need of JADF for additional funds for programming into loans, equity investments and/or grants.

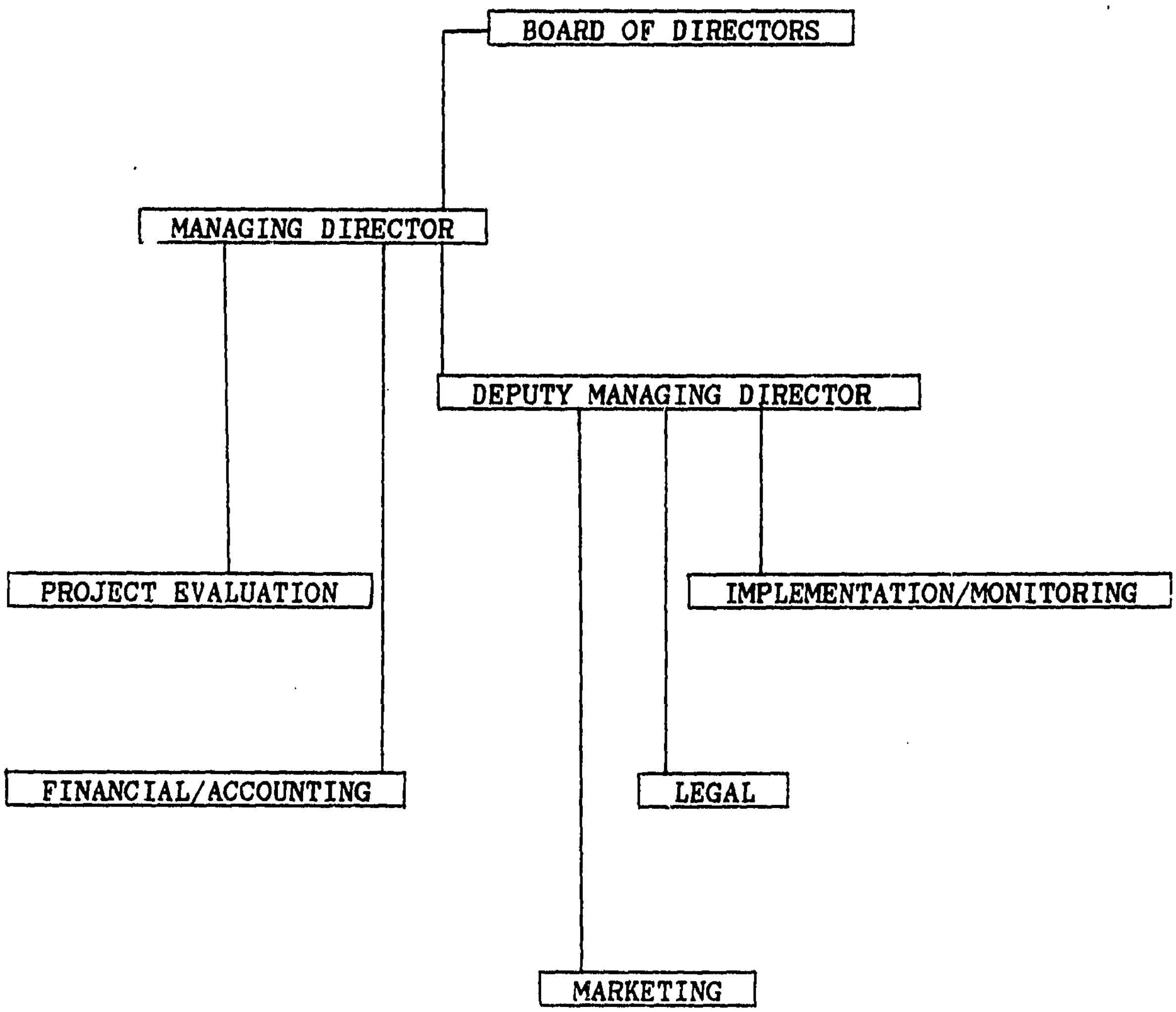
3. The availability of excess commodities under the PL-480 Title II Program.

Approximately 4000 metric tons of commodities have been received to date, and JADF is now receiving them at a rate of approximately 2000 metric tons of cheese and 1000 metric tons of butter per year. This translates into J$15-18 million in commodity sales per year. Additionally, during the remainder of 1987 the U.S. Government will also provide 800 metric tons of butter oil to JADF which should be sold for about J$4.4 million.

Originally, JADF stored the butter and cheese, contracted to have it processed on its behalf, and then handled the sales of the processed products to distributors (relying on the proceeds net of costs to fund its activities); it now sells the bulk commodities at dockside to a processor which takes the processing and wholesale sales risk itself.

To date, funding for of all JADF's activities has come essentially from the equity funds, earnings on the investment of those funds, and from a special US$1 million technical assistance grant from USAID which expires in August, 1988. This grant is to cover outside consulting assistance for feasibility studies, certain management and staff salaries, a variety of staff training needs, certain fixed asset purchases including a computer system, public relations expenses, and assorted other expenses.

JADF currently has a staff of 17 people, composed of a managing director, a deputy managing director, a manager of technical services (project evaluations) plus two assistants, a project analyst (implementation and monitoring functions), a project field officer, a marketing manager (who also undertakes some promotional activities), a financial manager, an accountant, an accounting clerk, a lawyer, and five other support staff. All are Jamaicans. The organization is structured as follows:



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EVALUATION FINDINGS

PORTFOLIO DESCRIPTION/IMPACT SUMMARY

Appendix A, attached, which is derived from information provided by JADF, gives an overview of JADF's portfolio of loans, equity investments and grants. Unfortunately, details are not available on individual customers as regards the net foreign exchange earned or saved (and is only partially available on a gross basis), nor is the information complete on the number of jobs ultimately projected to be created by the projects. Furthermore, the employment information is not broken down as to the effects of the specific expansion being financed where that was the case (as opposed to total company employment). Actual employment was verified by JADF for all on-going loan and/or equity relationships. No information is available regarding additional incomes generated.

Project Proposals

JADF has received approximately 240 project proposals as of the end of May, 1987, and has approved loans, equity investments and/or grants for 52 of these (22%). Of those which did not receive ultimate approval, the majority were turned down immediately (20%) or in the early stages of analysis due to their not being appropriate for JADF. Proposed projects have been declined for a number of reasons including a lack of Jamaican ownership, not truly being an agriculture or agribusiness venture, totally inadequate levels of equity investment from the proposer or other potential sources (even with JADF participation), or an unwillingness on the part of the proposer to provide JADF with sufficient information (financial as well as project design) to allow for completion of analysis. There are a number of proposals which did undergo in-depth analysis on the part of JADF prior to being turned down for lack of adequate equity, security, or other necessary preconditions. However, over 95% of those on which JADF's project analysis group completed an analysis and recommended approval of the loan, equity investment, or grant, were accepted by JADF's internal review committee, and subsequently by the Board of Directors project approval committee. Furthermore, the staff indicates that the turndown rate is now about 50% due to the improved quality of projects being proposed.

Total Approved Projects:

Of the 52 projects which have been approved, 37 represent loan, equity, or combination loan/equity investments by JADF (the remainder are for grants, two of which are repayable).

Apprcved Loans/Equity Investments:

- The 32 loans which have been approved total J$18,842,563 with an average loan size of J$585,705. The largest approved loan has been J$1.9 million.[1]

- The 13 approved equity investments (8 are in combination with loans) total J$5,633,750 with an average size of J$433,365. The largest approved equity investment has been for J$1 million.

- The largest single project investment (loan and equity combined) has been J$2,0006,000; the smallest (a loan) has been J$100,000.

- All transactions are denominated in J$s; clients must arrange to access foreign currencies through their commercial banks, as needed.

On-going Projects:

As of May 31, 1987, one equity investment had been written off as a loss, one loans had been withdrawn prior to disbursal because the customer did not meet the preconditions of the loan, and five loans had been recalled (i.e. payment has been legally demanded). This leaves thirty groups with continuing loan and/or equity relationships with JADF. Approved loan commitments equal J$17.4 million; equity commitments equally J$5.3 million. Total approved JADF investment risk for continuing loan and equity investment projects therefore totals J$22.7 million.

Form of Equity Investment:

Of the twelve equity investments, six are common stock investments (which in most cases means that JADF has a member on their client's board of directors). The six others are in the form of cumulative preference shares with dividends. Preference share dividends are paid only if there are sufficient earnings, but they do accrue if not paid. In a sense, preference shares are similar to subordinated debentures, except that the "interest" (dividends) can be postponed if earnings are insufficient, and the "principal" (the amount of the equity investment) is usually repayable in a lump sum at a specific termination date. Up to this point, the common stock investments generally have specified that the client will have the first option to repurchase the shares, but a pricing arrangement has not bee specified. The Board is considering the idea that net asset value (net worth) at the time of sale, be used.

Grants:

Seventeen grants have been made (two to clients with loan relationships) totalling almost J$2.2 million, with an average grant of about J$129,000. The largest grant has been J$800,000.

[1] In June, 1987, a loan was approved for J$2.9 million for Jamaica Poultry Breeders.

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Industry Breakdown:

The 30 on-going loan/equity projects are broken down as follows:

- Aquaculture: 1 project; J$633,650 (one other loan was made, but it has been recalled).

- Traditional Crops: 8 projects; total JADF exposure J$4,799,100; average J$599,888. (Note: Funds provided by USAID cannot be used for projects involving export of citrus or sugar can products; this effectively eliminates a significant portion of potential demand for JADF resources.)

- Non-traditional Crops: None. (Two loans were made for honey projects but both have been recalled; one equity investment in a winter vegetables project has also been written off.)

- Livestock/Beef/Dairy: 7 projects; total JADF exposure J$6,276,000; average J$896,571 (one other loan was made, but it has been recalled).

- Ornamental Horticulture: 6 projects; total JADF exposure J$3,770,000; average J$628,333 (two other loan commitments were made, but one has been recalled, and the other withdrawn prior to disbursement).

- Agro-industrial: 6 projects; total JADF exposure J$3,248,000; average J$541,333.

- Other: 2 projects (an equity investment in Trafalgar Development Bank for J$400,000, made because it appeared it might provide a good return, and a loan to the National Development foundation for J$1,000,000 for credits smaller than JADF's minimum limit).

Breakdown by Size of JADF Exposure:

The 30 on-going projects are broken down as follows:

- J$5000,000 and under: 13 projects

- J$500,001 to J$1,000,000: 13 projects

- J$1,000,001 and over: 4 projects

- As a matter of note, the average JADF exposure per project was J$500,863 during 1984 and 1985, and J$896,714 during 1986 and 1987.

Breakdown by Total Size of Projects (including debt and equity from all sources).

- J$500,000 and under: 6 projects

- J$500,001 to J$1,000,000: 6 projects

- J$1000,001 to J$2,500,000: 6 projects

- o J$2,500,001 and J$5,000,000: 5 projects
- o J$5,000,001 to J$10,000,000: 2 projects
- o Over J$10,000,000: [illegible] projects
- o Other: 2 projects (National Development Foundation/TDB)

Breakdown by Export vs. Local Markets:

Of the 30 continuing investments, 17 are predominately or exclusively oriented towards North American export markets, 11 are oriented primarily to the local Jamaican market and 2 are split between the two markets.

Breakdown by New vs. Expansion Businesses:

Of the 30 continuing projects, 18 are for essentially new entrepreneurs or entirely new projects unrelated to other existing business of the proposer/owner, and 12 are for expansion of existing businesses. However, since January 1987, incoming proposals for export projects are only 20% of the total versus 50% in the first two years.

Matrix of Export, Local, New and Expansion Factors:

	New	Expansion
Export	15* projects	4 projects
Local	4 projects	7 projects

* 2 export and local

Loan Terms/Exposure Limits:

- o Average tenor of the loans is just over six years, with grace periods averaging 1.3 years. The longest tenor is ten years.
- o Interest rates are fixed at 15% for 12 of the loans (J$7.5 million approved) and 18% for 12 loans (J$6.6 million approved). The new loan rates were at 18% from February, 1985 through June 1986, and are now at 15%. There are also two loans at 10%, one to the National Development Foundation, and one for a dairy project. An "average" rate system with initially lower rates offset by higher future rates elicited no positive response from customers.
- o The maximum exposure limit for any one project is set at J$2,000,000 (which presently equals 6.3% of equity capital) although two exceptions have been made as noted earlier for J$2,006,000 and J$2,900,000. The

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minimum exposure limit is J$80,000. The Board of Directors reviews this limit from time to time. There have been instances of otherwise acceptable projects being turned down due to their requirements being larger than the exposure ceiling.

No limit has been set to date, however, in terms of maximum exposure to any one customer (in some cases, individuals are equity investors in multiple projects which are financed by JADF). However, the Board is considering setting such a limit.

- The loans and equity investments have been extended for a wide variety of purposes, including: the purchase of equipment, raw materials, animals and other inputs, the construction of buildings, the preparation of land, and general labor. As is normal (and in fact required for many projects), at least some of the money has gone for what can be described as working capital purposes. In one case, part of the money also went for refinancing of past debt, in order to design a project with debt terms which more properly matched the expected project cash flow.

- JADF has recently begun to charge a 1.5% fee for loan or equity disbursements, in order to defray some of the high cost of preparing projects for approval.

- Other loan/equity investment terms include:

  — Debt to equity ratios are not to exceed 70% debt to 30% equity (2.33 to 1) including the use of loan proceeds; as a comparison, commercial banks normally use a 60/40 (1-5 to 1) ratio, except where collateral is easily convertible into cash and provides excess coverage.

  — Collateral is required, but may include any asset with determinable value, including the assets to be financed by JADF person guarantees of the principal stockholders are required without exception.

  — A ratio of no more than 1:1 for JADF equity to the client's equity.

  — JADF's debt position cannot be junior to that of other lenders except in exceptional cases.

  — Audited financial statements must be provided prior to project approval for companies already in operation, and on a regular basis thereafter for all approved projects.

  — Grace periods of up to four years for principal repayments are allowed, depending on assessed project needs; grace periods for repayment of interest are not allowed, except in very exceptional circumstances, when JADF may agree to convert initial interest to JADF equity in a project.

Equity Investment Terms:

Six of the twelve existing equity investments are in the form of common (ordinary) stock, five of which have voting rights (the investment in TDB is in "B" shares which do not carry voting rights). The other six are in the form of cumulative preference shares which are senior to common stock, and carry dividend rates of 15% to 25% per annum, with an additional profit sharing provision for 5% or 6% of net profits in three cases.

Disbursements:

- As of 3/31/86 (the most recent financial statements available), disbursements against continuing loan commitments totalled J$10,991,088 or 73% of total commitments (not counting the J$1.2 million in loans which has been recalled or withdrawn), with undisbursed loans of J$3,986,662 or 27%. Repayments totalling J$220,100 have been received from these loans.

- As of 3/31/87, disbursements of approved, equity investments equalled J$4,049,000 (76%), versus undisbursed of J$1,250,000 (24%).

- As of 3/31/87, disbursements of approved grants totalled J$628,283 (49%) versus undisbursed of J$667,510 (53%).

Projects Being Evaluated:

As of 3/31/87, eight new projects were being seriously evaluated which would create a total of J$9.5 million in new loans for seven projects in the businesses of horticulture, bananas, agro-processing, chicken and rice production, coffee, orchard crops, and greenhouse vegetables. On grant for J$280,000 was also being considered for a dairy operation. Of these eight projects, however, four were over three months old, awaiting more information from the prospective clients.

Projects Awaiting Feasibility Studies:

As of 3/31/87, seven potential projects for loans were awaiting further feasibility studies, at least six of which were to be performed by JADF staff. These loans are being considered for coffee, feed, banana, diary, mango, and anthurium production, and for one joint financing of a lease on agricultural machinery. These seven potential projects total J$13,600,000.

Past Due/Problem Loans:

- Loan principal which has not been paid for more than 30 days from the due date totaled J$189,725 or 2% of the outstandings as of 3/31/87. J$66,000 of this is over 90 days past due. The total amount of the loans on which some principal is past due (seven loans, including four which have been recalled) is equal to J$2.4 million, or 22% of total loans outstanding.

- The four "recalled" loans on which payment in full has been demanded, total J$1.2 million or 9.9% of outstanding loans.

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- Loan interest (exclusive of past due principal) which has not been paid for more than 30 days from the due date total J$177,000, of which J$111,000 is over 90 days past due. Loan interest past due includes two projects not showing principal past due which represent fully disbursed loans totalling J$760,000.

- In summary, principal and/or interest payment problems exist for projects representing 27% of the outstanding loan portfolio, plus J$189,000 of equity.

Employment/Foreign Exchange Impacts:

- Given that the data provided does not differentiate between new employment and existing employment (except in the cases of new projects), it is not feasible to do meaningful analysis on this aspect of the total portfolio. However, for the fifteen loan/equity investments for new companies for which information is available, J$12.1 million in projected JADF loans and equity investments (of which J$10.2 million is outstanding) is projected to produce 675 new jobs (of which 416 already exist) and US$6.0 million in foreign exchange savings/earnings per year (it is presently at the US$1.5 million level).

- If this occurs, JADF will, on average, have invested approximately J$18,000 (in addition to debt or equity from other project investors) in order to produce a each new job; each JADF investment of J$2 (again, in addition to other debt and equity) will have brought yearly foreign exchange earnings/savings of J$1. Because of the inherent "softness" of this data, however, limited weight should be given to these computations.

OTHER ACTIVITIES

Commodity Marketing:

As stated earlier, JADF originally was responsible not only for estimating future commodity needs in order to obtain approval and timely shipment of the commodities from the U.S. Government on a regular basis, but also for storage in bulk form in Jamaica, processing by a Jamaican processor, and ultimate sale to a wholesaler. During 1986, JADF reached an agreement with Dairy Industries (Jamaica) Ltd., which now takes delivery of the cheese and butter at dockside, and assumes complete responsibility for storage, processing, and marketing. Therefore, while this activity originally took up to 40% of the management time of JADF, it now takes no more than 10%.

Loan Guarantee Program:

JADF has proposed a loan guarantee program to Jamaica commercial banks, whereby JADF would agree to give a loan guarantee to a participating bank, fully collateralized by a time deposit in that same bank, if the commercial bank agrees to make developmental loans for small farming ventures which otherwise meet JADF guidelines. However. to date, only one financial institution has indicated any interest in this offer, in spite of promotion of the program by the Managing Director of JADF, directly to the commercial banking community.

Agricultural Research Program:

Beginning in 1987, JADF will also manage a seven year, US$7.6 million agricultural research program. These activities will be housed in JADF, but will be funded as a totally separate program, financed with a grant from USAID. This program will fund individuals with research projects that focus on farmer issues, especially problems faced by the small farmer. Direct JADF management time, space, and other costs associated with the research program will be charged to the project, not to JADF, and the true costs should be covered adequately by such charges. The indirect cost to JADF of having any of its management's time spent on other activities outside of JADF, however, cannot be properly measured and reimbursed.

PROJECT APPRAISAL/APPROVAL/MONITORING PROCEDURES

There are four more or less distinct functions in JADF's involvement in projects:

1. Design
2. Evaluation/Approval
3. Implementation
4. Monitoring/Collection

This section address various aspect of those functions within JADF.

Project Sources:

The primary source of new project proposals appears to be the Managing Director, whose contacts throughout the agricultural and financial communities have ensured a flow of proposals. A limited amount of public relations/promotional materials has also been prepared which describes JADF's role, and the procedure for access funding from them. Word of mouth is also beginning to play a role, now that there are increased numbers of a wide variety of projects on the books. On the other hand, the number of new proposals has dropped significantly (from 12 to 5 per month) according to JADF staff; the three people who prepare the analyses of projects are not fully occupied with this activity.

Loan/Equity/Grant Applications:

JADF has not set application form. It provides prospective clients with an outline (see Annex B) of what it wishes to receive in terms of a formal project proposal, usually after an initial interview. Sometimes it receives incomplete project proposals which have not bee tailored to JADF's outline, but which are a useful base for an initial judgement regarding the viability of a project.

JADF seeks a complete project description including information on the corporate and individual sponsors, a complete description of the proposed activities of the project, information on prospective management, complete information on the market for the project, sources of inputs, production capability, equity capital and financing plans, economic and social impact projections, profitability and financial projections, and a description of collateral which can be offered. JADF generally looks for projects with a minimum return on investment over 5 years of 25%. The Board also closely examines the experience, background and integrity of the equity investors.

The combination of the initial interview by someone in the Technical SErvices Unit (which is responsible for project analysis) or by management, plus the requirement for a formal proposal, tends to quickly eliminate a number of projects which have very little potential for success, which do not meet the basic requirement of JADF, or which are nowhere near a stage of development that can be seriously considered. Also, word of mouth about JADF's requirements probably helps to reduce the number of requests from entrepreneurs who are not seriously committed to their project.

Applications for grants need not be quite as rigorous and complex as are those for loans or equity, but they are similar in scope. Complete information regarding the proposed use of the grant funds, the methodology to be used, and the expected outcome is requested. Grants will be considered for research (although some of this will be taken up in the future by the new agricultural research program), training, information dissemination on matters crucial to the agriculture and agro-industry sectors, publications, and workshops or other educational events which directly impact the same sectors.

Project Preparation:

Although there are some clients which have presented JADF with thoroughly documented proposals, the majority have not (including many with feasibility studies prepared by outside consultants), requiring JADF staff to spend significant amounts of time helping prospective clients prepare their proposal. This work has included researching the marketplace, working out logical capitalization plans, doing the financial analysis and reviewing construction plans and operations. It frequently takes three to four months to structure and analyze an acceptable project. Outside consulting assistance may be used from time to time, and in certain instances the cost has been included in loan or equity financing ultimately offered by JADF. However, the majority of JADF's costs associated with project preparation and credit analysis have not been recovered, except through the interest charges on the loans or the dividend rate on preference share equity investments.

Project Approvals:

- All loan, equity, and/or grant projects are analyzed by the Technical Services staff (or in the case of grants by the Marketing Manager who also oversees the grants program). After a completed analysis, including a sensitivity analysis to determine the effort of changes in key assumptions or debt coverage rating, acceptable projects are passed on to an internal review committee composed of the Deputy Managing Director, the head of the Projects Analysis Group, and the Legal Advisor. If that committee accepts the recommendation, the project is passed to the Managing Director for approval if under J$250,000, or if over that amount, to the Board of Directors (all substantive changes in projects must also be approved at the Board level). Although the Technical Services staff prepare the written project analysis and, therefore, have greater depth of knowledge on projects than other people, they are excluded (at the request of the Board) from making oral project presentations. That is done by the Deputy Managing Director.

- In some cases, the internal review committee sends the project proposal back to the Technical Services Group for further investigation or analysis, prior to presentation to the Board. Once a project is approved, the responsibility for its implementation and follow-up is delegated to the Projects Analysis Group for loans and equity investments, or to the Marketing Manager for grants to those groups which do not otherwise have a loan or equity investment from JADF.

- Grants are assessed on the need which JADF sees in the community, without regard to the excess earnings supposedly available to fund them. The original concept that JADF should approve approximately 10 grants per year of J$100,000 each, has never materialized. The stated goals of the grant program are:

    1. Increase agricultural reduction and agribusiness value added.

    2. Implement research results in a short time.

    3. Provide for environmental research.

    4. Make Jamaica less dependent on foreign inputs to the agriculture sector.

<u>Implementation/Monitoring</u>:

- The Project Analyst assumes responsibility for providing implementation assistance and loan/equity monitoring for all approved loans and equity investments, using the services of the Legal Department or Technical Services Group when necessary. The Marketing Manager assumes the same responsibility for the grants portfolio.

- Projects in the implementation phase and those which are experiencing problems with interest, principal or dividend payments are visited at least once per month. Other projects are visited approximately every two months. Client status reports are prepared for the Board of Directors, with recommendations for action where appropriate. Given that there are now 30 continuing projects, some with problems, it is unlikely that a single analyst can properly attend to all of them.

- In addition, a monthly project status summary report is prepared on the entire loan, equity and grant portfolio, and the quarterly financial summary includes a schedule of loan principal and interest currently owing or in arrears, and schedules of approved loans, equity investments and grants with disbursed and undisbursed amounts. However, there is no single data base for input to these two summaries, and unresolved differences between them exist from time to time.

- o Disbursements are controlled by issuing clerks for partial amount in tranches as the need is justified by the client, as opposed to disbursing a single lump sum. Frequently, payments are against drafts from import letters of credit arranged by JADF. In all cases, regular site visits are conducted to estimate project progress and level of actual inputs to date. If there appears to be a discrepancy, funding may be (and has been) curtailed.

- o In situations where implementation and/or payment problems remain unresolved for over 90 days, (and sometime earlier), senior management (usually the Deputy Managing Director) becomes personally involved. Follow up is conducted by letter, by client visits to JADF's offices, or in some cases by visit to a client's operations site. The Board of Directors also reviews such situations on a monthly basis and takes decisions such as writing off a bad debt or equity investment, recalling a loan, or withdrawing a previously approved loan. Generally the Project Analyst or Marketing Manager make recommendations to the Board regarding problem investments or grants, but the Board may act independently at any time it feels it necessary. There is no set time limit regarding continued accrual or interest in past due interest or principal. Accrual continues until a loan is legally recalled.

- o The diversion by a client of its cash flow from repayment of JADF 15% to 18% debt, to repayment of a commercial bank's 25-25% debt is an issue which JADF tries to monitor and avoid. However, it is difficult to track and has occurred.

Turndowns:

The preliminary in-depth analysis of a proposed project by the Technical Services Group, or later review by the Internal Review Committee or by the Board of Directors may result in a decision to turn down a proposed credit. A partial review of JADF's turndown files (ten proposals were reviewed) shows a variety of reasons for turndowns, involving both large and small projects for expansion and for new companies, from both unsophisticated and seemingly sophisticated proposers. Reasons included:

- o Lack of sufficient information (probably the most frequent reason).

- o Excessive costs involved in producing water for a project, compared with project benefits.

- o A low internal rate of return on the project (11.4%).versus the marginal opportunity cost of funds.

- o Inadequate equity from the proposer.

- o An unsubstantiated analysis regarding market size.

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- o The lack of full time, qualified management.

- o The lack of duty-free import status for key project inputs, when necessary for project viability.

- o A conflict of interest (Board Member).

- o The freezing of all loan applications in November, 1985, due to uncertainty surrounding a lawsuit against JADF, and subsequent halting of commodity shipments which jeopardized JADF cash flow.

According to JADF staff, the Foundation is now turning down marginal projects which they might have accepted during their first two years of operation.

PERCEPTIONS OF JADF

Clients:

In general, the perception of JADF by its clients was very favorable, although there were instances in almost all the cases where negative aspects were mentioned. No clients seemed reluctant to mention such incidents, but they did not form the central theme which is that of a positive relationship. Client comments fell basically into three categories:

- o Reasons for Choosing JADF:

  -- Reputation of Managing Director/personal relationship with Chairman.

  -- Financial advisor had heard of JADF.

  -- Trafalgar did not exist at time credit needed.

  -- NCB suggested that client see JADF.

  -- NCB had 35-40% borrowing rates at the time JADF was approached.

  -- Did not know anyone at ACB.

  -- Rumors that ACB via commercial bank was a "sticky" and drawn out process.

- o Positive Aspects of Using JADF:

  -- Encouraging to small entrepreneurs.

  -- Collateral requirements seem the same as at commercial banks, but JADF willing to consider revaluation of equipment whose book value reflected lower J$ to US$ rate.

  -- Basic terms of loan/equity arrangements are good.

-- Tried to get commercial bank financing for two years without success.

-- Banks would not touch project due to small size and limited equity.

-- JADF more flexible than commercial banks in working with clients, e.g. JADF willing to take equity rather than put everything in loan form, willingness to take preference shares with specific term of buyback.

-- Good up front analysis and project structuring assistance.

-- Willingness to work with client during period of cash flow problems.

o Negative Aspects of Using JADF

-- JADF needs to expedite project requests. In some cases it is slower than ACB for similar projects.

-- It took four months for approval.

-- JADF unwilling to finance a vehicle for the project.

-- JADF unwilling to be flexible in allowing other financial institution with pari passu lien on all assets to finance new piece of equipment outside of the lien.

-- JADF management is not flexible with clients when cash flow problems arise, even when the future looks potentially good.

-- The need to go to the auction for US$ makes for a difficult situation when working capital is tight.

-- The grace period should have been longer.

-- JADF too demanding regarding its desire for equity participation.

Other Financial Institutions:

Six other financial institutions (ACB, NDB, Eagle Merchant Bank, Mutual Security Bank, Bank of Nova Scotia, and National Commercial Bank) were visited to elicit their general views of JADF, and their perception of its place in the financial community, its value, its ability to work with other financial institutions and the level of competition it posed. The responses of these institutions indicate that for the most part there is no solid understanding of JADF in the financial community, unless interviewees were holding back on their comments. Eagle Merchant Bank and Mutual Security Bank had a better concept of JADF's potential, at least in connection with shared credits in the case of the first, and the loan guarantee program in the case of the latter. ACB and one of the other commercial banks saw JADF as direct competition with little to offer other than the ability to invest via equity and lower rates. Other comments included:

- JADF is very good where equity is required. One financial institution has sent two clients to them specifically for that purpose.

- JADF does more rigorous analysis than commercial banks.

- JADF is viewed as not competitive by one of the commercial banks, which does not want to involve itself with long term loans or equity, except for the very best of their clients, because NDB money has only a 3% spread which is not enough in most cases to cover the commercial risk and the cost of putting on the loan.

- JADF seen as having no advantage in speed over ACB and NDB which are considered slow.

- There is no shortage of credit for the productive sector, especially via ACB and NDB; therefore, JADF is directly competitive with commercial banking institutions.

- Non of the interviewees saw JADF as being any more lenient regarding collateral requirements, and only one thought it more rigorous in the project analysis.

- There is no clear distinction between JADF and TDB, other than JADF's greater propensity to take equity positions, its smaller maximum debt/equity investment in projects, its specialization in agriculture and agro-industry, and its desire for personal guarantees.

BASIC PROJECT ASSUMPTIONS

The sources of information regarding basic project assumptions for JADF were the Project Proposal of September, 1983, prepared by Land O'Lakes and Grace Kennedy, the Transfer Authorization for provision of commodities signed September 3, 1985 (with Annex I attached), and the US$1 million Grant Agreement for Provision of Technical Assistance, which began in August, 1985. Changes in these project assumptions, expected end of project status, and verifiable indicators to be used for an evaluation at the end of the third year of operation are discussed below.

Project Proposal/Transfer Authorization:

o Goal: Mobilize new private sector resource base for development.

  Result: To date, JADF is operating as a private sector development resource base.

o Priorities were to be given to:

  — Projects which contribute to an increase in independence from imports of food.

    Result: JADF has funded 8 cattle and dairy projects, one fish project, and one vegetable project which are on-going and oriented towards local markets.

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-- Private sector initiatives for profit and non-profit groups.

Result: All of JADF investments, including grants, are focused directly on profit making activities or on improving the ability of small farmers and others to earn profits and operate more efficiently.

-- Projects offering foreign exchange benefits.

Result: In the section describing the JADF portfolio, foreign exchange benefits were described. Nineteen of thirty on-going projects are for export oriented firms.

-- Projects complementing Jamaica's existing agricultural strengths.

Result: One banana project, four coffee projects, and five cattle/dairy projects. Twelve of the on-going projects are expansions of existing operations.

-- Easily manageable projects with high success probability.

Result: Few of the projects to date could truly be called "easily manageable", and one should not expect otherwise given the higher risk nature of agriculture if not intensively monitored, guided and managed, especially during the design, implementation and initial operating stages.

o The original project concept called for equal amounts of excess commodity bulk butter and cheese to be shipped. The reality has been that a more limited level of butter can be marketed in Jamaica at the present time, and that cheese shipments are probably now three times the weight of butter shipments.

o Revenues from the sale of PL-480 commodities are to provide US$2.6 million for JADF financing and paying operating costs. Revenues to date (3/31/87) equal about US$9 million at the approximate half-way point in the program. JADF has not utilized commodities at the volume originally planned, and there have been breaks in the flow of commodity shipments from the U.S. for a variety of reasons.

o Original plans called for the development of domestic dairy production to be a key objective of JADF, including promotion of the dairy processing industry. JADF has financed a package of powdered milk, and continues to seek viable dairy products. The Board of Directors has indicated a willingness to consider extended loan terms for the dairy industry, but those projects which have been reviewed have not been able to meet the minimum requirements for economic and financial viability. JADF has put on a dairy sector seminar, but they have not done a complete study of the sector as was envisioned originally, nor have they written a formal dairy sector strategy. JADF does keep track of the status of the local dairy production in order to determine that the imports of commodities do not adversely affect the growth of the indigenous dairy sector.

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- It was assumed that the Board would establish policies regarding the mix of loans, equity investments, grants and other activities. This has not, however, been done in any formal, written manner. Policies have been established de factor as projects are reviewed, and attitudes have changed towards certain industries, or types of credits. Traditional agriculture, for instance, now appears to be more attractive than winter vegetable production.

- The original assumptions indicated that unanimous approval of the Board would be required for approval of all grants, project allocations, administrative expenses in excess of J$1,000 which are outside the business plan, policies regarding criteria for loans and equity investments. Fortunately, the unanimous approval concept has been ignored in favor of majority approval.

- Verifiable indicators to be used at the time of the third year project evaluation include:

  -- Establishment of an on-going self-sufficient foundation with sufficient permanent staff.

  Result: JADF is a well-established, operating financial institution with a need for some increase in staff in the implementation/monitoring function. Its ability to be self-sustaining is treated in the later section on financial viability.

  -- Establishment of successful procedures for receiving and marketing commodities.

  Results: This has been accomplished under an agreement with a local processor which takes title to the commodities at dockside and handles the processing, storage, and marketing of the commodities. Sales are made to the processor against a bank guarantee, and the sale proceeds are due 90 days after sale.

  -- Provision of 34 weeks of technical assistance to the Jamaica processed cheese sector and subsequent upgrading of the processing facilities.

  Result: According to JADF management, this has taken place.

  -- Successful integration of JADF with other developmental institutions in Jamaica:

  Result: There appears to be only very limited success in this area. Agro 21, JNIP, and other potential cooperating organizations do not, for the most part, seem to actively send potential clients to JADF. Those that have been sent have frequently not been screened, and have not been able to meet minimum lending or investment requirements. Only Eagle Merchant Bank, Trafalgar Development Bank and the NCB have shared or sent customers to JADF.

-- Provision of financial assistance in the forms of grants, investments and loans. This has taken place successfully, as described in prior sections.

Technical Assistance Grant:

This US$1 million grant (of which approximately US$283,000 had been spent as of 3/31/87) was established by USAID to provide for 1) improvement in project selection and design, 2) to help JADF reach a high level of overall performance and rate of return, leading to lower overall risk, and 3) to provide for review and evaluation, and improvement in internal management and operations. The money is to be used to:

o Complete a revised set of operating manuals and policies in keeping with a venture capital operation.

Result: This has not been done to date.

o Provide staff training in venture capital techniques and philosophy.

Result: The recent three day venture capital seminar held in Kingston for JADF staff and the public was directed towards this target.

o Provide for a public relations program of high visibility, including attempting to syndicate loans for other financial institutions.

Results: Despite some effort to date, such as with the guarantee program promotion, contacts with other financial institutions have not produced shared investments, except in a limited number of cases.

o Develop a policy for "realization" (payback) of equity investments.

Result: There is no set policy as to the proper structure of equity investment agreements, although the Board indicated at the November, 1986 retreat that JADF should invest in equity with a fixed formula for common stock buybacks, probably based on net asset value. Preference share agreements now generally specify a date by which the client must buy back the shares.

o Provide a business advisory service on a fee basis.

Result: This has not occurred, in spite of the new one time 1.5% processing fee for approved credits and equity investments, payable at the time of disbursement. This fee does not come close to covering the services provided to clients by both the technical service group and the project analysis implementation group.

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o Develop a computerized data base on clients.

Result: Although the computer is beginning to be used for financial accounting controls, including information on outstandings etc., and there is a monthly projects summary on the computer, the two data bases are seperate and are input by different people. Therefore, information is sometimes different as occurred with the reports for March 31, 1987. Furthermore, the data base is not compete in terms of information relating to foreign exchange, employment, total project investment and other data which JADF management should find useful in evaluating JADF'S progress.

o Improve project selection.

Result: Improvement of in-coming projects seems to have occurred as word of mouth has reached more of the agricultural community as to what is acceptable to JADF, what information is required for a project, and by better use of the initial interview process as a screening device.

o Review and revise existing documentation for proper decision making.

Result: A lawyer has been hired, and involves herself in projects both prior to their being sent to the Board of Directors as well as after approval, to make certain that proper documentation and design of the project takes place. Documentation for proper project appraisal is a standard requirement, and a review of existing credit/equity investment files bears out JADF thoroughness.

o Establish a market information system to address the need for market intelligence.

Result: No system exists at the present time. The Marketing Manager can provide some technical assistance to clients when needed, although his primary function was originally the marketing of commodities provided by the U.S. Government. No marketing entity has been established, although during their November retreat, the Board recommended that a U.S. marketing company for farmers' produce be explored.

o Commodity Handling: As described earlier, it was originally envisioned that JADF would receive, store, arrange for the processing of, and market, their commodities received from the U.S. Government. Now, however, it sells the bulk commodities at dockside to a local processor who accepts all responsibilities for processing and marketing.

o Commodity Volumes: The original estimate of commodity volumes which JADF could sell have not been met by reality. The demand for butter in Jamaica has been significantly less than originally anticipated. The suspension of shipments in later 1985 as result of an unresolved local legal suit, plus the unavailability of sufficient stocks of excess commodities from time to time (butter in early 1987, for example), and the slowdown in shipments due to political issues in Washington (this problem supposedly has been resolved) have all contributed to lower volumes. Disruptions in shipments also affect the processor's willingness to continue its relationship with JADF, as the ultimate buyers need a reliable source of processed commodities without stoppages in the normal flow of product.

o As will be further detailed in the financial analysis section, gross revenues over the first three years of operation have been only 55% of original projections, while expenses were 2.3 times the projections. Earning assets (loans plus short term investments plus equity investments) were projected to be J$70.3 million by the end of fiscal year 1987 (June 30, 1987). They will actually be J$27.5 million. Obviously, these trends have had a serious negative impact on projected earnings. This is not intended to be a criticism of the original projections, however. They were done prior to the start-up of the operation, prior to the hiring of staff and management, and prior to encountering the problems which all new institutions are bound to have. What the differences point out, however, it that careful thought needs to be given to understanding the ramifications of the differences.

FINANCIAL ANALYSIS/FINANCIAL VIABILITY

Balance Sheets:

The balance sheets as of June 30, 1985, June 30, 1986 and March 31, 1987 are at the end of this section in Table I. An analysis of them shows the following:

o The loan portfolio grew tremendously in the twenty one months since 6/30/85 (575%) including a 71% increase between 6/30/86 and 3/31/87. The reserve for bade debt was equal to 3.4% of total outstanding loans at 6/30/85, 2.6% at 6/30/86, and 2.3% at 3/31/87.

o Equity investments have also increased, but not at a slower rate. Between year end 1985 and year end 1987 there was an actual drop which reflects the write off of one investment for J$314,750. Between year end 1986 and 3/31/87, the increase was 175%.

o Cash and short term deposits (the majority of which is represented by short term deposits) basically remained at the same level over the twenty one months.

o Earning assets (loans, equity investments and short term deposits) totalled J$12.0 million in 1985, J$17.0 million in 1986, and J$24.5 million by 3/31/87, a 41% increase from 1985 to 1986, and a 44% increase from year end 1986 to 3/31/87.

TABLE I

BALANCE SHEET

Assets	J$ 6/30/85	J$ 6/30/86	J$ 3/31/87
Cash and short term deposits	9,030,100 1/	9,457,296 1/	9,487,954 1/
Loans (Net of Reserves)	1,685,604	6,638,272	11,378,641
Investments	1,789,750	1,475,000	4,049,000
Reimbursable grants	40,000	80,000	117,749
Accounts receivable and prepayments	370,878	6,168,617	6,147,797
Inventories	14,213,407	61,089	- 0 -
Fixed assets	433,340	409,750	1,061,249
Total Assets	27,563,079	24,290,024	32,242,390

1/ Short term deposits = 8,488,294 (85 Est.)
8,936,645 (86)
9,025,564 (87)

Liabilities			
Refundable grants	1,513,756	2,266,835	- 0 -
Accounts payable	3,517,104	104,923	362,696
Equity Funds			
Capital fund	23,397,704	21,885,850	31,789,949
Operating fund/(deficit)	(865,485)	32,416	90,745
Total Liabilities & Equity	27,563,079	24,290,024	32,242,390

- o Inventories decreased dramatically and accounts receivable increased dramatically from 6/30/85 to 6/30/86, reflecting the change in the procedures for handling the cheese and butter provided by the U.S. Government. Basically, JADF exchanged inventories they owned themselves, for receivables from the processor. The amount of receivables on 3/31/87 reflects about 3.8 months worth of commodities.

- o Fixed assets more than doubled between year end 1986 and 3/31/87, reflecting the move to new, expanded office space, and purchase of company vehicles.

- o The accounts payable dropped between 1985 and 1986 reflecting the change in commodity handling procedures.

- o The drop in refundable grants between 1986 and 3/31/87 is due to the repayment to USAID of a special reimbursable grant provided to assist with initial operating expenses until such time as it could be repaid from commodity sales.

- o Because of the change in commodity handling procedures, both equity in the capital fund and total assets showed a drop between 1985 and 1986, which artificially masks the real growth that occurred in JADF's business between those two years.

- o Equity funds (from the sale of commodities) increased by almost J$10 million in the nine months to 3/31/87, a 45% increase. As JADF is funded almost entirely by proceeds from the sale of commodities (plus a non-refundable grant), there is almost no leverage. Liabilities only reflect short term parables.

<u>Income Statements</u>:

Income statements for the twelve months ending 6/30/85, 6/30/86 and for the nine months ending 3/31/87 are at the end of this section in Table II. An analysis of them shows the following:

- o As would be expected, interest on loans has grown in line with the increase in outstandings over the twenty one months. Interest on deposits grew dramatically in 1986 (probably due to investments increasing dramatically <u>during</u> 1985 rather than being available for the entire year, thus producing lower earnings than resulted from having approximately J$9.0 million invested for the entire year of 9186).

- o The non-refundable grant from USAID (approximately J$5.5 million is available through August 1988, to cover a variety of expenses including certain capital expenditures), was used more extensively in 1986 and for the first nine months of 1987. It was used during 1986 to cover more than just the expenses shown under the operating grant, partially but not totally due to capital expenditures which do not show up on in expenses except as depreciation is taken. The important point to note is that in 1986, operating surplus for the year would have been only J$112,158 without the grant income, and in the nine months of 1987, JADF would have

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TABLE II

PROFIT AND LOSS ACCOUNT

Revenues	J$ 12 months to 6/30/85	J$ 12 months to 6/30/86	J$ 9 months to 3/31/87
Interest on deposits	731,131	1,333,698	1,160,886
Interest on loans	43,768	749,155	1,125,209
Interest - other	---	232,477	116,988
Non-refundable grant from USAID	144,500	733,748	820,321
Miscellaneous	5,493	13,886	*
Dividends	---	167,432	212,500
Total Revenues	924,892	3,230,396	3,435,898

Expenses			
Expenses under operating grant 2/	---	343,345	820,321
Operating expenses	1,790,377	2,041,145	2,097,816
Total Expenses	1,790,377	2,384,490	2,918,137
Operating surplus/(deficit) for period	(865,485)	845,906	517,761
Other Income	---	51,995	(459,432)1/
Surplus/(deficit) for period	(865,485)	897,901	58,329
Surplus (deficit) at beginning of year	---	(865,485)	32,416
Surplus/(deficit) at end of year	(865,485)	$ 32,416	$ 90,745

* Included in Interest - other

1/ Special grant for disaster relief to farmers plus ordinary grants

2/ Recurring and non-recurring

shown an operating deficit of J$302,560. On the other hand, certain non-returning expenses would have been forgone if grant funds were not available (such as training).

- Other income during the nine months to 3/31/87 includes non-reimbursable grant funds which JADF has provided to a special disaster fund, plus normal grants it gives. During 1985, no grants were given, and during 1986, non-reimbursable grants were J$161,402. It is not clear if they were included in operating expenses, or netted with other income in the income statement. The same point noted in the previous paragraph applies, however; without grant assistance from USAID, JADF might have shown a deficit for the nine months to 3/31/87, and a much smaller surplus for the year ended 6/30/86. The following discussion of the income statement accounts, presented as percentages of average earning assets will clarify this issue further.

Future Viability of JADF:

The income statement indicators (presented as percentages of average earning assets) for the year ended 6/30/86, estimates for the year ended 6/30/87 (based on extrapolation of the nine month results to 3/31/87), and estimates for some undetermined year after the disappearance of USAID grant fund assistance, are at the end of this section in Table III. An analysis of them shows the following:

- The surplus before non-reimbursable grants for the year ended 6/30/86 looks better than the following year, but is artificially high in the sense that as noted above, grant funding for 1986 covered more than grant funded expenses, i.e., other expenses which would not normally be covered were paid for by this. In the future scenario, no revenue comes in from grant sources, assuming that the USAID grant has run out and is not renewed.

- Revenue from normal operations (excluding the grant revenue), is equal to 17.7% of average earning assets during 1986, and is expected to drop to 16.4% during 1987 (reflecting a decrease in other income which was abnormally high in 1986). The increase in loan interest and decrease in short term investment income reflects the substantially greater increase in the size of the loan portfolio versus the short term deposit portfolio from 1986 to 1987. For the future, it is assumed that the relationship between loan interest and short term investment income will remain the same, and that market forces will reduce deposit earnings and compel JADF to drop the lending rate, both by 0.5%. Other income which in 1987 came only from the rental of former office space should drop in the future as the average earning assets base increases, and the newly established disbursement fee will affect earnings by no more than 0.3% unless there are very large rises in disbursements (for example, during 1987, the existence of a 1.5% disbursement fee would have added only 0.4% of a 1.5% disbursement fee would have added only 0.4% to total revenue as a percentage of average earning assets.)

- In the expense categories, comparisons with 1986 results for individual accounts are not possible due to lack of data in the annual report. However, it is possible to see that total expenses not covered by grants were equal to 14.0% of average earning assets, versus 11.8% in 1987 estimates. However, grant funded expenses (which includes a significant amount of personnel expense) were equal to 6.1% versus only 2.4% in 1986. The future estimates include expenses which were previously covered by grants at 2.3%, reflecting management's expectation that not all of the costs will continue into the future, and that the personnel costs should be spread over a larger earning asset base.

- The provision for bad debt (not to be confused with the balance sheet account which is "reserve" for bad debt) is hidden in the administrative expenses for 1986. For 1987 it is at a rate equal to 1.7% of average earning assets. Due to the risk nature of JADF's portfolio of loans, as well as the fact that very few of the loans are past their grace periods into the repayment periods, it should be expected that loan losses will increase in the future, requiring a provision large enough to cover a yearly 3% loss on the outstanding loans, plus an additional amount for equity. Although there should be no losses on short term investments, a 3% provision as a percentage of total average earning assets should be a reasonable level.

- Total expenses before non-reimbursable grants provided by JADF rise in 1987 to 19.3% of average earning assets, compared to 16.4% in 1986. Due to assumed increased efficiencies and a larger - earning assets base, this total is assumed to drop to 16.5% in the future. To put it in a different perspective, for every dollar of average earning assets during the period of a year, it will cost JADF 19.3 cents to manage it during 1987, and an estimated 16.5 cents in the future.

- JADF funds its non-reimbursable grants from surplus not earnings. During 1986 it easily funded an amount equal to 1.1% of average earning assets, and during 1987 the amount will be equal to about 2.9%, leaving additions to equity for both years. The future scenario shows that without USAID grant funding, it will not have sufficient revenue to cover expenses, much less provide funds for grants.

<u>Summary Regarding Future Viability</u>:

Although JADF does not have an income problem at the present time, and should not experience one until USAID grant assistance disappears, it will not automatically be viable in the future. Its future viability and ability to be "self-sustaining" will depend on the following factors:

- Interest rates on loans and short term investments will be dependent on market forces, which are largely out of the control of JADF. If interest rates rise, JADF will benefit from the increased spread over its cost of funds which is only that cost it incurs in selling the commodities. In

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the future, an increasing proportion of its funds will be free in the sense that they will come from existing equity already provided by USAID and from JADF earnings. To the extent that JADF can keep its loan rates from falling in today's marketplace, it will benefit.

- Dividends and gains from the sale of equity investments are difficult to predict, but JADF does have somewhat more discretion in this area. To the extent that it can put more of its assets into preference equity shares with dividend rates that are higher than loan rates, it will improve its performance (so long as they ultimately are able to collect the dividends). However, they will have to weigh the increased earnings against the inherently higher risk in an equity investment (or what is really a subordinated debt type of investment in many cases). To the extent it can make preference stock investments with provisions for additional payments to JADF equal to a % of earnings, it also may help its case. To the extent JADF can make reasonable common stock investments whose dividend earnings plus increases in value (which can be recognized at time of sale) exceed loans or short term investment rates, it can also positively affect its revenue base. For the purposes of this analysis, no increase in such earnings is included in the future income statement.

- To the extent which can develop and market fee based services which do not require a significant asset base and which can be provided for a profit, it will improve its revenue as a percentage of average earning assets. This would match the worldwide trend in financial institutions to improve non-asset based earnings.

- At the present time, however, JADF's primary opportunities to improve its performance probably lie in control of its expense categories while attempting to increase the size of its earning asset portfolio. Total personnel costs which are expected to be 6.1% of average earning assets in 1987, and are estimated at 4.4% for the future viability income statement, could be brought down further. However, the trade-offs to doing this <u>may</u> be:

  — A slowdown in approval and disbursement of loans and equity investments which itself may have the undesired reverse effect of spreading costs over a smaller earning asset base.

  — A decrease in the quality of the analysis and of monitoring of new and existing projects, with attendant increases in bad debt and equity loss rates.

  — A change in the type or mix of type of projects considered, moving towards safer, more easily analyzed and monitored, and much larger projects (in terms of JADF's participation), which might change the focus of JADF in ways not in keeping with the original intent of USAID, the founders and the Government of Jamaica concerning the use of its interest free funds, with no taxes on earnings.

- It should be noted that if JADF were to keep its costs at the J$ level expected for 1987, it would take an increase in the average earning assets of approximately 25% (J$5.5 million) to bring net earnings (before providing grants) to the break-even point without USAID grant assistance. At the average project size being approved recently, an additional five to six fully disbursed projects, or an equivalent amount in short term time deposits would have to be put on JADF's books.

- Decreases in the average administrative expenses which cover such things as advertising and promotion, travel, professional fees, rent, other office costs, insurance vehicle leases and depreciation on fixed assets, may also be possible, but again, it depends on the level of expenses required to produce and maintain the volume and type of earning assets desired.

- A decrease in the provision for bad debt is also feasible, but would require either increased expenses for analysis, design, implementation and monitoring of projects, higher collateral requirements on at least some of the projects, or additional emphasis on increasing the portfolio of inherently less risky projects.

- In summary, the staff, management and Board of Directors of JADF must face the fact that JADF cannot hold revenue to the average 15.5% level shown in the future income statement, while reducing average expenses by only 28% unless it is willing to increase its capital only minimally or obtain continued commodity contributions for USAID to fund operating costs. While there should be room to achieve additional reductions in costs, or increases in revenues, (both as a % of average earning assets,) they will not happen on their own, but only as the result of good strategic planning, carefully executed efforts, and regular, quality analysis of JADF.

Commodity Sales Volume:

There is no specific volume of additional commodity sales to be used as inputs to equity which JADF will require in the future. It is clear that given its present staff and revenue/cost structure, additional assets are required to help spread overhead costs. To a great extent, JADF's needs will depend on the size of the absolute demand from the agricultural sector for credit and equity, the ability of JADF to attract and help design quality projects from amidst the total demand, the actual experience of JADF in repayments of existing investments, and the level of short term deposits or other "safe" investments which would be acceptable to USAID. The effort to determine the maximum level of expected continuous demand plus a reasonable level of low risk investments should be part of management's regular focus.

Cash Flow Projections:

There is no computerized cash flow prediction model to allow JADF to forecast troughs, or examine the consequences of unexpected use such as increased drawdowns and unplanned reduction in sources, such as slowdowns in provision of commodities or repayments of debt and equity.

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Income Statement Indicators

	12 months to		
	6/30/86	6/30/87 1/	Future 2/
	% of Average Earning Assets		
REVENUE			
Loan Interest	5.2	7.1	6.6
ST Investment Income	9.2	7.3	6.8
Dividends/Equity Gains.	1.2	1.3	1.3
Other	2.1	0.7	0.5
Project Disbursement Fee	--	--	0.3 (est.)
TA Grant Personnel Exp.]		1.7	--
TA Grant Other Expenses]	5.1	4.4	--
TOTAL REVENUE	22.8	22.5 3/	15.5
EXPENSES			
Personnel Costs/ Management Fees	*(included below)	4.4	3.1
Other Personnel costs covered by Grant	+(included below)	1.7	1.3 4/
Administrative/Operating Expenses	14.0*	7.1	5.4
Other Expenses covered by Grant	2.4+	4.4	1.0 4/
Provision for Bad Debt	*(included above)	1.7	3.0
Total Expenses before non-reinb. grants	16.4	19.3	13.8
Surplus (Deficit) before non-reib. grants	6.4	3.2	1.7
Non-Reimbursable Grants	1.1	2.9	--
Net Surplus (Deficit)	5.5	0.3	1.7
Return on Avg. Total Assets before grant	4.2	2.4	1.3
Return on Avg. Total Assets after grant	3.6	0.2	1.3

1/ Based on extrapolation of nine month results to 3/31/87.
2/ Any future 12 months after discontinuance of USAID technical assistance grant.
3/ If recalled loans were excluded from these figures, the net effect would be a decrease in the surplus before non-reimbursable grants to approximately 2.2% leaving a net deficit for 1987.
4/ Based on estimates by JADF management of recurring costs now covered by USAID technical assistance grant.

CONCLUSIONS AND RECOMMENDATIONS

The evaluation of JADF supports the fact that after three years of operation, the Foundation is a properly functioning private sector institution with very capable permanent staff, addressing some of the real developmental financing needs of the agricultural community in Jamaica. It is able to thoroughly assess credit, equity and grant requests, and to disburse funds while also monitoring past investments. It is meeting project expectations in a number of areas including orientation towards exporters, new entrepreneurs, projects which assist Jamaica in decreasing its dependence on imported food, and in providing grant assistance for studies, publications, training and other uses which positively impact the agriculture and agro-industry sectors.

JADF has also offered clients a significant level of technical assistance during project design and implementation stages. Its portfolio of approved projects covers a variety of types and sizes of sub-sectors within the Broad field of agriculture, and its customers are for the most part quite satisfied with the assistance which JADF has provided. Its willingness to work with incomplete proposals and with investors who are not sophisticated, to take equity positions not requiring common stock, and to lend for medium and long term periods generally avoided by commercial banks, has clearly assisted the development of the Jamaica agricultural community. At the same time, JADF appears to have been relatively prudent about the types of projects into which it places its funds; the turndowns it has made are on the whole for logical reasons based on proper project analysis and the lack of critical factors for project success.

Its relationship with USAID appears to be positive, partially as the result of the USAID project advisor assigned specifically to the JADF project, who has expended a great deal of effort working with JADF staff, management, and Board of Directors. This has enabled JADF and USAID to overcome a number of serious problems, especially in the area of commodities provision. It appears that for the most part, JADF has used USAID financing as agreed, and that its current financial position shows sufficient liquidity to continue to function in the near term without cash flow problems that would immediately imperil its operations.

In spite of this positive picture of JADF, the future of the institution is endangered by a number of negative factors which soon must begin to receive the serious, continual attention of JADF management, staff, and Board of Directors, as well as USAID and others in the Jamaican agricultural commodities. Without resolution of the problems which are already visible, JADF cannot ultimately prosper while adequately performing the functions for which it was created. This less than optimal picture is being masked to some extent by the existence of USAID Technical Assistance Grant Funds and the continued influx of equity from sale of PL-480 commodities. The Board of Directors, management, and staff of JADF are not wholly unaware of the difficulties faced by the institution. However, there has not been a focused attempt to put them into an coherent framework with accompanying analysis to show the financial implications of various options. JADF has tended to deal with adversities in a piecemeal fashion as they arise. While this is not unusual in the early development of any organization, it must not continue to the exclusion of broader, longer range strategic analysis.

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The primary issues which must be addressed include the following:

1. JADF's net margin (the difference between total revenue and total expenses) is too low to allow it to be more than marginally profitable without USAID grant assistance. This is particularly striking considering the primary source of funds for JADF is a USAID zero % interest, non-repayable grant. Even if the assumption is made that total expenses are a percentage of average earning assets drops from the current level of 19.3% to 13.8%, JADF will likely be only slightly above breakeven before providing any funds under its technical assistance grants program. If market interest rates drop at all, further pressure will be placed on the net margin. To give some perspective, another development finance institution in the Caribbean with average project size of J$700,000 equivalent in 27 projects, showed revenues of only 12.1% as a percentage of average earning assets after being in operation for approximately two and a half years, and total expenses of 12.4%, including interest expense of 2.6%. While one cannot directly compare two institutions operating in such dissimilar environments, the relative difference is striking.

   Recommendation

   JADF must carefully explore all opportunities to both increase revenue as well as reduce costs as a percentage of average earning assets. Options include:

- Charge clients a fee for project design and implementation assistance that will cover more of the true cost.

- Charge higher interest rates, reflecting the higher risk, more flexible, developmental nature of the money provided by JADF. At the very least, should market rates drop, JADF should hold its rates steady, or drop more slowly (at the same time, it is recognized that if the relative level of JADF rates has the effect of significantly reducing the volume of acceptable proposals, JADF may not be able to hold or increase interest charges).

- Develop other interest or fee-based financial services.

- Place a greater portion of earning assets in investments which carry a greater return than loans, such as preference shares, with or without profit sharing "kickers", or in common stock investments with potential for average returns above those of loans. The offset to this, however, is that putting greater emphasis on equity investments may not only increase the risk level of JADF's project portfolio, but may also reduce short term cash flow until such time as the equity investments can pay dividends and can be sold for an acceptable profit.

- Look carefully at selling the $400,000 equity investment in Trafalgar Development Bank. Unless TDB dramatically changes its mode of operation or its leverage, it is unlikely to produce long term returns equal to JADF's loan or short term investment portfolios. Short term dividends, if any, are not likely to be very large. Additionally, it effectively represents a pass-through of USAID funds to TDB which already receivies USAID assistance.

- Determine the effective "interest rate" JADF is receiving on its accounts receivable from Dairy Industries, by determining what discount JADF would have to offer to induce Dairy Industries to pay JADF within ten to thirty days of receiving the bulk commodities. For instance, if Dairy Industries would be willing to pay JADF 90 days earlier in exchange for a discount of 3.5%, JADF would be better off investing the discounted amount in time deposits.

- Increase the average size of JADF's debt and equity investments. The same level of work is required to analyze and monitor a J$1,500,000 investment as one for $500,000, but the average cost per J$ of investment is one third. The tradeoff to doing this is that fewer small entrepreneurs may be assisted by JADF.

- Increase the relative level of easily analyzed and monitored investments, such as time deposits or other "blue chip" investments, in order to cut the costs per J$ invested. The tradeoff to this is the developmental effect of JADF's operations will be less, but if it helps the foundation survive and prosper, the Jamaica agriculture sector will ultimately be better served.

- Determine if there are ways to spend less time on analysis of a project without increasing the risk of making poor investments. Discussions with heads of other development finance institutions such as CFSC in Barbados, SOFIHDES in Haiti, PIC and COFISA in Costa Rica, and TDB in Jamaica would be worthwhile. CFSC, for instance, limits its intensive analysis to only what it considers to be the critical variables for the success of any particular project. While it may be too early to determine the ultimate success of this type of risk control, the costs per dollar lent (prior to provision for loan losses) at CFSC have been significantly lower than at JADF. On the other hand, CFSC does not specialize in agricultural and agro-industry credits, which many people think carry an inherently higher risk, requiring more careful analysis.

- Require improved project proposals from prospective clients. Too much time is being spend producing feasibility analyses, assisting with design issues, and obtaining basic information which should have been provided by the client. Make certain that outside consulting firms and business advisory services clearly understand what JADF requires for proper analysis. The use of the Technical Assistance Grant Funds for training seminars in this field could be very cost effective over the long run.

- Under no circumstances borrow money to increase earning assets, until such time as the marginal cost of such funds is less than the income statement indicator for "surplus before providing grants" (i.e., the net margin between revenues and all costs, must be enough to cover interest expense). In the future scenario shown in Table III, the use of borrowing should only increase the loss, unless they were put into assets with much high net margins.

- Increase the use of Technical Assistance Grant Funds for activities oriented to finding ways to operate more efficiently.

- Review the concept of providing time deposits under its proposed loan guarantee program. If JADF has to effectively perform the same level of analysis for loans it will guarantee as it does for its own projects, and receives rates on the time deposit below its normal loan rates, they will actually reduce their revenue without reducing costs.

2. JADF's level of interest past due and principal past due, the risk nature and geographical dispersement of its portfolio, plus the number of loan and equity projects it now has, indicate that there is a danger that projects no longer can be adequately monitored nor assistance provided, by the single staff person in this function.

<u>Recommendation</u>

JADF should immediately increase the project implementation and monitoring staff by one or more professionals. To the extent that the technical services staff is under-utilized at the present time, there would be benefits in using one of the junior people from that group on a temporary basis. In all cases of project problems, JADF should always seek to help resolve the customer's true underlying difficulty as opposed to only insisting on repayments.

3. The volume of new projects has dropped significantly, giving rise to the possibility that future portfolio growth may be too limited. Although the percentage of incoming proposals ultimately financed may have increased, the fact that the numbers of new proposals and the number of those oriented towards export markets have dropped, indicate that additional efforts may have to be made in promoting agricultural projects and promoting JADF as the appropriate institution to finance them. Additionally, the proper future role of JADF is not well understood in the financial and agricultural communities, nor has JADF itself addressed the issue of what kind of institution it should be in terms of the mix of type of investment, types and sizes if clients, and other types of business in which it might wish to be involved.

<u>Recommendation</u>

JADF should undertake the effort to define for itself what its business should be, determine what targets it should set for different types of loans, investments and grants, and analyze how it can best go about obtaining new customers in a cost efficient manner. Again, it would be proper to use Technical Assistance Grant Funds to help accomplish this, and to pay for highly focused promotional efforts, perhaps directed at those groups within Jamaica which regularly interact with the agricultural community. This would include JNIP, AGRO 21, Jamaica

Manufacturers' Association, Jamaica Exporters' Association and others. JADF must, however, remain a professionally fun financial institution, and not fall prey to the pressures of those who falsely believe that provision of low cost, high risk loans/equity is a proper development mode. Payment of market rates and timely repayment of loans be clients must be a cornerstone of JADF's efforts.

4. The data available to management at JADF is slowly improving, but does not represent what could be called a coordinated and complete management information system which regularly provides management with key, updated data, highlighting areas requiring additional management focus. For instance, projections of sources and uses of cash based on estimated commodity sales, interest and loan repayments, disbursements, and other needs would help in making decisions about how much butter and cheese will be required in the future, which might avoid a cash shortage.

   Recommendation

   A management information system reporting on the status of existing projects, information on new proposals, projections of earnings, balance sheets, cash flows, portfolio impacts, and other information considered necessary by management should be developed. This would help to limit the preparation of such reports on either a haphezard basis or with conflicting data as now occurs in the quarterly project summaries and financial status reports.

5. The Managing Director is a member of Trafalgar Development Bank's Loan Committee, and is almost always involved when agriculture projects are considered. He will also have some responsibility for overseeing the Agricultural Research Project which will be housed within JADF. While these in fact may both be highly beneficial linkages for JADF, they must be weighed against the current need for active management input and direction to solving JADF's own immediate problems.

   Recommendation

   Review carefully all existing and future involvements of JADF management outside of JADF, limiting them where possible to those that have direct benefits to JADF's goals.

6. The Technical Assistance Grant has not been used very extensively to date, nor has much activity taken place on a number of uses for which it was originally planned.

   Recommendation

   JADF should make a plan for the use of these grant funds, showing how they will be used before the end of the grant period in August, 1988, and showing how each of the targets described in the original agreement will be addressed.

7. Decisions within JADF for project approvals, and changes in projects and expenditures required Board approval for amounts over J$250,000 in projects, and J$1,000 in expenses outside of budgeted amounts. Both these seem to be excessively low. The ability of the staff and management to make better decisions based on their own analysis would be enhanced by granting significantly increased limits to them, with the Board performing post facto reviews.

   Recommendation

   JADF management should draw up a revised approval limits plan, and present the case for the revisions to the Board of Directors. Additionally, in instances where project presentations are made to the Board, the person responsible for the analysis of the project should present the project orally, and be available to answer questions which the Board may have. It will improve the quality of analysis being performed if those not on the Board are able to see what key factors the Board considers in these instances.

8. One of the most difficult issues in operating a development finance institution, is the inherent dichotomy between wanting to preserve capital (or earn an acceptable return on capital), and the normally higher risk, more expensive job of meeting truly developmental needs. The former goal tends to push an organization towards larger, lower risk, less costly investments where the net margin is higher (bank C/D's for example) and where the developmental impact appears to be and frequently is, not as great. The latter goal often requires a much greater promotion effort, much greater monitoring and controls, and more expensive technical assistance. In addition, the full rewards for the effort are often recognizable only over the long run in terms of its effect on the entire economic fabric of a country or sector. The measurement of the catalytic effect of the availability of special funds and of the effects of requiring a project finance orientation, is really impossible to achieve within ten years, much less three.

   USAID, as an organization which funds development finance institutions, is caught in the same dichotomy. There is a desire for immediate measurement of success, and immediate rewards, as well as for assurance that the institutions which USAID has assisted will be "viable and self-sustaining" once USAID no longer is actively providing new funds, while not losing their developmental focus.

   Recommendation

   USAID should review its own goals, and ponder whether it is better to have private development institutions which in the long run may become self-sustaining only by abrogating some or all of their developmental role, or whether it is more important that the clients of those private development institutions become viable and self-sustaining, even if it institutions become viable and self-sustaining, even if it means that USAID and other donors much provide active support for longer periods of time. It also has been suggested by USAID management that positive influence on a more rapid evolution of existing conservative financial structure within a country may be a more desirable project output than is simple development institution viability.

9. JADF's dependence on the sale of surplus dairy commodities from the U.S. to finance its portfolio is a crucial aspect of this project. Rumors of a reduction in or disappearance of appropriate levels of surplus U.S. dairy products have recently circulated. Partial or total disruption of commodity flows seriously inhibits JADF's ability to continue to use private sector outlets for funding of its activities.

Recommendation

USAID should take great care to protect JADF from both disruption in regular shipments of such commodities or lack of sufficient offsetting commodities in an emergency. Shortfalls in commodity sale funding should be otherwise compensated.

APPENDIX A

PORTFOLIO CHARTS

APPENDIX A

Project Data Summary

"L" = Local Market / "E" = Export Market
"NB" = New Business / "EB" = Expansion of Existing Business

c = common stock
cps = cumulative preference stock

		Project	Total Investment	Total Equity	Total JADF Loan/Equity	JADF Disbursal	Purpose of Loan	Tenor of Loan 1/ Grace	No. of Jobs Projected	Actual Emplmt.	Gross Foreign Exchange Saved/Earned--US$ Per Year Projected	Actual	Status
L/E	NB	Sunfish Hatcheries Ltd.	1,058,650	425,000	633,350	576,150	Pond construction, equipment and working capital.	4 years/1	12	12	25,000	12,000	----
L	NB	Aqua Products Ltd.	—	—	346,000	297,840	Equipment, housing, fencing, working capital	4 years/1	—	—	—	--	Recalled
E	EB	Farms (Consolidated) Ltd.	3,536,000	1,636,000	1,900,000	850,000	Planting & maint. of coffee.	7 years/1	200	160	700,000	0	Farm impressive.
E	NB	Mount Hybla Estates Ltd.	788,400	353,400	435,000	266,246	Establiment & maintenance of coffee.	7 years/4	30	15	150,000	0	Coffee in good condition. Repay timely
E	NB	Old England Coffee Development Company	4,252,225	1,250,000	1,000,000/ 300,000c	980,000/ 300,000	Coffee establiment & maintenance. Road construction.	8 years/4	100	65	500,000	0	Coffee good. Big overdraft.
E	EB	Blackstone Farms Ltd.	2,020,000	720,000	1,300,000	664,000	Coffee establiment & maintenance. Road construction.	10 years/4	60	40	254,540	0	Coffee good. Infrastructure work in progress.
E	NB	Wright Farms Morant Ltd.	610,000	180,000	380,000/ 20,000c	430,000/ 20,000	Establish, resuscitate, maintain bananas.	4 years/0	90	60	670,000	33,000	Additional loan requested. Advance given.
L/E	NB	T. G. Mignott & Sons Ltd.	295,000	?	195,000	195,000	To establish and maintain sugar cane & vegetables.	——	40	40	30,000	30,000	Consolidation of loan being negotiated
E	NB	W. Perkins	—	—	100,000	88,000	To establish 300 colonies of bees & equipment.	——	—	—	10,000	—	Loan recalled. Repayment timely.
E	EB	BBB Honey	—	193,628	377,404	377,404	To establish colonies of bees. Truck & equipment.	——	--	—	30,000	—	Recalled.
L	EB	Friendship Farms	900,000	?	900,000	900,000	Establish pastures. Purchase cattle.	8 years/2	15	15	?	?	Farm impressive. Repayment timely.
L	EB	Dennis Lecky	1,141,000	?	800,000	796,000	Establish pastures. Purchase cattle.	7 years/1	7	7	?	?	Farm OK. Repayment timely.
L	EB	Lydford Farms Ltd.	18,644,000	?	1,000,000	1,000,000	Establish pastures. Working capital.	6 years/1	350	315	?	?	Overdraft of $7,000,30. In arrears.
L	EB	Errol Cowan	958,800	638,800	320,000	320,000	Establish pastures. Cattle purchase. Working capital.	7 years/2	7	7	?	?	Arrears cleared. Reschedule requested.
L	EB	Arthur Bedaloo	—	90,660	149,800	149,800	Purchase cattle. Pond construction & working capital.	5 years/1	--	—	—	--	Recalled.
L	EB	Braco Estates Ltd.	200,000	?	200,000	200,000	Purchase of irrigt. Equpmt.	5 years/1	2	2	?	?	----
L	EB	David Baugh	2,209,000	2,009,100	230,000	200,000	Pasture resuscitation. Renovation of farm house.	5 years/1	4	3	?	?	Repayment timely.
L	NB	Serge Island Dairies Ltd.	14,159,000	?	1,050,000	1,050,000	Purchase & install dairy processing equipment.	3 years/0	30	30	?	?	Milk being processed and marketed.
L	NB	Argemarcia Ltd.	4,314,000	3,168,000	1,046,000/ 960,000c	1,046,000/ 710,000	Land & cattle purchase. Pastures.	10 years/2	37	12	?	?	Behind schedule in dairy development.
E	EB	Jaltique Ltd.	684,000	189,000	440,000/ 189,000c	440,000/ 189,000	Shade house, irrigation equpmt. working capital.	6 years/2	10	10	200,000	3,000	Production on stream. Repayment timely.
E	NB	Gloudon Orchid	403,286	82,286	321,000	321,000	Shade house, plants, irrigation working capital.	5 years/1	2	2	50,000	9,000	Market good. Production low.
E	NB	Jamaican Heart Ltd.	14,955,000	5,955,000	1,000,000cps2/	1,000,000	Shade house construction. Working capital.	10 years	120	9	2,200,000	0	Planting behind schedule.
E	NB	Jaflex Limited	8,709,612	1,500,000	1,000,000cps4/	1,000,000	Rose house construction.	10 years	50	50	2,000,000	2,000,000	Production good. Market good.
E	EB	Shields & Shields, Inc.	--	500,000	295,609	295,609	Irrigation equipment. Truck. Working capital.	5 years	29	0	0	0	Recalled.
E	NB	Orchid Venture Ltd.	140,000	40,000	100,000	82,090	Shade house, plants. Working capital.	4 years/1	1	1	58,000	0	Operation to be relocated. Repayment timely.
E	NB	ADECI Ltd.	1,450,000	830,550	620,000/ 100,000cps3/	601,592/ 0	Irrigation equipment. Truck. Working capital.	5 years	15	15	250,000	115,000	Repayment timely.
E	NB	Quality Farms Ltd.	--	—	246,000	246,000	Winter vegetable production.	——	?	?	?	?	Withdrawn.
E	NB	Scotts Preserves Ltd.	?	?	500,000cps2/	0	Agro processing.	7 years	?	?	?	?	----
E	NB	Parquet Specialists Ltd.	2,581,000	400,000	600,000/ 400,000cps3/	600,000/ 100,000	Equipment & working capital.	6 years	150	116	2,500,000	1,344,000	Rescheduling requested.
L	NB	Versatile Packing	838,000	250,000	588,000	588,000	Machine purchase.	4 years/1/2	30	21	—	—	Strong market demand. Repayment timely.
E	NB	Jamaica Standard Products	1,373,544	873,544	500,000	500,000	Material purchase & working capital.	5 years/1/2	11	11	32,000	0	Repayment timely.
L	EB	ACE Woodwork Ltd.	343,688	30,000	130,000/ 30,000c	130,000/ 30,000	Equipment & working capital.	4 years	10	9	—	—	Arrears being cleared.
E	EB	Coffee Industries Ltd.	269,100	0	269,100	69,100	Working capital.	3 years	25	25	430,000	250,000	Repayment timely.
E	EB	B-Marts Corporation	8,036,317	400,000	600,000/ 400,000cps3/	400,000/ 0	Refinancing & working capital.	5 years	36	36	1,364,443	211,800	?
E	NB	Trafalgar Development Bank	--	—	400,000c	400,000	Shares purchase.	——	—	—	—	—	Shareholding maintained.
	EB	National Development Foundation	--	—	1,000,000	500,000	On-lending.	10 years	—	62	—	—	Disbursement to farmers good.

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GRANT DATA SUMMARY

Tulloch Estates	2,848	2,848	
Jamaica Manufacturing Association	5,000	5,000	
Jamaica Bureau of Standards	100,000	100,000	
C.A.T.C. (pesticide use)	60,000	60,000	Public campaign for pesticide hazard awareness.
CCI Farm Magazine	80,000	80,000	Publication of agricultural periodical.
Jamaica Bureau of Standards	99,225	99,225	Purchase of equipment for nitrogen analysis.
Projects for People	65,000	19,665	Land purchase for pastures.
Farm Management System	112,300	107,120	Computerized farm management system.
Nitrogen Fixation	71,645	17,650	Research nitrogen fixation in rice fields.
Cabbage Moth	82,000	20,000	Research & control of cabbage moth.
Jamaica 4-H Clubs	130,000	75,000	Pay consultant's salary.
Jamaica College of Agriculture	12,000	6,000	Scholarship to JCA students.
Projects for People (3-M) (separate from above)	228,000	0	Milk and cheese production.
Intergrow Ltd.	800,000	0	Production of winter vegetables for export.
Selected Orchids of Jamaica	10,000	0	Publication of orchid book.
Lydford Farms Ltd.	35,000	35,000	Training in meat grading.
National Development Foundation	300,000	100,000	Salary of agricultural field officers.

APPENDIX B

JAMAICA AGRICULTURAL DEVELOPMENT FOUNDATION PROJECT PRESENTATION

JAMAICA AGRICULTURAL DEVELOPMENT FOUNDATION

PROJECT PRESENTATION

This outline is designed to give potential investors some guidelines as to the form presentations of project proposals to the Jamaica Agricultural Development Foundation should take.

The Foundation expects a proposal to be based on sound technical principles demonstrating access to the required staffing for implementation and sound marketing arrangements. The Foundation would also expect to receive realistic assessment of costs and returns to be able to assess the projects ability to meet its financial obligations.

It is recommended that clients should discuss their proposal with the Foundation before incurring expenses in project preparation. The Foundation maintains a list of consultants and is prepared to make recommendations according to the project needs.

The presentation should address the following areas in detail so as to permit ready appraisal of the project by the Foundation:

1. Introduction

   Project overview or executive summary including financial requirements

2. The Company
   - (a) Corporate form and ownership
   - (b) Sponsors - Credibility and Track Record

3. The Project
   - (a) Project description
   - (b) Status of operation in Jamaica
   - (c) Location
   - (d) Key operation parameters

(e) Design

(f) Inputs (feeds, planting material,

(g) Services

(h) Security

(i) Production practices (plant or stocking de
rate, yields, etc.)

(j) Management and labour

(k) Project timetable

(l) Government support

4. Market Analysis

(a) Demand for product(s)

(b) Competition

(c) Distribution and Marketing Prices

(d) Sales arrangements and options

5. Capital Cost and Financial Plan

6. Profitability and Financial Projections

(a) Cash Flow

(b) Income Statement

(c) Repayment Schedule

(d) Balance Sheet

(e) Financial Ratios

- Debt/Equity ratio
- Internal rate of return (I.R.R.)
- Net Present Value (N.P.V.)
- Profitability ratio

(f) Sensitivity Analysis

. Economic and social impact of project

. Security offered