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and
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APPENDIX I

PROJECT LOAN AGREEMENT
BETWEEN
THE GOVERNMENT OF JAMAICA
AND
THE UNITED STATES OF AMERICA
FOR
AGRO-INDUSTRIAL DEVELOPMENT

Appropriation: 72-11x1023 and 72-1121021.3

Budget Plan Code: LFNX-82-35532-AL13 and LDAA-82-35532-AL13

DATED: September 30, 1982

LOAN AGREEMENT

JAMAICA - AGRO-INDUSTRIAL DEVELOPMENT PROJECT

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Project Loan Agreement

Dated September 30, 1982

Between Jamaica ("Borrower")

And

The United States of America, acting through the
Agency for International Development ("A.I.D.")

Article 1: The Agreement

The purpose of this Agreement is to set out the understandings of the parties named above ("Parties") with respect to the undertaking by the Borrower of the Project described below, and with respect to the financing of the Project by the Parties.

Article 2: The Project

Section 2.1 Definition of Project. The Project, which is further described in Annex I, will consist of assisting in the financing of foreign exchange and local currency costs of second-tier agro-industrial firms in Jamaica that will benefit directly from the long-term credit made available for the purchase of imported capital assets and raw material inventories. Annex I, attached, amplifies the above definition of the Project.

Within the limits of the above definition of the Project, elements of the amplified description stated in Annex I may be changed by written agreement of the authorized representatives of the Parties named in Section 9.2, without formal amendment of this Agreement.

Section 2.2 Incremental Nature of Project

(a) A.I.D.'s contribution will be provided in increments, the initial one being made available in accordance with Section 3.1. Subsequent increments will be subject to availability of funds to A.I.D. for this purpose, and to agreement of the Parties, at the time of a subsequent increment, to proceed.

(b) Within the overall Project Assistance Completion Date A.I.D., based upon consultation with the Borrower, may specify in Implementation Letters appropriate time periods for the utilization of funds provided by A.I.D. under an individual increment.

Article 3: Financing

Section 3.1 The Loan. To assist the Borrower to meet the costs of carrying out the Project, A.I.D., pursuant to the Foreign Assistance Act of 1961, as amended, agrees to lend the Borrower under the terms of this Agreement not to exceed Four Million Two Hundred Thousand United States ("U.S.") dollars (\$4,200,000) ("Loan"). The aggregate amount of disbursements under the Loan is referred to as "Principal". The Loan may be used to finance foreign exchange costs as defined in Section 7.1 and local currency costs, as defined in Section 7.2 of goods and services required for the Project.

Section 3.2 Borrower Resources for the Project (a) The Borrower agrees to provide or cause to be provided for the Project all funds, in addition to the Loan, and all other resources required to carry out the Project effectively and in a timely manner.

(b) The resources provided by the Borrower for the Project will be not less than the equivalent of US\$8,460,000, including costs borne on an "in-kind" basis.

Section 3.3 Project Assistance Completion Date

(a) The "Project Assistance Completion Date" (PACD), which is, September 30, 1985, or such other date as the Parties may agree to in writing, is the date by which the Parties estimate that all services financed under the Loan will have been performed and all goods financed under the Loan will have been furnished for the Project as contemplated in this Agreement.

(b) Except as A.I.D. may otherwise agree in writing, A.I.D. will not issue or approve documentation which would authorize disbursement of the Loan for services performed subsequent to the PACD or for goods furnished for the Project, as contemplated in this Agreement, subsequent to the PACD.

(c) Requests for disbursement, accompanied by necessary supporting documentation prescribed in Project Implementation Letters, are to be received by A.I.D. or any bank described in Section 8.1 no later than nine (9) months following the PACD, or such other period as A.I.D. agrees to in writing. After such period, A.I.D. giving notice in writing to the Borrower, may at any time or times reduce the amount of the Loan by all or any part thereof for which requests for disbursement, accompanied by necessary supporting documentation prescribed in Project Implementation Letters, were not received before the expiration of said period.

ARTICLE 4: Loan Terms

Section 4.1. Interest. The Borrower will pay to A.I.D. interest which will accrue at the rate of two percent (2%) per annum for ten (10) years following the date of the first disbursement hereunder and at the rate of three percent (3%) per annum thereafter on the outstanding balance of principal and on any due and unpaid interest. Interest on the outstanding balance will accrue from the date (as defined in Section 8.5) of each respective disbursement, and will be payable semi-annually. The first payment of interest will be due and payable no later than six months (6) after the first disbursement hereunder, on a date to be specified by A.I.D.

Section 4.2. Repayment. The Borrower will repay to A.I.D. the Principal within twenty (20) years from the date of the first disbursement of the Loan in twenty-one (21) approximately equal semi-annual installments of Principal and Interest. The first installment of Principal will be payable nine and one-half (9½) years after the date on which the first interest payment is due in accordance with Section 4.1. A.I.D. will provide the Borrower with an amortization schedule in accordance with this Section after the final disbursement under the Loan.

Section 4.3. Application, Currency, and Place of Payment. All payments of interest and Principal hereunder will be made in U.S. Dollars and will be applied first to the payment of interest due and then to the repayment of Principal. Except as A.I.D. may otherwise specify in writing, payments will be made to the Controller, Office of Financial Management, Agency for International Development, Washington, D.C. 20523, U.S.A., and will be deemed made when received by the Office of Financial Management.

Section 4.4. Prepayment. Upon payment of all interest and any refunds then due, the Borrower may prepay, without penalty, all or any part of the Principal. Unless A.I.D. otherwise agrees in writing, any such prepayment will be applied to the installments of Principal in the inverse order of their maturity.

Section 4.5. Renegotiation of Terms. (a) The Borrower and A.I.D. agree to negotiate, at such time or times as either may request, an acceleration of the repayment of the Loan in the event that there is any significant and continuing improvement in the internal and external economic and financial position and prospects of Jamaica which enable the Borrower to repay the Loan on a shorter schedule.

(b) Any request by either Party to the other to so negotiate will be made pursuant to Section 9.1, and will give the name and address of the person or persons who will represent the requesting Party in such negotiations.

(c) Within thirty (30) days after delivery of a request to negotiate, the requested Party will communicate to the other, pursuant to Section 9.1, the name and address of the person or persons who will represent the requested Party in such negotiations.

(d) The representatives of the Parties will meet to carry on negotiations no later than thirty (30) days after delivery of the requested Party's communication under subsection (c). The negotiations will take place at a location mutually agreed upon by the representatives of the Parties, provided that, in the absence of mutual agreement the negotiations will take place at the office of the Prime Minister and Minister of Finance, in Jamaica.

Section 4.6. Termination of Full Payment. Upon payment in full of the Principal and any accrued interest, this Agreement and all obligations of the Borrower and A.I.D. under it will cease.

Article 5: Conditions Precedent to Disbursement

Section 5.1. First Disbursement: Prior to the first disbursement under the Loan, or to the issuance by A.I.D. of documentation pursuant to which disbursement will be made, the Borrower will, except as the Parties may otherwise agree in writing, furnish to A.I.D. in form and substance satisfactory to A.I.D.:

(a) An opinion of counsel acceptable to A.I.D. that this Agreement has been duly authorized and/or ratified by, and executed on behalf of, the Borrower and that it constitutes a valid and legally binding obligation of the Borrower in accordance with all of its terms;

(b) A statement of the name of the person holding or acting in the office of the Borrower specified in Section 9.2, and of any additional representatives, together with a specimen signature of each person specified in such statement;

(c) An official statement from the Agricultural Credit Bank establishing an Agro-industrial Development Unit for the management of the Agro-industrial Development Fund.

Section 5.2. Disbursement for Sub-lending under the Agro-Industrial Development Fund. Prior to disbursement under the Loan, or to the issuance by A.I.D. of documentation pursuant to which disbursement will be made for sub-lending under the Agro-industrial Development Fund, the Borrower will, except as the Parties may otherwise agree in writing, furnish to A.I.D. in form and substance satisfactory to A.I.D.:

- (1) A credit manual which details long-term concepts, objectives and guidelines for participation by sub-borrowers, commercial banks and Jamaican consulting firms.
- (2) An implementation plan prepared jointly with a selected commercial bank providing criteria for sub-project eligibility and approval.
- (3) An acceptable contract format to be used for the hire by sub-borrowers of consultant services for completing pre-investment studies and providing management and technical assistance.
- (4) A letter signed by the Trade Administrator to the effect that import licenses for participating firms will be given priority treatment prior to disbursement of funds.
- (5) An accepted proposal from a consulting firm from either the U.S. or a country included in AID Geographic Code 941 for the provision of training/advisory assistance both at a residency and short-term level.

Section 5.3. Notification. When A.I.D. has determined that the conditions precedent specified in Section 5.1 and 5.2 have been met, it will promptly notify the Borrower.

Section 5.4. Terminal Dates for Conditions Precedent.

(a) If all of the conditions specified in Section 5.1 have not been met within 90 days from the date of this Agreement, or such later date as A.I.D. may agree to in writing, A.I.D., at its option, may terminate this Agreement by written notice to Borrower.

(b) If all of the conditions specified in Section 5.2 have not been met within 120 days from the date of this Agreement, or such later date as A.I.D. may agree to in writing, A.I.D., at its option, may cancel the then undisbursed balance of the Loan, to the extent not irrevocably committed to third parties, may terminate this Agreement by written notice to the Borrower. In the event of such termination, the Borrower will repay immediately the Principal then outstanding and any accrued interest; on receipt of such payments in full, this Agreement and all obligations of the Parties hereunder will terminate.

Article 6: Special Covenants

Section 6.1. Project Evaluation. The Parties agree to establish an evaluation program as part of the project. Except as the Parties otherwise agree in writing, the program will include, during the implementation of the Project and at one or more points thereafter: (a) evaluation of progress toward attainment of the objectives of the Project; (b) identification and evaluation of problem areas or constraints which may inhibit such attainment;

(c) assessment of how such information may be used to help overcome such problems; and (d) evaluation, to the degree feasible, of the overall development impact of the Project.

Section 6.2. Borrower Contribution. The Borrower shall, unless A.I.D. otherwise agrees in writing:

(a) Provide as its contribution to the Project not less than the equivalent of Eight Million Four Hundred Sixty Thousand U.S. Dollars (\$8,460,000);

(b) Cause the Agricultural Credit Bank (ACB) (i) to maintain the capitalization of the Agro-Industrial Development Fund for the period of the loan at an amount in Jamaican dollars not less than the value of the resources provided by A.I.D. and the Borrower, and (ii) use reflows from the long-term credit funds for the same general agribusiness purposes;

(c) Review periodically the progress of the Agro-Industrial Development Fund, and, where necessary, with the prior written approval of A.I.D. adjust the terms and conditions of the Project elements to meet Project goals;

(d) Exercise its best efforts to take all necessary action to replenish the foreign exchange segment of the Agro-Industrial Development Fund.

Article 7: Procurement Source

Section 7.1. Foreign Exchange Costs. Except as A.I.D. may otherwise agree in writing, disbursements pursuant to Section 8.1 will be used exclusively to finance the costs of goods and services required for the Project having their source and origin in countries included in Code 941 of the A.I.D. Geographic Code Book as in effect at the time orders are placed or contracts entered into for such goods and services ("Foreign Exchange Costs"), except as provided in the Project Loan Standard Provisions Annex, Section C.1 (2) with respect to marine insurance. In addition, transportation costs will be financed under the loan on carriers under flag registry of an A.I.D. Geographic Code 941 country or Jamaica.

Section 7.2. Local Currency Costs. Disbursements pursuant to Section 8.2 will be used exclusively to finance the costs of goods and services required for the Project having their source and, except as A.I.D. may otherwise agree in writing, their origin in Jamaica ("Local Currency Costs").

Article 8: Disbursements

Section 8.1. Disbursement for Foreign Exchange Costs.

(a) After satisfaction of conditions precedent, the Borrower may obtain disbursements of funds under the Loan for the Foreign Exchange Costs of goods or services required for the Project in accordance with the terms of this Agreement, by such of the following methods as may be mutually agreed upon:

(1) by submitting to A.I.D., with necessary supporting documentation as prescribed in Project Implementation Letters, (A) requests for reimbursement for such goods or services, or (B) requests for A.I.D. to procure commodities or services in Borrower's behalf for the Project: or

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(2) by requesting A.I.D. to issue Letters of Commitment for specified amounts (A) to one or more U.S. banks, satisfactory to A.I.D., committing A.I.D. to reimburse such bank or banks for payments made by them to contractors or suppliers, under Letter of Credit or otherwise, for such goods or services, or (B) directly to one or more contractors or suppliers, committing A.I.D. to pay such contractors or suppliers for such goods or services.

(b) Banking charges incurred by Borrower in connection with Letters of Commitment and Letters of Credit will be financed under the Loan unless the Borrower instructs A.I.D. to the contrary. Such other charges as the Parties may agree to may also be financed under the Loan.

Section 8.2. Disbursement for Local Currency Costs.

(a) After satisfaction of conditions precedent, the Borrower may obtain disbursements of funds under the Loan for Local Currency Costs required for the Project in accordance with the terms of this Agreement, by submitting to A.I.D., with necessary supporting documentation as prescribed in Project Implementation Letters, requests to finance such costs.

(b) The local currency needed for such disbursement hereunder may be obtained:

(1) by acquisition by A.I.D. with U.S. dollars by purchase. The U.S. dollar equivalent of the local currency made available hereunder will be, in the case of subsection (b) (1) above, the amount of U.S. dollars required by A.I.D. to obtain the local currency.

Section 8.3. Other Forms of Disbursement. Disbursements of the Loan may also be made through such other means as the Parties may agree to in writing.

Section 8.4. Rate of Exchange. Except as may be more specifically provided under Section 8.2, if funds provided under the Loan are introduced in Jamaica by A.I.D. or any public or private agency for purposes of carrying out obligations of A.I.D. hereunder, the Borrower will make such arrangements as may be necessary so that such funds may be converted into currency of Jamaica at the highest rate of exchange which, at the time the conversion is made, is not unlawful in Jamaica.

Section 8.5. Date of Disbursement. Disbursements by A.I.D. will be deemed to occur (a) on the date on which A.I.D. makes a disbursement to the Borrower or its designee, or to a bank, contractor or supplier pursuant to a Letter of Commitment, contract, or purchase order; (b) on the date on which A.I.D. disburses to the Borrower or its designee local currency is obtained in accordance with Section 8.2(b)(1); or (c) if local currency is obtained in accordance with Section 8.2(b)(2), on the date on which A.I.D. opens or amends the Special Letter of Credit there referred to.

Article 9: Miscellaneous

Section 9.1. Communications. Any notice, request, document, or other communication submitted by either Party to the other under this Agreement will be in writing or by telegram or cable, and will be deemed duly given or sent when delivered to such party at the following address:

To the Borrower:

Address for Mail and Telegrams:

Minister of Finance
30 National Heroes Circle
Kingston 4, Jamaica

To A.I.D.:

Address for Mail and Telegrams:

Mission Director
USAID Jamaica
Mutual Life Building
2 Oxford Road
Kingston 5, Jamaica

All such communications will be in English, unless the Parties otherwise agree in writing. Other addresses may be substituted for the above upon the giving of notice. The Borrower, in addition, will provide the USAID Mission with a copy of each communication sent to A.I.D.

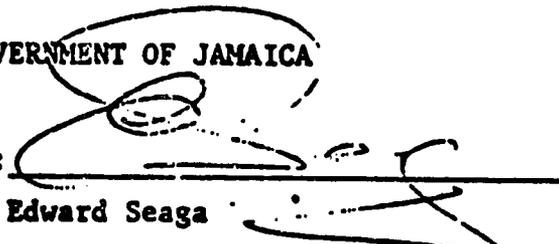
Section 9.2. Representatives. For all purposes relevant to this Agreement, the Borrower will be represented by the individual holding or acting in the office of the Minister of Finance and A.I.D. will be represented by the individual holding or acting in the office of Director, USAID/Jamaica, each of whom, by written notice, may designate additional representatives for all purposes other than exercising the power under Section 2.1 to revise elements of the amplified description in Annex I. The names of the representatives of the Borrower, with specimen signatures, will be provided to A.I.D., which may accept as duly authorized any instrument signed by such representatives in implementation of this Agreement, until receipt of written notice of revocation of their authority.

Section 9.3. Standard Provision Annex. A "Project Loan Standard Provisions Annex" (Annex II) is attached to and forms part of this Agreement.

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

GOVERNMENT OF JAMAICA

By:


Edward Seaga

Title: Prime Minister and Minister of Finance

UNITED STATES OF AMERICA

By:


W. Robert Warne

Title: Charge d' Affairs

By:


Lewis P. Reade

Title: Director, USAID Mission to Jamaica

ANNEX I

AMPLIFIED PROJECT DESCRIPTION AGRO-INDUSTRIAL DEVELOPMENT PROJECT

A. The Project

The Project, which focuses on economic growth in Jamaica's critical agribusiness sub-sector, seeks to strengthen agribusiness enterprises by restoring their productivity. Employment, gross earnings, production, productivity and the general level of economic activity within this sub-sector are targeted for expansion. The Project will also assist Jamaica to make greater use of its natural agricultural endowments and indigenous materials. The Project will establish in the Agricultural Credit Bank (ACB) capabilities to facilitate private agro-industrial growth through access to credit and technical assistance.

AID loan funds will be used by the ACB, who, in turn, will channel these funds through Jamaican commercial banks to provide (a) foreign exchange and credit for immediate financing for existing agribusiness operations; (b) pre-investment funds for the identification and development of new agro-industrial projects; (c) consultant services to the private agribusiness from foreign sources to assist them in carrying out the installation and start-up of new operations and the trouble-shooting of process technology and management problems of on-going operations; and, (d) training for public sector agri-business staff of selected Jamaican financial institutions in agribusiness investment development and promotion.

B. Project Elements

The Borrower will be the Government of Jamaica. The Executing Agency for the Development Fund (ADF) will be the Agricultural Credit Bank of Jamaica. The Project will establish a loan/guarantee program with commercial banks as a means of providing long-term credit for agro-industrial expansion projects meeting eligibility criteria. The target group of this component is medium sized Jamaican agro-industrial firms who will benefit from long-term loans for expansion.

Agro-industrial Development Fund

The Agro-industrial Development Fund has two components: (a) a loan and loan-guarantee mechanism, and (b) a mechanism providing advances for pre-investment studies and technical consultancy services.

Loan/Guarantee Component

1: Magnitude and Scope

The Loan/Guarantee component will consist of a total of initial capitalization of \$8,300,000 for long term loans to sub-borrowers of which \$5,000,000 will be A.I.D. loan funds and \$3,300,000 will be provided by the

Government of Jamaica. (A Bad Debts Reserve will be built from the spread on sub-loan interest payments). The A.I.D. financial resources will support the expansion of agro-industrial operations including joint ventures by providing foreign exchange for investment in fixed/current assets; the GOJ funds will provide domestic currency for related fixed/current assets. All loans will be denominated and repaid in Jamaican dollars. Agro-industrial activities which may be financed under the program may be divided into three categories, all of which contribute to increasing the flow of agricultural production to final consumption:

- (i) Agro-industry (including fruit, vegetable and ornamental horticulture processing, and packaging plants canneries, sawmills, bakeries, slaughter and dressing facilities, etc.) which processes food and fiber products from agriculture;
- (ii) Agro-industry which produces inputs for agriculture (tools, machinery, vegetable crates, fertilizer, pesticides, improved seed, etc.)
- (iii) Agro-industry links to production or marketing, such as transportation.

Through an operations manual, the Agricultural Credit Bank (ACB) will advise the commercial banks of the procedures and criteria for lending under the program with particular reference to eligibility conditions, and sub-loan guarantee levels offered by ACB.

Simultaneously, the ACB will carry out an active promotion campaign to familiarize commercial bank branches, Jamaican consulting firms and potential sub-borrowers with the Fund and its objectives. A sub-borrower wishing to establish or expand an eligible agro-industrial activity would present an application to the commercial bank (CB) of his choice. The CB would refer the application to ACB where it will be screened in terms of its economic viability. Based on this preliminary analysis, a decision would be reached by ACB whether to require more detailed study of the proposed project and sub-borrower. ACB will assist the sub-borrower to contract with a consulting firm to provide assistance in completing a pre-investment feasibility study and/or resolving technical or managerial problems as pre-conditions to any loan on projects where this is deemed essential. Upon completion of a feasibility study, the ACB, with the CB, would appraise the sub-project, make the credit judgement, and negotiate the risk sharing. Upon agreement by ACB and the CB, the former will transfer the required funds to the latter for the approved investment project. All collection responsibility will rest with the CBs.

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2. Selection and Screening

In order for a sub-project to be eligible for financing, potential sub-borrowers must demonstrate that they are Jamaican enterprises presently in agro-industrial activities or interested in the expansion of such an enterprise. These firms must have a management and majority ownership which is private (not precluded are the co-operatives, the firms operating with leased GOJ owned assets or with a minority participation of the government) and must be dependent upon Jamaican agriculture, such that at least 65% of the factory gate value of the raw materials they "process" or expect to process are products of Jamaican businesses. These firms must fall within the "second-tier" category of firms within agro-industry characterized as follows:

- have more than 6 but less than 51 employees (unskilled) measures as full time equivalents;
- combined with any other enterprise in Jamaica under the same ownership, do not have fixed assets owned or leased, other than land, having a book value exceeding US\$500,000;
- do not have fixed assets per employee (unskilled and full time equivalent) in excess of US\$15,000.

Both the value added effect of sub-projects (through processing of domestically produced raw materials) and foreign exchange impact of sub-projects (either through stimulation of exports or import substitution) will be estimated at the time of the initial screening.

If after initial screening a sub-borrower is accepted, the commercial bank will negotiate the terms of the loan with the sub-borrower, subject to the restriction that the rate of interest may not exceed the rate at which the bank borrows by more than three percentage points or, for projects supported by pre-investment feasibility studies, by more than two and a half percentage points.

ACB will require the services of a project monitor to serve as liaison between ACB and USAID. The project monitor shall have experience in loan review and portfolio management, and will be nominated by USAID with final selection by ACB.

An initial screening system will be developed within the first one hundred twenty days of project implementation by ACB. This screening system and the eligibility criteria set forth above will be evaluated during the course of project implementation to determine whether modifications are necessary.

3. Sub-lending Terms and Conditions

The Credit Manual to be prepared by ACB within the first six months of project implementation and distribution to CBs and interested consulting firms will specify sub-lending parameters. These are summarized below based on existing agreements between ACB and CBs:

- Interest Rate: Rates charged to end users will be initially set at current average rates for equivalent term credit from CBs for local currency loans. For loans in foreign exchange, the rate will be determined by a moving average of the quarterly rates for the foreign exchange auctioned under the "Small Manufacturers Assistance Project" currently under review at the USAID/Kingston.

In the event that there are no auctions of foreign exchange under an AID program in Jamaica, the differential interest rate for foreign exchange loans will be determined by consultations with a number of leading Jamaican financial institutions and the Bank of Jamaica as well as selected American foreign exchange firms.

The CBs will receive a maximum 3% spread, or 2½% for projects supported by feasibility studies accepted by the banks. Periodic adjustments in the interest rate spread will be permitted depending on inflationary trends and changes in the overall GOJ interest rate policy (concessionary rates are ruled out by the GOJ's interest rate policy and, moreover, will not be considered for this Project).

- Terms: The maximum term for sub-loans will be ten years with a grace period on principal payment not exceeding 24 months. Sub-loans will not be made for a term of less than six years. Within these limitations, sub-lending terms will be set on a case-by-case basis. Payments on interest and principal will be made quarterly.

- Guarantee Levels: CBs have little or no experience with risk sharing and as such client profiles which can be used to set criteria for risk sharing do not exist. For this reason it will be necessary to adopt a variable guarantee program of up to 50% for projects supported by feasibility studies, acceptable to ACB. Over the life of the project as information on client performance becomes available, discrete guarantee levels may be set. Guarantee levels may be set through negotiation between the CB and the ACB, based primarily on sub-project viability, as estimated by the project documentation, rather than on the collateral value of assets pledged as security. Fixed assets to be purchased with sub-loan funds will be acceptable by CBs for collateral at, as a minimum, 40% of C.I.F. purchase value.

- Sub-loan Uses: Eligible uses of foreign exchange from the Fund will include imported fixed assets - including spare parts, and imported raw materials inventories. Domestic currency from the Fund will be eligible for use in construction and domestic raw materials inventories. Fund resources (domestic and foreign exchange) will be eligible for the above uses in sub-projects which establish links to production or marketing.

- Sub-loan Size Restrictions: The maximum sub-loan size and maximum amount to be outstanding to any one sub-borrower (inclusive of all enterprises under common ownership) will be \$400,000.

Pre-investment Studies/Technical Consultancy Advances

To adequately and effectively use the long term credit funds, agro-industrial firms frequently will need to strengthen their managerial and technical capabilities. In addition the practice of undertaking pre-investment studies as a means of assessing project viability is not common. As a result many firms with business potential but little or no equity and/or collateral have limited access to project credit.

1. Mechanics

Sub-borrowers accepted as sub-loan applicants will be able to obtain advances from the commercial banks for preparation of the pre-investment feasibility studies, assisted by consultant services, required for sub-loan approval. An agreement will be executed between the consultant(s) and the sub-borrower.

2. Magnitude and Scope

The Pre-investment Studies/Technical Consultancy Component will consist of a total initial capitalization of \$3,700,000, of which \$900,000 will be A.I.D. loan funds and \$2,800,000 will be provided by the GOJ. The A.I.D. financial resources will support payments to foreign consultants by providing the required foreign exchange; the GOJ funds will provide domestic currency to support payments to Jamaican consultants. All advances will be repayable in domestic currency.

3. Advances - Terms and Conditions

The Credit Manual to be proposed by ACB and distributed to CBs and pre-qualified consulting firms will specify parameters for advances to sub-borrowers for pre-investment studies and/or technical consultancy services related to an approved sub-project proposal. Sub-borrowers eligible under the terms and conditions will be required to repay the commercial banks for all advances made for pre-investment studies and technical consultancy. The total amount of the repayment may be financed as part of the long term loan for fixed assets, with the same terms and conditions. It is expected that pre-investment studies will not always result in recommendation to invest. Advances on such studies will be accrued to the particular sub-borrower's account to be added to any future advances made on other pre-investment studies. The maximum value of advances which may be accrued by any one sub-borrower prior to an accepted investment loan is \$20,000. After a non-action period of twenty-four months, such accrual accounts will be written off.

Training/Advisory Assistance

The agro-industry development element of this Project involves four major participants. The first is the Agro-Industry Development Unit. Second is the group of sub-borrowers. A third group is the group of commercial banks retailing long-term loan funds. The fourth group is that of the consultants who will provide assistance in preparation of pre-investment studies and the effective assimilation of funds invested.

During the life of this Project an efficient and effective inter-relationship between participants will have to be established if agro-industry is to expand and grow. To ensure that these inter-relationships are established, technical assistance at various levels is called for as described below.

Agro-industry Development Unit

A special unit, the Agroindustry Development Unit, (ADU), to be established within the ACB is expected to consist of 10 individuals supported by existing bank infrastructure.

The creation of the ADU will require technical assistance inputs including short term advisory/training services related to the Agro-industry Development Fund management, development banking, feasibility study assessment, business management production/processing and evaluation. A total of 108 professional person months (PPM) of resident trainer/advisors and 104 PPM of short term consultants will be required over the three year period of project implementation. All trainer/advisor and consultant services are expected to come from the U.S. or other Code 941 countries. Such advisors will train the staff of the ADU in developing banking skills, will assist in institutionalizing the Fund's operations and will assist in establishing an evaluation methodology.

The advisors will train the staff of the ADU in the skills required of development banking in assessing "credit worthiness" of applicants, to evaluate pre-investment feasibility studies provided by applicants (and the consulting firms involved), and to identify management and technical problems within sub-borrower operations, which may require attention (possibly from consulting firms) to safeguard the loan. The "advisors" will assist ACB to develop terms of reference for pre-investment studies to be required of sub-borrowers.

The evaluation system will include a methodology for periodic data gathering, the reporting on use of sub-loan funds as well as sampling to determine end-of-sub-project status. This system will provide information on the degree to which sub-projects alleviate constraints faced by the agroindustry sub-borrowers.

All training for the staff of the Unit will be done in-country by the above trainer/advisory staff. Limited funding will be provided for educational/observational travel for Unit personnel to similar development banking operations in other countries.

Finally, limited funding will be provided for commodities to assist the Development Unit establish itself. All commodities will be attached to the Agroindustry Development Unit. The vehicles provided are to give the Unit staff the capability to carry out sub-project identification, promotion, development and inspection on a country-wide basis.

Sub-borrowers

Sub-borrowers will receive technical assistance from the Agroindustry Development Unit. The Unit staff will work with potential sub-borrowers in identifying credit needs, as well as technical and managerial assistance required to effectively implement sub-loans. Sub-borrowers will be assisted in negotiating with a pre-qualified consulting firm for consultancy services and the preparation of pre-investment studies. The intention is to have sub-loan design cover the constraints sub-borrowers face in loan assimilation.

Commercial Banks

Technical assistance to participating CBs will be necessary since agro-industrial financing will be a relatively new activity, and their capability to analyze project feasibility studies is limited. Assistance to CBs will be provided by the ADU staff, and will emphasize the development of criteria for evaluating credit worthiness through pre-investment studies and a firm's cash flow and business development plan. Other areas of assistance will be longer term project economic impact analysis.

Project design provides for the assistance to ACB to be used to develop with CBs joint terms of reference to be provided to consulting firms hired by sub-borrowers to undertake the required pre-investment feasibility studies and carry out the data collection effort with regard to these studies and assessment of project impact. Assistance through special courses organized by the Development Unit will train CB loan officers and branch managers in project evaluation techniques. Development Unit staff will work with the advisor/trainer staff in carrying out these training programs and providing assistance in evaluating technical feasibility and overall merits of sub-loan applicants. ACB will absorb the cost of the assistance provided by its Development Unit staff with a portion of the interest spread retained. A.I.D. financed technical assistance for this activity is included as part of the technical assistance provided to the Agro-industry Development Fund.

Jamaican and Foreign Consulting Firms

The Development Unit staff will be assisted by the Advisor/Trainer staff in "pre-qualifying" Jamaican and Foreign Consulting Firms (JFCF), in terms of their capabilities to provide assistance to sub-borrowers in identifying, describing and resolving both technical and management problems. JFCFs must have a demonstrated capability to undertake pre-investment feasibility studies as per terms of reference provided by the Development Unit.

C. Evaluation Plan

One year after the signing of the Loan Agreement, the GOJ and USAID will perform a joint in-house evaluation to primarily assess implementation progress to date. One year later, a second, more comprehensive evaluation will be undertaken including representatives of both USAID and GOJ as well as outside consultants.

This evaluation will assess overall project performances against revisions in the project implementation plan, as well as reviewing the viability of the Agricultural Development Bank's ability to continually provide foreign exchange loans to be paid back in local currency. Within three months after the PACD for the three year project, a final joint GOJ/USAID evaluation will be undertaken to analyze the impact of the project on the target groups and to measure the project's successes and/or failures in meeting its goals and objectives.

ILLUSTRATIVE IMPLEMENTATION SCHEDULE

- September 30, 1982** - Mission and GOJ sign Project Agreement.
- December 31, 1982** - GOJ has met initial CPs to establish or provide:
- 1) The Agro-industrial Development Unit (ADU);
 - 2) An AID approved RFP for training/advisory assistance to the ADU and Commercial Banks (NCB).
- March 31, 1983**
- ADU will have developed and adopted a credit manual detailing long term loan concepts, objectives, and guidelines for participation by sub-borrowers, NCB branches and Jamaican consulting firms.
 - ADU and NCB plan providing criteria for sub-project eligibility and appraisal.
 - Development by ADU of an acceptable contract for use by the sub-borrowers.
 - Development by ADU of a Project Impact Assessment (PIA) form.
 - Development by ADU prequalified lists of consultants.
- September 30, 1983** - ADU loan fund disbursements of \$1,050,000 and J\$693,000.
- ADU pre-investment/consultancy advances of \$324,000 and J\$1,008,000.
 - First in-house evaluation performed.
- September 30, 1984** - ADU cumulative loan fund disbursements of \$2,850,000 and J\$1,881,000.
- ADU cumulative pre-investment/consultancy advances of \$711,000 and J\$2,212,000.
 - Second evaluation undertaken with outside assistance.
- September 30, 1985** - PACD.
- ADU cumulative loan fund disbursements of \$5,000,000 and J\$3,300
 - ADU cumulative pre-investment/consultancy advances of \$900,000 and J\$2,800,000.
- December 31, 1985** - Final Evaluation Completed.

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ESTIMATED BUDGETI. GLOBAL BREAKDOWN (\$000)

	(ACB) <u>COMPONENT ONE</u>	<u>TOTAL</u>
1. Training & Advisory Assistance *	2,300	2,300
2. Commodities	100	100
3. Educational Travel	200	200
4. Long Term Credit	5,000	5,000
5. Pre-investment Studies/ Technical Assistance	900	900
Total	<u>8,500</u>	<u>8,500</u>

II. COMPONENT BREAKDOWN (\$000)

<u>Component I (ACB)</u>	<u>USAID</u>	<u>GOJ</u>	<u>TOTAL</u>
1. Loan/Guarantee Fund	5,000	3,000	8,300
2. Pre-investment Technical Consultancy	900	2,800	3,700
3. Training and Advisory Assistance	2,300	-	2,300
4. Agro-industrial Unit	300	2,360	2,660
Total	<u>8,500</u>	<u>8,460</u>	<u>16,960</u>

* includes:

- a) Project Manager/Banking Specialist
- b) Business Management Specialist/Finance and Accounting
- c) Business Management Specialist/Sales, Marketing, Procurement and Purchasing
- d) Production Specialist/Processing and Industrial Engineering
- e) Short Term Advisors/Trainers

Project Loan Standard

Provisions Annex

Definitions: As used in this Annex, the "Agreement" refers to the Project Loan Agreement to which this Annex is attached and of which this Annex forms a part. Terms used in this Annex have the same meaning or reference as in the Agreement.

Article A: Project Implementation Letters. To assist Borrower in the implementation of the Project, A.I.D., from time to time, will issue Project Implementation Letters that will furnish additional information about matters stated in this Agreement. The parties may also use jointly agreed-upon Project Implementation Letters to confirm and record their mutual understanding on aspects of the implementation of this Agreement. Project Implementation Letters will not be used to amend the text of the Agreement, but can be used to record revisions or exceptions which are permitted by the Agreement, including the revision of elements of the amplified description of the Project in Annex 1.

Article B: General Covenants

SECTION B.1. Consultation. The Parties will cooperate to assure that the purpose of this Agreement will be accomplished. To this end, the Parties, at the request of either, will exchange views on the progress of the Project, the performance of obligations under this Agreement, the performance of any consultants, contractors, or suppliers engaged on the Project, and other matters relating to the Project.

SECTION B.2. Execution of Project. The Borrower will:

(a) carry out the Project or cause it to be carried out with due diligence and efficiency, in conformity with sound technical, financial, and management practices, and in conformity with those documents, plans, specifications, contracts, schedules, or other arrangements, and with any modifications therein, approved by A.I.D. pursuant to this Agreement; and

(b) provide qualified and experienced management for, and train such staff as may be appropriate for the maintenance and operation of the Project, and, as applicable for continuing activities, cause the Project to be operated and maintained in such manner as to assure the continuing and successful achievement of the purposes of the Project.

SECTION B.3. Utilization of Goods and Services.

(a) Any resources financed under the Loan will, unless otherwise agreed in writing by A.I.D., be devoted to the Project until the completion of the Project, and thereafter will be used so as to further the objectives sought in carrying out the Project.

(b) Goods or services financed under the Loan, except as A.I.D. may otherwise agree in writing, will not be used to promote or assist a foreign aid project or activity associated with or financed by a country not included in Code 935 of the A.I.D. Geographic Code Book as in effect at the time of such use.

SECTION B.4. Taxation.

(a) This Agreement and the Loan will be free from, and the Principal and interest will be paid free from, any taxation or fees imposed under laws in effect in the territory of the Borrower.

(b) To the extent that (1) any contractor, including any consulting firm, any personnel of such contractor financed under the Loan, and any property or transactions relating to such contracts and (2) any commodity procurement transaction financed under the Loan are not exempt from identifiable taxes, tariffs, duties, or other levies imposed under laws in effect in the territory of the Borrower, the Borrower will, as and to the extent provided in and pursuant to Project Implementation Letters, pay or reimburse the same with funds other than those provided under the Loan:

SECTION B.5. Reports, Records, Inspections, Audit.

The Borrower will:

(a) furnish A.I.D. such information and reports relating to the Project and to this Agreement as A.I.D. may reasonably request;

(b) maintain or cause to be maintained, in accordance with generally accepted accounting principles and practices consistently applied, books and records relating to the Project and to this Agreement, adequate to show, without limitation, the receipt and use of goods and services acquired

SECTION B.5.(b)

under the Loan. Such books and records will be audited regularly, in accordance with generally accepted auditing standards, and maintained for three years after the date of last disbursement by A.I.D.; such books and records will also be adequate to show the nature and extent of solicitations of prospective suppliers of goods and services acquired, the basis of award of contracts and orders, and the overall progress of the Project toward completion; and

(c) afford authorized representatives of a Party the opportunity at all reasonable times to inspect the Project, the utilization of goods and services financed by such Party, and books, records, and other documents relating to the Project and the Loan.

SECTION B.6. Completeness of Information. The Borrower confirms:

(a) that the facts and circumstances of which it has informed A.I.D., or caused A.I.D. to be informed, in the course of reaching agreement with A.I.D. on the Loan, are accurate and complete, and include all facts and circumstances that might materially affect the Project and the discharge of responsibilities under this Agreement;

(b) that it will inform A.I.D. in timely fashion of any subsequent facts and circumstances that might materially affect, or that it is reasonable to believe might so affect, the Project or the discharge of responsibilities under this Agreement.

SECTION B.7. Other Payments. Borrower affirms that no payments have been or will be received by any official of the Borrower in connection with the procurement of goods or services financed under the Loan except fees, taxes, or similar payments legally established in the country of the Borrower.

SECTION B.8. Information and Marking. The Borrower will give appropriate publicity to the Loan and the Project as a program to which the United States has contributed, identify the Project site, and mark goods financed by A.I.D., as described in Project Implementation Letters.

Article C: Procurement Provisions

SECTION C.1. Special Rules.

(a) The source and origin of ocean and air shipping will be deemed to be the ocean vessel's or aircraft's country of registry at the time of shipment.

(b) Premiums for marine insurance placed in the territory of the Borrower will be deemed an eligible Foreign Exchange Cost, if otherwise eligible under Section C.7(a).

(c) Any motor vehicles financed under the Loan will be of United States manufacture, except as A.I.D. may otherwise agree in writing.

SECTION C.2. Eligibility Date. No goods or services may be financed under the Loan which are procured pursuant to orders or contracts firmly placed or entered into prior to the date of this Agreement, except as the Parties may otherwise agree in writing.

SECTION C.3. Plans, Specifications, and Contracts. In order for there to be mutual agreement on the following matters, and except as the Parties may otherwise agree in writing:

(a) The Borrower will furnish to A.I.D. upon preparation:

(1) any plans, specifications, procurement or construction schedules, contracts, or other documentation relating to goods or services to be financed under the Loan, including documentation relating to the prequalification and selection of contractors and to the solicitation of bids and proposals. Material modifications in such documentation will likewise be furnished A.I.D. on preparation;

(2) such documentation will also be furnished to A.I.D., upon preparation, relating to any goods or services which, though not financed under the Loan, are deemed by A.I.D. to be of major importance to the Project. Aspects of the Project involving matters under this subsection (a) (2) will be identified in Project Implementation Letters;

(b) Documents related to the prequalification of contractors, and to the solicitation of bids or proposals for goods and services financed under the Loan will be approved by A.I.D. in writing prior to their issuance, and their terms will include United States standards and measurements;

SECTION C.3.

(c) Contracts and contractors financed under the Loan for engineering and other professional services, for construction services, and for such other services, equipment, or materials as may be specified in Project Implementation Letters, will be approved by A.I.D. in writing prior to execution of the contract. Material modifications in such contracts will also be approved in writing by A.I.D. prior to execution; and

(d) Consulting firms used by the Borrower for the Project but not financed under the Loan, the scope of their services and such of their personnel assigned to the Project as A.I.D. may specify, and construction contractors used by the Borrower for the Project but not financed under the Loan shall be acceptable to A.I.D.

SECTION C.4. Reasonable Price. No more than reasonable prices will be paid for any goods or services financed, in whole or in part, under the Loan. Such items will be procured on a fair and, to the maximum extent practicable, on a competitive basis.

SECTION C.5. Notification to Potential Suppliers. To permit all United States firms to have the opportunity to participate in furnishing goods and services to be financed under the Loan, the Borrower will furnish A.I.D. such information with regard thereto, and at such times, as A.I.D. may request in Project Implementation Letters.

SECTION C.6. Shipping.

(a) Goods which are to be transported to the territory of the Borrower may not be financed under the Loan if transported either:

(1) on an ocean vessel or aircraft under the flag of a country which is not included in A.I.D. Geographic Code 935 as in effect at the time of shipment; or

(2) on an ocean vessel which A.I.D., by written notice to the Borrower has designated as ineligible; or

(3) under an ocean or air charter which has not received prior A.I.D. approval:

(b) Costs of ocean or air transportation (of goods or persons) and related delivery services may not be financed under the Loan, if such goods or persons are carried:

SECTION C.6.

(1) on an ocean vessel under the flag of a country not, at the time of shipment, identified under the paragraph of the Agreement entitled "Procurement Source: Foreign Exchange Costs," without prior written A.I.D. approval; or

(2) on an ocean vessel which A.I.D., by written notice to the Borrower, has designated as ineligible; or

(3) under an ocean vessel or air charter which has not received prior A.I.D. approval.

(c) Unless A.I.D. determines that privately owned United States-flag commercial ocean vessels are not available at fair and reasonable rates for such vessels,

(1) at least fifty percent (50%) of the gross tonnage of all goods (computed separately for dry bulk carriers, dry cargo liners and tankers) financed by A.I.D. which may be transported on ocean vessels will be transported on privately owned United States-flag commercial vessels, and

(2) at least fifty percent (50%) of the gross freight revenue generated by all shipments financed by A.I.D. and transported to the territory of the Borrower on dry cargo liners shall be paid to or for the benefit of privately owned United States-flag commercial vessels. Compliance with the requirements of (1) and (2) of this subsection must be achieved with respect to any cargo transported from U.S. ports and also any cargo transported from non-U.S. ports, computed separately.

SECTION C.7. Insurance.

(a) Marine insurance on goods financed by A.I.D. which are to be transported to the territory of the Borrower may be financed as a Foreign Exchange Cost under this Agreement provided,

(1) such insurance is placed at the lowest available competitive rate, and

SECTION C.7.

(2) claims thereunder are payable in the currency in which such goods were financed or in any freely convertible currency. If the Borrower (or government of Borrower), by statute, decree, rule, regulation, or practice discriminates with respect to A.I.D.-financed procurement against any marine insurance company authorized to do business in any State of the United States, then all goods shipped to the territory of the Borrower financed by A.I.D. hereunder will be insured against marine risks and such insurance will be placed in the United States with a company or companies authorized to do a marine insurance business in a State of the United States.

(b) Except as A.I.D. may otherwise agree in writing, the Borrower will insure, or cause to be insured, goods financed under the Loan imported for the Project against risks incident to their transit to the point of their use in the Project; such insurance will be issued on terms and conditions consistent with sound commercial practice and will insure the full value of the goods. Any indemnification received by the Borrower under such insurance will be used to replace or repair any material damage or any loss of the goods insured or will be used to reimburse the Borrower for the replacement or repair of such goods. Any such replacement will be of source and origin of countries listed in A.I.D. Geographic Code 935 as in effect at the time of replacement, and, except as the Parties may agree in writing, will be otherwise subject to the provisions of the Agreement.

SECTION C.8. U.S. Government-Owned Excess Property. The Borrower agrees that wherever practicable United States Government-owned excess personal property, in lieu of new items financed under the Loan, should be utilized. Funds under the Loan may be used to finance the costs of obtaining such property for the Project.

Article D: Termination; Remedies.

SECTION D.1. Cancellation by Borrower. The Borrower may, by giving A.I.D. 30 days written notice, cancel any part of the Loan which has not been disbursed or committed for disbursement to third parties.

SECTION D.2. Events of Default; Acceleration. It will be an "Event of Default" if Borrower shall have failed:

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

SECTION D.2.

(b) to comply with any other provision of this Agreement, or

(c) to pay when due any interest or installment of Principal or other payment required under any other loan, guaranty or other agreement between the Borrower or any of its agencies and A.I.D. or any of its predecessor agencies. If an Event of Default shall have occurred, then A.I.D. may give the Borrower notice that all or any part of the unrepaid Principal will be due and payable sixty (60) days thereafter, and, unless such Event of Default is cured within that time:

(1) such unrepaid Principal and accrued interest hereunder will be due and payable immediately, and

(2) the amount of any further disbursements made pursuant to then outstanding commitments to third parties or otherwise will become due and payable as soon as made.

SECTION D.3. Suspension. If at any time:

(a) An Event of Default has occurred; or

(b) An event occurs that A.I.D. determines to be an extraordinary situation that makes it improbable either that the purpose of the Loan will be attained or that the Borrower will be able to perform its obligations under this Agreement; or

(c) Any disbursement by A.I.D. would be in violation of the legislation governing A.I.D.; or

(d) The Borrower shall have failed to pay when due any interest, installment of principal or other payment required under any other loan, guaranty, or other agreement between the Borrower or any of its agencies and the Government of the United States or any of its agencies;

Then A.I.D. may:

(1) suspend or cancel outstanding commitment documents to the extent they have been utilized through irrevocable commitments to third parties or otherwise, giving prompt notice thereof to the Borrower;

(2) decline to issue additional commitment documents or to make disbursements thereunder under existing ones; and

SECTION D.3.

(3) at A.I.D.'s expense, direct that title to goods financed under the Loan be transferred to A.I.D. if the goods are from a source outside Borrower's country, are in a deliverable state and have not been offloaded in ports of entry of Borrower's country. Any disbursement made under the Loan with respect to such transferred goods will be deducted from Principal.

SECTION D.4. Cancellation by A.I.D. If, within sixty (60) days from the date of any suspension of disbursements pursuant to Section D.3, the cause or causes thereof have not been corrected, A.I.D. may cancel any part of the Loan that is not then disbursed or irrevocably committed to third parties.

SECTION D.5. Continued Effectiveness of Agreement. Notwithstanding any cancellation, suspension of disbursements, or acceleration of repayment, the provisions of this Agreement will continue in effect until the payment in full of all Principal and accrued interest hereunder.

SECTION D.6. Refunds.

(a) In the case of any disbursement which is not supported by valid documentation in accordance with this Agreement, or which is not made or used in accordance with this Agreement, or which was for goods or services not used, in accordance with this Agreement, A.I.D., notwithstanding the availability or exercise of any other remedies provided for under this Agreement, may require the Borrower to refund the amount of such disbursement in United States Dollars to A.I.D. within sixty (60) days after receipt of a request therefor. The right to require such a refund of a disbursement will continue, notwithstanding any other provision of this Agreement, for three (3) years from the date of the last disbursement under this Agreement.

(b)

(1) Any refund under the preceding subsection, or

(2) any refund to A.I.D. from a contractor, supplier, bank, or other third party with respect to goods or services financed under the Loan, which refund relates to an unreasonable price for or erroneous invoicing of goods or services, or to goods that did not conform to specifications, or to services that were inadequate, will,

SECTION D.6(b)(2)

A. be made available first for the cost of goods and services required for the Project, to the extent justified, and

B. the remainder, if any, will be applied to the installments of Principal in the inverse order of their maturity and the amount of the Loan reduced by the amount of such remainder.

SECTION D.7: Nonwaiver of Remedies. No delay in exercising any right or remedy accruing to a Party in connection with its financing under this Agreement will be construed as a waiver of such right or remedy.

APPENDIX II

CREDIT MANUAL

APPENDIX II

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**SPECIAL CONDITIONS OF
GOJ/USAID AGRO/INDUSTRY DEVELOPMENT PROJECT**

1. ACB's LENDING POLICY FOR COMMERCIAL BANKS

1.00 The ACB will approve loans for providing sub-loans to finance:

- (i) Working Capital and fixed assets, and
- (ii) Pre-investment feasibility studies and Technical Consultancy Services.

Credit Mechanism

1.01 The ACB will sign separate Loan Agreements with the Commercial Bank for the amount of each sub-loan or group of sub-loans. The amount of the loan will be equal to the amount of the sub-loans. The sub-loans will be provided within the framework of the Project's Basic Credit Policy for sub-borrowers (Section B. Credit Policy Framework for sub-borrowers) and will be approved by the Commercial Bank (C.B.) when certified eligible by Manager of Agro-Industrial Development Unit (ADU) of the ACB. Approved by C.B. and ACB when guarantee and/or feasibility study is requested.

Participant Banks

1.02 Any Commercial Bank acceptable to the ACB.

The Commercial Banks' participation in the project will be established through a formal agreement containing the policy framework described in this document.

A. Loans for Working Capital and Fixed Investment

Term

1.03 The terms of the loans will be similar to the term of the sub-loans.

1.04 The Commercial Banks will repay to the ACB the principal and the interest in accordance with the sub-borrowers' repayment schedule. The Commercial Bank will make its payment to the ACB on the 15th of the month which follows the repayment date of the sub-loan installments.

The Commercial Bank must pay its installments timely, regardless of whether or not the sub-borrowers fall behind in their payments.

- 1.05 When the sub-borrowers pay their installments in advance, the Commercial Banks must also make their payments in advance to the ACB within the following 30 days after receiving the sub-borrowers' payment.
- 1.06 The sub-loans will be denominated and repaid in Jamaican dollar (JA\$) and will be at the foreign exchange rate in effect on the date of the issuance of the Letter of Credit (L.C.) to the sub-borrower's supplier.
- 1.07 In order to carry out the foreign exchange transactions financed with project funds, the sub-borrowers must use the services of the Commercial Bank that provided the sub-loans. The Commercial Banks may charge the sub-borrowers the prevailing commissions or fees for these services.

Guarantee

- 1.08 The ACB may guarantee the Commercial Bank loan to sub-borrowers that are US\$100,000 or less. This variable guarantee can cover up to 50% of a sub-loan supported by a feasibility study acceptable to ACB. Guarantee levels will be set through negotiation between the Commercial Bank and the ACB, based primarily on sub-project viability, or estimated by project documentation, rather than on the collateral value of assets pledged as security.
- 1.09 Collection responsibility will rest with the Commercial Bank unless a default occur, whereupon the Commercial Bank will make good its portion of the amount borrowed from ACB, and the entire claim will be subrogated to ACB for its collection efforts and/or write-off.
- 1.10 The Commercial Banks must require the sub-borrower to provide in security a first mortgage on all the assets financed with project funds. The Commercial Banks may request additional guarantees. Fixed assets to be purchased with sub-loan funds will be acceptable by Commercial Bank for collateral at, as a minimum, 40% of C.I.F. purchase value.

1.11 The interest rate that the ACB will charge to the Commercial Bank will be established on the basis of the following spreads allowed to the Commercial Banks: 2.5% when the ACB guarantees up to 50% of the loan. The Commercial Banks will receive a spread as provided in the table below for loans.

<u>Loan (US\$)</u>	<u>Interest Rate Spread</u>
Over 500,000	3%
Over 400,000	4%
Over 300,000	4½%
Over 200,000	5%
Over 100,000	5½%
Over 20,000	6%
Over 20,000 (With Guarantee)	2½%

Periodic adjustments in the interest rate spread will be made to reflect changes in the rate of inflation and in the overall G.O.J. interest rate policy.

Other Covenants

1.12 The part of the Commercial Banks' debt on account of any sub-loan made with the project funds will become due before the end of the sub-loans agreed upon terms in the following cases.

- (a) The sub-borrower pays the total amount of the principal.
- (b) The Commercial Bank either forecloses on the sub-borrower or reaches an agreement, approved by the ACB, to settle the sub-borrower's obligation.

1.13 The Commercial Bank's total obligations with the ACB will become due upon request from the ACB if the Commercial Bank breaches this loan agreement or any other loan agreement with the ACB, and the latter will also have the right to stop the disbursements on sub-loans that have already been approved.

- 1.14 The Commercial Bank will submit to the ACB the reports that the ACB may request, and will allow the ACB access to all the records and documents related to clients who have obtained sub-loans with the guarantee of the ACB.
- 1.15 The Commercial Bank's sub-loan agreements must stipulate that the ACB will have the right to audit the sub-borrowers' businesses and records, and to request from them all the information that it may deem necessary.
- 1.16 The Commercial Bank must ensure that the loan funds are used by the sub-borrowers in accordance with the loan agreement signed by the ACB and the Commercial Banks. The Commercial Bank's failure to carry out an effective supervision will invalidate the ACB's guarantee commitment.
- 1.17 Other covenants may be added according to the Legal Counselor's advice, and/or the ADU's specific recommendations related to each sub-loan.

B. Loans for Feasibility Studies

- 1.18 The policy for loans to finance feasibility studies differs from the general policy in the following aspects:

Term

- 1.19 The term of the loans will be the same as the term of the sub-loans. However, the Commercial Banks will only be obliged to pay the installments collected from the sub-borrowers.

Guarantee

- 1.20 The sub-borrower must obtain the guarantee of a co-signer, or provide a satisfactory collateral.

- 1.21 The ACB will guarantee 100% of the sub-borrowers' outstanding balance of the principal and the Commercial Bank's accrued interest owed to the ACB.
- 1.22 The Commercial Bank will be entitled to collect the amount guaranteed by the ACB under either one of the following circumstances.
- (i) the Commercial Bank has obtained a prosecution settlement against the sub-borrower and/or the co-signer,
 - (ii) the total outstanding balance has been in arrears for more than one year, and
 - (iii) the feasibility study shows that the sub-project is not viable or the feasibility study loan is not followed up by a loan for the sub-project within a period of 2 years after the former was contracted.
 - (iv) the Commercial Bank and the ACB reach an agreement by which the ACB will write off the loan.
- 1.23 Any guarantee that the ACB must pay will be credited to the Commercial Banks' outstanding balance.
- Interest
- 1.24 The ACB will allow the Commercial Banks an interest spread of 2.5%.
- Commission
- 1.25 The ACB will not charge any service fee.

B. CREDIT POLICY FRAMEWORK FOR SUB-BORROWERS

Overall Project Goal

2.00 The Agro-Industry Project's goal is to support Jamaica's economic recovery by strengthening the private production sector as a vehicle for economic growth, employment generation and the expansion of food production.

(a) Target Group

2.01 The target group or sub-borrowers must meet the qualifications and parameters described below.

Production Activities

2.02 Agro-industrial activities which may be financed under the programme may be divided into three categories, all of which contribute to increasing the flow of agricultural production to final consumption:

- (i) agro-industry including fruit (but excluding the production, processing or marketing of sugar, palm oil or citrus for export), vegetable and ornamental horticulture, processing and packaging plants, canneries, sawmills, bakeries, slaughter and dressing facilities, etc., which processes food, feed, and fiber products from agriculture;
- (ii) agro-industry which produces inputs for agriculture (tools, machinery, vegetable crates, fertilizer, pesticides, improved seed, etc.);
- (iii) agro-industry links to production or marketing, such as transportation.

Limits

2.03 The total assets (owned or leased) of all the business activities under the same ownership must not exceed the amount of Jamaican dollars equivalent to US\$1,000,000, (net of the value of lands).

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- 2.04 The raw material of Jamaican origin, must represent at least 65% of the total value of the raw material that will be processed.
- 2.05 The number of employees must be greater than 6 but lower than 101.
- 2.06 The ratio of fixed assets per employee must not exceed US\$25,000.

Financial Structure

- 2.07 The financial structure must be adequate.

Financial Statement

- 2.08 The loan applicant must be able to present an updated Balance Sheet, and a Profit and Loss Statement prepared in accordance with standard accounting principles.

(b) Objectives

- 2.09 Loans may be provided for viable projects which seek to increase and/or diversify production, improve the product's quality and/or appearance, increase the raw material's yield, increase productivity, improve the plant's safety and/or sanitation, improve the procurement system, improve the marketing system, penetrate new markets, undertake feasibility studies, and strengthen management effectiveness.
- 2.10 The loans may be used to finance working capital, construction, equipment machinery, and technical assistance.

A. Sub-loans for Working Capital and Fixed Investment

Loan Limits

- 2.11 The outstanding loans financed with project funds to all the businesses under the same ownership must not exceed the amount of Jamaican dollars equivalent to US\$500,000 at the prevailing rate of exchange.
- The smallest loan that can be approved is the amount of Jamaican dollars equivalent to US\$20,000.

2.12 The loan for purchases in foreign exchange will be converted to local currency at the rate of exchange of the date when the Commercial Bank issues the Letter of Credit for benefit of sub-borrower's supplier.

Term

2.13 The loan term must be between 6 and 10 years.

2.14 The interest rate on loans for purchase in local currency will be 18% and for US dollars 18%.

2.15 The interest rate for new loans will be revised from time to time on the basis of the Government of Jamaica's monetary policies, the prevailing interest rates, the opportunity cost of money and the prime rate in the United States (for loans that will use foreign exchange).

Guarantee

2.16 The Commercial Bank will determine in each case the value and quality of the guarantee required.

Repayment

2.17 The principal of the loan will be repaid quarterly.

2.18 The first installment will be paid at the end of the grace period.

2.19 The accrued interests will be paid with the same frequency as the principal, but no grace period will be provided. However, when the grace period on the principal is longer than one year, the first interest payment can become due at the end of the first year.

Loan Approval

2.20 The Commercial Banks which have been approved to borrow from ACB will submit a request to the ADU Manager at ACB to ascertain eligibility of the project being considered early in the sub-borrower loan inquiry phase. All loan requests certified eligible by the ADU Manager and subsequently submitted by the Commercial Bank on behalf of the sub-

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borrower will then be funded by the ACB. All collection responsibility will rest with the Commercial Bank.

Audited Financial Statements

- 2.21 The loan applicants may be requested to provide updated financial statements certified by External Auditors. Also, the sub-borrower may be requested to provide (to either the Commercial Bank or the ACB) audited financial statements every year.

Insurance

- 2.22 The sub-borrowers will be required to keep an insurance policy covering the assets provided in guarantee, and to endorse the policy to the Commercial Bank which provided the loan.

Loan Supervision

- 2.23 The sub-borrowers will provide the Commercial Bank any information that the Commercial Bank may request about the businesses. Further, the sub-borrowers will allow both the Commercial Bank and the ACB to carry out auditings on the businesses' records and operations.

B. Sub-loans for Feasibility Studies

2.24 Objectives

- a) To improve the business person's decision making process for undertaking investment projects.
- b) To provide the Commercial Bank and the ACB with adequate information for appraising loan applications.

Loan Application

- 2.25 The applicant must submit the loan application to the Commercial Bank.

Loan Arrangements

2.26 The approved loans for feasibility studies will be provided in accordance with the following arrangements.

- a) the sub-borrower must in all cases finance with his own funds at least 20% of the cost of the study.
- b) the sub-borrower can start disbursing the loan only after he has paid the part of the cost that he has agreed to finance with his own funds.
- c) the sub-borrower's debt (for the feasibility study loan) may be condoned if it is not followed up within a period of 2 years by a loan to finance the sub-project analyzed in the feasibility study. But the feasibility study will become the exclusive property of the ACB.
- d) the feasibility study loan and the one for financing the sub-project will be consolidated into one loan.

Loan Limits

2.27 The maximum loan amount that can be provided for one feasibility study is the sum of Jamaican dollars equivalent to US\$20,000, and the sub-borrower's outstanding balance on loans provided for feasibility studies cannot exceed the above mentioned sum.

Term

2.28 The term of the loan is 6 years for loan amounts of up to J\$30,000, and up to 10 years for larger amounts. All the loans will have a grace period of 2 years and the principal will be repaid in equal quarterly installments.

Interest

2.29 The interest rate will be 18% per annum (the rate charged on project loans for financing fixed assets). The accrued interest will be paid quarterly.

Guarantee

2.30 The sub-borrower must either provide the guarantee of a co-signer or a mortgage on fixed assets.

Repayments

2.31 The principal and interests will be repaid in equal quarterly installments.

Loan Approval

2.32 The loans will be approved by both the Commercial Bank and the ACB.

III. LOAN APPLICATION PROCESS

Implementation Arrangements

- 3.00 The Commercial Banks (CB) are the Credit Retail Window for the Project's target group.
- 3.01 The Commercial Banks' participation in the Project have to be documented in a formal agreement between each participant Commercial Bank and the Agricultural Credit Bank (ACB). The agreement will spell out the Project's Policy framework related to the Commercial Banks' participation.
- 3.02 The participant Commercial Banks can apply for loans for on lending to private individuals and firms who meet the Project's Basic Policy for sub-borrowers.
- 3.03 The Commercial Banks and the ACB will formalize in separate loan agreements, the loans provided by the latter for on lending to each individual sub-borrower or group of sub-borrowers.

Sub-loan and Loan Processing Procedures

- 3.04 This section describes the loan processing procedures starting with the eligibility test and finishing up with the Loan Agreement between the Commercial Bank and the ACB.
- 3.05 The sub-loans for Feasibility Studies follow a different procedure from the sub-loans for Working Capital and Fixed Assets in the processing phases related to sub-loans' eligibility and appraisal.

A. SUB-LOANS FOR WORKING CAPITAL AND FIXED ASSETS

- 3.06 The following defines the eligibility and Appraisal Activities, and describes the sub-loans/loan processing steps.

Eligibility Test

- 3.07 The objective of the Eligibility Test is to determine:

- (i) The Applicant's acceptability by the Commercial Bank as a potential sub-borrower, and
- (ii) The enterprise and the sub-project's compatibility with the Project's Credit Policy.

3.08 The CB will use its own criteria for determining the applicant's acceptability. The Assessment of the applicant's legal capacity, character, financial situation, and possibility to meet the minimum collateral requirements are important at this stage.

3.09 The eligibility test will be carried out on the basis of the information provided by the applicant on the Sub-borrower Application for Loan Assistance (annex 1, Form 01 - 01) and any other information that the Commercial Bank considers necessary.

Sub-Loan Appraisal

3.10 The sub-loan appraisal's objective is to determine:

- (i) the sub-project's feasibility
- (ii) the creditor's risk and
- (iii) the terms of the loan.

3.11 From the ADU's point of view, another important objective is to determine the sub-project's social and economic impacts.

3.12 The sub-loan appraisal will be carried out jointly by the CB and the ADU. The latter's role will be to provide technical backstop services to the CBs in the analysis of the marketing, procurement, and production/processing aspects. For new and/or complex sub-projects, the CB or the ACB (through the CB) may request the applicant to present a comprehensive feasibility study. This study could be financed with Project funds (the procedure for loans for feasibility studies is described later in this chapter).

Loan Processing Steps

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- 3.13 The industrial processor (potential sub-borrower) obtains the application for Loan Assistance (annex 1, Form 01 - 01) from the Commercial Bank, fills it, and submits it to the CB.
- 3.14 The CB requests and/or obtains any other information that it may deem necessary, and carries out the eligibility test.
- 3.15 The CB will inform the applicant the outcome of the eligibility test as soon as the test is completed. If the application is eligible, the Commercial Bank will also inform the applicant about the next steps in the sub-loan processing cycle.
- 3.16 The CB will provide information to the ACB about the sub-loan applications that do not pass the eligibility test (annex 2, Form 01 - 02). If the loan application is eligible, the CB will arrange a meeting with an ADU Officer for discussing the application; providing the information available; and requesting the latter's assistance for analyzing the marketing, procurement and production/processing aspects.
- 3.17 The ADU will place special emphasis on the analysis of factors which could lead to default in the repayment of the loan and/or to failure in the accomplishment of the sub-project's intended benefits. The Project Appraisal Formats (annex 2, Form 01-03 and 04) are presented as guide lines for the ADU's Officers.
- 3.18 The ADU's Manager will assign to one of the ADU's Officer (Loan Processing Supervisor) the responsibility to initiate, lead and follow up the analysis.
- 3.19 The Loan Processing Supervisor (LPS) will verify the documents provided by the Commercial Bank, and will coordinate a visit to the applicant's plant with another ADU Officer and an Officer of the CB. The LPS will prepare an agenda for the meeting with the applicant and will

- discuss it with the other Officers who will visit the Applicant with him. Subsequently, the LPS will prepare a work plan for carrying out the ADU's part of the sub-loan appraisal. This plan will spell out the additional information that will have to be obtained from the applicant, the assistance that he (LPS) will need from other ADU and/or ACB Officers and a schedule of activities.
- 3.20 The LPS will write a report addressed to the ADU's Manager summarizing the concerns and recommendation arisen from the analysis. Subsequently, the ADU's Manager will forward the report to the Commercial Bank.
- 3.21 The Commercial Bank will complement the sub-loan appraisal. It will place special emphasis on the financial aspects and the sub-borrower's repayment capabilities, and will prepare the sub-loan appraisal report. Subsequently, the Commercial Bank will proceed to either deny or approve the sub-loan.
- 3.22 When a sub-loan application is refused, the Commercial Bank will inform the applicant, and will forward to the ACB a copy of the loan appraisal report. On the other hand, when a loan application is approved, the Commercial Bank will forward a loan request to the ACB along with the appraisal report.
- 3.23 The Commercial Bank's loan request will be made through the form Commercial Bank's Application for participation (annex 1, Form 01-05). The ADU's Manager will assign to one of the ADU's Officer, the responsibility to revise the documents provided by the CB and to prepare a memorandum with his/her comments and recommendations with regard to the sub-project and the Commercial Bank's loan request. This memorandum will address the eligibility criteria of the project.

B. SUB-LOANS FOR FEASIBILITY STUDIES

- 3.24 The applicant will submit to the CB the application (annex 1, Form 01 - 06) for loans for feasibility studies.
- 3.25 The CB will forward the application form to the ACB along with a letter providing information about the applicant's character and his/her record with the CB, and expressing the Commercial Bank's intention to provide the sub-loan if the study shows that the sub-project is feasible.
- 3.26 The ACB will judge whether or not it is worthwhile to carry out the feasibility study. The ACB will assess:
- (i) the possibility that the sub-project turns out feasible,
 - (ii) the applicant's capability to carry out the sub-project, and
 - (iii) the possibility of approving the sub-loan which could be required to finance the sub-project.
- 3.27 When the application does not merit approval, the ACB will inform the CB, and the latter will inform the applicant. On the other hand, when the application merits approval, the ACB will provide assistance to the applicant in the write up of the consultants' terms of reference for the study and in the establishment of a criteria for selecting the consultant(s).
- 3.28 The suggested terms of reference (annex 1, Form 01 - 07) and the suggested outline for Feasibility Studies (annex 1, Form 07 - 08) are presented as general guidelines for the ADU's Officers who will provide assistance to the applicant.
- 3.29 The ADU's Officer (who provided assistance to the applicant) will write a memorandum (addressed to the ADU's Manager) with his/her comments and recommendations with regard to the applicant and the sub-loan. Subsequently, the ADU will forward a letter to the CB

attaching a copy of this memorandum.

- 3.30 The CB will forward a loan request to the ACB if it considers that the sub-loan merits approval, and the latter will proceed in the manner indicated on paragraph 3.23.

C. SUB-LOAN COMMITTEE

- 3.31 The functions of this Committee are:

- i) to discuss the loan appraisal reports and the recommendations for loan approval;
- ii) to enhance the ADU's co-ordination of activities, and
- iii) to encourage the discussion of suggestions for enhancing the ADU's effectiveness and efficiency.

- 3.32 The Committee members will be the ADU's Manager (Chairman) and Officers. The ADU's Manager will assign to one of the Committee members the responsibility to prepare the minutes of the Committee meetings.

- 3.33 The ADU's Manager will make his/her recommendations for loan approval after discussing the loan request and the appraisal report with the Committee. The recommendations of the ADU's Manager will be discussed with the Commercial Bank Liaison Officer. Afterwards, the ADU's Manager will write a memorandum to the ACB's Managing Director providing information on the loan for which the ADU recommends approval, and spelling out the terms of the loan (Loan Approval Document - annex 1, Form 01 -09).

D. BOARD OF DIRECTORS' APPROVAL

- 3.34 The Managing Director will submit the Commercial Bank's request and the ADU's loan recommendation to the consideration of the ACB's Board of Directors only when a loan request includes risk sharing guarantee on the part of ACB and/or loan feasibility study request.
- 3.35 The ADU's Manager will inform the CB the ACB's decision with regard to the loan request, and will forward to the CB two copies of the

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loan approval document, if the loan is approved by the AC Bank.

B. LOAN AGREEMENT

3.36 The Commercial Bank's request to the ADU for preparing the Loan Agreement (between the Commercial Bank and the ACB) will be made by returning one copy of the Loan Approval Document, signed by the CB. The ADU will inform the CB the date when the loan Agreement should be signed. All the legal fees related to the loan agreement will be paid by the CB.

F. FILES AND RECORDS

3.37 The following describes the files and records that will be maintained by the ADU.

(a) Sub-loan Files

3.38 The ADU will keep the following files in separate filing sections:

(i) Sub-loan applications which passed the eligibility test, but were refused after the loan appraisal was completed.

(ii) Sub-loans approved.

Sub-loans Refused

3.39 This file will be started as soon as the ACB refuses (to approve) the sub-loan. Each refused sub-loan application will have an individual folder for filing all the documents obtained and/or generated during the loan processing phase. Each refused application will be assigned a consecutive number, and will be filed in the order of the assigned number.

3.40 An index card (annex 1, Form 01 - 10) will also be kept for each sub-loan refused. This card will be filed in alphabetical order according to the applicant's name. This card will be used for obtaining the applicant's file number in order to facilitate the finding of the applicant's file (folder).

SUB-LOANS APPROVED

3.41 This file will be started as soon as the ACB approves the sub-loans. Each approved sub-loan will have an individual folder for filing all the documents related to the sub-loan.

3.42 Each sub-loan will be assigned a consecutive number, and the sub-loan's folder will be filed in the order of the assigned number.

3.43 An index card (annex 1, Form 01 - 11) will be kept for each sub-loan. This card will be filed in alphabetical order in accordance with sub-borrower's name. This card will be used for obtaining the sub-loan's number when necessary.

(b) Record of Loan Application not Eligible (annex 1, Form 01 - 12)

3.44 The objective of this record is to provide statistical information with regard to the reasons for declaring the sub-loan applications "not eligible". The ACB will analyse this record periodically in order to enhance its policies and strategies.

3.45 The ADU's Manager will assign to one of the ADU's Officer the responsibility to keep this record up to date. This Officer will register the required data every time that the ADU receives information from the Commercial Banks about sub-loan applications declared "not eligible".

IV. DISBURSEMENTS

- 4.00 The Commercial Banks (CB) will in all cases verify that:
- i. the sub-borrower's disbursement requests are for purchasing goods included in the sub-loan budget,
 - ii. the sub-borrower has followed sound business practices for selecting the suppliers, and
 - iii. the sub-borrower is complying with all the conditions established in the Loan Agreement.
- 4.01 The Agricultural Credit Bank will normally disburse the funds to the Commercial Banks within the next four working days after receiving the Commercial Bank's request for reimbursement.
- 4.02 The disbursements made to the Commercial Bank will be documented through a Promissory note for the total amount of the loan, and the receipts signed by the Commercial Bank for each disbursement. The Promissory Note will be provided to the ACB when the loan agreement is signed (between the Commercial Bank and the ACB)
- 4.03 The following paragraphs provide guide lines for disbursements in local and foreign currency, and describe the disbursements control procedures.

LOCAL CURRENCY

Purchase of Raw Materials

- 4.04 The CB's disbursements will be made in accordance with the sub-borrowers's updated purchasing plan, and each disbursement will be supported by a statement from the applicant's Chief Accountant indicating the debits to the inventory account for purchases financed with the previous disbursements, and the items purchased (name of the items and quantity).
- 4.05 The Agricultural Credit Bank will reimburse the Commercial Bank upon presentation of the following documents:

- (i) Disbursement Request (Form ACB - 01 - 13) and
- (ii) Debit vouchers to the sub-borrowers loan account

Construction

4.06 The Commercial Bank will disburse the sub-loans in accordance with the terms established in the Construction Contract between the sub-borrower and the contractor. The terms of the contract must be approved by the Commercial Bank before the sub-borrower signs the contract.

4.07 The Agricultural Credit Bank will reimburse the Commercial Bank upon presentation of the same documents mentioned above for Purchases of Raw Materials.

UNITED STATES CURRENCY

4.08 The Commercial Bank will verify that the sub-borrower:

- (i) has followed a reasonable decision making process for selecting the supplier, and
- (ii) has been authorized by the Government of Jamaica to import the items that will be paid for with project funds.
- (iii) comply with the requirements established by the International Agency which supplies the foreign exchange, if any.

Subsequently, the Commercial Bank will proceed to request the Agricultural Credit Bank to provide the needed foreign exchange.

4.09 The Commercial Bank will have to submit to the Agricultural Credit Bank the following documents:

- (i) Disbursement Request (Form ACB - 01 - 13) and
- (ii) Copy of the instruction to the correspondent Bank for opening the letter of credit.

- 4.10 The USA Bank's payments for the letter of credit will be charged to USAID in accordance with instructions provided by the latter through a Letter of Commitment.
- 4.11 The AC Bank will authorize the USA Bank's payments by means of a Letter of Authority which the Jamaican CB will attach to the letter of credit.
- 4.12 The ACB's Finance Department will prepare the Letter of authority after receiving the ADU's approval for making the disbursement.
- 4.13 The ACB's Finance Department will file a photo copy of the letter of credit, record the value of the letter of credit as a contingent liability (off the books), and keep control on the status of the Letter of Credit.
- 4.14 The correspondent USA Bank will send to the ACB a copy of the debit slip (to AID's account), and will forward to the Commercial Bank the Bill of Lading and all the other documents required under the Letter of Credit.

3.10 The ADU will verify that the Commercial Bank's Disbursement Requests are consistent with the itemized sub-loan budget, and also that both the borrower (CB) and the sub-borrower (industry) have complied with the conditions precedent for disbursements and any other conditions established in the Loan Agreement between the ACB and the Commercial Bank.

4.16 The ADU will keep updated records of all the disbursements approved for each sub-loan budget item, and of the funds committed from each funding source (GOJ, USAID, etc.).

DISBURSEMENT REQUESTS (annex 2, Form ACB - 01 - 13)

4.17 The Commercial Bank's disbursement requests will contain at least the information shown in form ACB - 01 - 13. The ADU will file this form in the sub-borrower's folder after assigning a consecutive number to the request, and filling in the information required on the forms: Disbursement Requests Received, and Disbursement Control Record.

Itemized Sub-loan Budget (annex 2, Form ACB - 01 - 14)

4.18 The ADU will fill this form as soon as the Loan Agreement is signed. The information for this form will be taken from the Loan Approval Document (Form ACB - 01 - 09). This form will be used for verifying that each disbursement request from the Commercial Bank is consistent with the Sub-loan budget.

4.19 The forms will be filed temporarily in a three ring binder in the sequence of the sub-loan number. After the sub-loan disbursements are completed, the forms will be filed in the sub-loan folder.

4.20 The sub-loan budget will be broken down in items and sub-items in accordance with the nomenclature indicated below.

4.21 The first digit from left to right will identify the project

(1:GOJ/USAID, Project 532-0081), and the second and third digits will identify the term of the sub-loan (01: one year, 02: 2 years, etc.)

4.22 The next two digits will identify the following budget concepts:

- 01: Raw materials
- 02: Spare Parts
- 03: Other current assets
- 04: Plant equipment and machinery
- 05: Vehicles
- 06: Civil works and construction
- 07: Other fixed Assets
- 08: Feasibility Studies
- 09: Managerial or administrative consultancy assistance
- 10: Procurement and marketing consultancy assistance
- 11: Production/Processing consultancy assistance

4.23 The next digit in the nomenclature will identify the currency that will be provided by the sub-loan.

- 1: Jamaican dollars
- 2: USA dollars

4.24 The following two digits will identify the source of the loan funds:

- 01: ACB's own funds
- 02: GOJ funds
- 03: USAID

4.25 Two additional digits will be used to identify the specific goods and/or services that will be financed with loan funds.

PROJECT FUNDS COMMITMENTS

4.26 Through the use of this form, the ADU will control the availability of

Project funds broken down in accordance with the overall Project Budget concepts (for GOJ/USAID Project No. 532 - 0081, the budget concepts are: Loan/Guarantee Fund, Pre-investment technical consultancy, training and advisory assistance, and agro-industrial unit), funding source (GOJ, USAID) and type of currency (J\$, US\$, etc.) Thus, for each Project, the ADU will keep separate records of the funds committed in each type of currency grouped in accordance with the funding source, and the latter grouped (in the same record) in accordance with the budget concept.

4.27 The Project Funds situation will be revised before recommending the approval of any loan, and the Funds Commitment Record will be updated everytime that a new loan agreement is signed.

4.28 The forms will be filed in a three ring binder with dividers for separating the records containing the same currency, funding source and budget concept.

DISBURSEMENT REQUESTS RECEIVED (annex 2, Form ACB - 01 - 09)

4.29 The ADU will use this form for following up on the requests received. The forms will be assigned a page number, and will be filed in a three ring binder.

DISBURSEMENT CONTROL RECORD (annex 2, Form ACB - 01 - 17)

4.30 The ADU will use this form to control the itemized budget for each sub-loan.

4.31 The ADU will verify that the Disbursement request is consistent with the itemized sub-loan budget (Form ACB - 01 - 07), and that the conditions precedent for disbursements have been met. The ADU will fill the columns under "Disbursements Made" as soon as it receives a

copy the debit voucher from the Financial Department.

- 4.31 The Disbursement Control Record for each sub-loan will be filed together with the Itemized sub-loan budget (Form ACB - 01 - 07). After the sub-loan disbursements are completed, the forms will be filed in the sub-loan folder.

AUTHORIZATION FOR DISBURSEMENTS (annex 2, Form ACB - 01 - 18)

- 4.33 The ADU's authorization for sub-loan disbursements will contain at least the information shown on form ACB - 01 - 18.

Contingent Liabilities

- 4.35 The Accounting Department will keep an updated "off the books" record of all the contingent liabilities arising from the sub-loan guarantees provided by the ACB.

V. LOAN'S RECOVERY AND REVIEW

Repayments

- 5.00 The repayments of principals and/or interests will be scheduled to fall on the 15th of the month, following the scheduled repayment dates for the sub-loan. The loan agreement between the Commercial Bank and the ACB will spell out the repayment schedule on the above basis.

Portfolio Control

- 5.01 The Accounting Department (AD) will carry out the Portfolio Control and deliver every month to the Commercial Banks a statement of the loan installments that become due the following month. On the other hand; the Auditing Department will verify with the Commercial Banks, at least every six months, the outstanding balance of each loan.

- 5.02 The statement of Loan Installments (annex 3, Form 01 - 19) will be delivered to the Commercial Banks between the 20th - 25th of each month, and will report the amounts due as of the 15th of the following month.
- 5.03 The AD will keep a Repayment Schedule Card for each Bank (annex 3, Form 01 - 20). The ADU will refer to these Cards every month in order to determine the loan installments that become due on the 15th of the following month. Subsequently, the ADU will refer to the individual "Borrower's Ledger Cards" (annex 3, Form 01 - 21) in order to obtain the necessary information for filling the Loan Installments Statement.

Review

- 5.04 The ADU will periodically verify that all the investments financed with Project Funds have been made. Also, the ADU will carry out with the CB periodic reviews of sub-loans in arrears in order to identify the causes of arrears, and to analyse the sub-projects' progress against the projections made in the sub-loan appraisal report.

VI. Monthly Reports

- 6.00 The ADU will prepare Monthly Progress Reports addressed to the Managing Director. The ADU's report will provide the information shown in Annex 4 (forms 01 - 22 to 24) and analyse the credit demand, the execution of the budget, the ACB's Policy and the Project's constraints. Forms 01-21 and 22 will be used for collecting the data necessary for filling forms 24 - 26. The ADU Manager will assign to a member of the staff the responsibility to register the data timely (as the events happen).

* FORMS TO BE COMPLETED BY COMMERCIAL BANKS

- * FI IV Latest Commercial Bank Balance Sheet
- * ACB 01-01 Sub Borrower Eligibility
- * ACB 01-02 Sub Loan Application Not Eligible (If Applicable)
- * ACB 01-05 Agro-Industry Loan Application
- * ACB 01-13 Loan Disbursement Request

Forms used within the AC Bank are as follows:

- ACB 01-3&4 ADU Appraisal Format Guide
- " 01-06 Sub-Borrower request For Feasibility Study
- " 01-7&8 ADU Feasibility Guidelines
- " 01-09 Loan Approval Document
- " 01-10 Index Card For Subloan Refused
- " 01-11 Index Card For Active Subloan
- " 01-12 Index Card For Applications Not Eligible
- " 01-14 Itemized Subloan Budget
- " 01-15 Project Fund Commitments Record
- " 01-16 Disbursement Requests Received
- " 01-17 Disbursement Control Record
- " 01-18 Authorization For Disbursement
- " 01-19 Record of Loan Installments
- " 01-20 Repayment Schedule Card
- " 01-21 Borrowers Ledger Card

Commercial Banks are provided with a copy of the forms they will work with. Those forms used internally in the AC Bank will be made available on request.

APPENDIX III

TRAINING PROGRAM

**APPENDIX III-A - TECHNICAL CONSIDERATIONS
IN APPRAISING PROCESSING
INDUSTRY LOAN APPLICATIONS**

**APPENDIX III-B - REPORT ON CREDIT ANALYSIS
TRAINING PROGRAMME**

**APPENDIX III-C - PLANNING, MARKETING,
MANAGEMENT SEMINAR**

APPENDIX III - A

TECHNICAL CONSIDERATIONS IN APPRAISING
PROCESSING INDUSTRY LOAN APPLICATIONS

TRAINING PROGRAM - SEPTEMBER 6 - 16, 1983

Tuesday 6th

Orientation: The processing industry.

The make-up of a product.

Requirements that must be adhered to in order to make a finished, marketable product.

Product make-up exercise.

Steps and problems encountered prior to the retail stage.

Volume affecting sales promotion.

Wednesday 7th

Discussion carry-over.

Label identification.

Product identification emphasis for internal market and exportation.

Economic factors relating to a competitive market.

(a) effect of containerization cost

(b) prohibitive inputs

Identification of competition in the adjacent island countries.

(a) their programs and achievements

(b) problems

Thursday 8th

Seed to finished product.

Raw produce availability, dependability.

Requirement for end product.

Raw produce processing guidelines.

"What you put into a container is what you get out of a container."

The competition factor for basic raw material development in Jamaica between the fresh market export enterprises and the process sector.

Can we afford to produce for processing.

Exercise: Raw material cost make-up in a selected product

Friday 9th

Discussion carry-over

Visual aids demonstrating Agro-business

Capacity in Jamaica.

- (a) Halse Hall investment development
- (b) Spring Plain - St. Jago
- (c) Past experience of new programming
- (d) Processing utilization
- (e) Limitations, problems
- (f) Cost factors
- (g) The logic of a supportive "production nucleus"

Demonstration of the Agro-business, Agro-Industrial sector of two adjacent U.S. market competitors.

Monday 12th

Discussion carry-over

Orientation: Processing operations/procedures and utilization of varied equipment.

Monday 12th (cont'd)

Over-riding rules. Scheduling, movement, containers

Points of assessment to be considered in addition to the typical technical application form.

Visual aids.

Grading, sorting, preliminary handling

- (a) hand
- (b) mechanical

Washing systems. Framework

- assessment

Peeling systems

- (a) hand
- (b) mechanical
- (c) aid induction (1 - 3)

Cutting and breaking.

Coreing.

Discussion, problems.

Pulping.

- (a) reasoning
- (b) crops
- (c) equipment identification

Crushing.

- (a) purpose
- (b) equipment

Extraction.

- (a) procedures
- (b) equipment

Monday 12th (cont'd)

Blanching.

(a) purpose

(b) factors

Tuesday 13th

Discussion carry-over

Product review - crushing, extraction

Filtration

- filters

Filling

- equipment

Weights

Head space

Product medium

(a) brines

(b) syrup

Exhausting

Vacuum

Panelling

Closing temperatures

- monitoring

Sealing

(a) equipment

(b) adjustment

(c) cans

(d) glass

Washing requirements

Marking and coding

Wednesday 14th

Discussion carry-over

Processing - sterilizing

(a) procedure

(b) rules

Acid foods

Non-acid foods

Heat penetration

Water baths

Steam processing

(a) equipment

(b) pressure

(c) modification

The process stages

Cooling

Stacking

Thursday 15th

Discussion carry-over

Containers

(a) cans

(b) glass

(c) types

Labelling

Casing

Warehousing

Begin review of processing plant layout and equipment

Friday 16th

Discussion carry-over

Examination factors relating to assessment

Constraints

Pricing

Self examination as to reasons for additional equipment

Efficiencies, deficiencies

Discussion, technical aspects of the Agro-industrial sector

Programming for the third week will relate to field trips and plant visits. This will depend on the Agro-industrial spectrum we can contact and develop towards visitations.

APPENDIX III - B

**REPORT ON CREDIT ANALYSIS TRAINING PROGRAMME
FOR ADU PROJECT OFFICERS AND COMMERCIAL BANK OFFICERS
OCTOBER 3 - OCTOBER 21, 1983**

The purpose of the programme was to provide participants with an overview of the principles and concepts of credit analysis appropriate to new and existing agro-industry projects.

The course leaders stressed the enhancement of the credit evaluation skills of participants. The following subjects were covered:

- Introduction to Principles of Accounting
 - Balance Sheets
 - Profit and Loss Statements
 - Source and Use of Funds
- Introduction to Balance Sheet Analysis
- Pro-Forma Balance Sheets, Income Statement and Cash Flow Projections
- Balance Sheet and Income Statement, Ratio Analysis and Interpretation
- Budgets
- Fixed, Variable, Semi-Variable Cost
- Margin Analysis, Sensitivity Analysis, Break-Even Analysis
- R.O.I., Sunk Costs
- Risk Analysis
- Management as a Factor in Credit Analysis
- Case Studies

The above subjects were covered in fifty-eight (58) hours. In addition, David Logan devoted eight (8) hours to project analysis, time value of money, discounting, net present value of money, externalities and shadow pricing. Viv Logan covered marketing for three (3) hours, and two hours were spent on a field trip for a total of seventy-one (71) course hours.

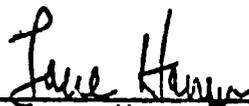
There were eleven (11) participants!

Agro-Industrial Development Unit	-	3
Ministry of Agriculture	-	1
JNEC	-	1
Commercial Banks	-	6

The participants completed a questionnaire, chart attached. The questionnaire indicates the programme met most participants expectations, with four participants expecting more time on case studies. All participants considered the material adequate, that their analytical skills were enhanced and class discussions were helpful. Nine participants said course conducted in a professional manner, one said sometimes, one not up to expectations. All would participate in a future programme.

In summary, the group "warmed up" to the subject matter as the programme progressed, with good interaction within the total group. As this course was an overview of the subject, more in-depth training is needed in the techniques of credit analysis, with participants carrying out loan analysis on an individual basis. The group leader would evaluate the participants written loan analysis. Field trips for the group would be carried out, with written reports by individual participants on the strength and weakness of the subject's operation.

The consultants express their appreciation for your support in developing the programme, to Viv Logan in carrying it out, and to Jeanette Grant and Maureen Mahabeer for the production of course material.



Lane Hanan
Consultant



Edwin Cooper
Consultant

24th October, 1983

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APPENDIX III - C

CHECCHI AND COMPANY

AGRICULTURAL CREDIT BANK OF JAMAICA LIMITED

OCTOBER 1983

PLANNING, MARKETING, MANAGEMENT SEMINAR

H. SCHWARZ

1. INTRODUCTIONS

Introduction of participants, set tone of Seminar.

Participatory, view as Managers of Plants.

Avoid judgement on system, focus on educational aspects.

Emphasis on:

Planning

Marketing

Production control

Financial management

2. OVERVIEW OF SEMINAR

- Objectives - to enhance knowledge of Credit Analysts of ACB about medium-size agro-industry economics, profit opportunities and risks.
- Content - Material to be covered
 - general structure of agro-industry
 - key issues
 - overall planning, operation and system control
- Selected pieces of system forecasting
 - budgeting - both capital and operations
 - production planning and operation
 - raw material procurement
 - monitoring
 - revisions to plan

3. GENERAL STRUCTURE OF AGRO-INDUSTRY
 - Flow Sheets
 - Discussion of parts
4. KEY ISSUES
 - Review and discussion of items listed in "Management Activities" per attachment.
 - Review of example per "Important Factors in Citrus Business", also attached.
5. PLANNING
 - Discussion of Planning Budgeting Process (see flow sheet)
 - Brief overview of whole process and then spend more time on aspects directly related to Jamaican Agro-Industry.
 - Focus on important aspects of forecasting, budgeting, raw material procurement, review and control.
 - Cover minimum requirements for profitable performance.
6. SELECTED PARTS OF TOTAL SYSTEM
 - Continued discussion in more detail of:
 - forecasting - products, markets, sales
 - budgeting for profit
 - production planning and operation
 - quality control
 - inventory management
7. EVALUATING AGRO-INDUSTRY PERFORMANCE
 - Matching planning and performance with key issues
 - Sources of information and technical expertise
8. REVIEW AND CONCLUSION

APPENDIX IV

LOAN POLICY INTERPRETATION

MEMORANDUM

AGRICULTURAL CREDIT BANK OF JAMAICA LIMITED

11A-15 Oxford Road, Kingston 5. Telephone: 929-4000

TO:	E. McKIE, MANAGING DIRECTOR	SUBJECT:.....	LOAN POLICY INTERPRETATION
FROM:	C. W. ROBINSON, CHIEF OF PARTY/CHECCHI CONSULTANTS	DATE:.....	JANUARY 31, 1986

In our monthly progress report for December 1985, we mentioned our preliminary discussions concerning significant amount of confusion that exists in the application of some of the loan policies used by ACB/ADU in appraising the eligibility of loans.

In the writer's judgement several of the policies or interpretations of assumed policy deny unnecessarily, the eligibility of loans required by a considerable number of the agro-industries. In doing so, there is serious risk of denying medium and long term credit from the very agro-industries the Agro-Industrial Development Fund is intended to assist. The broad policy area that needs clarification is the existing methods for establishing Project Costs and related to this the policy or policy interpretation that:

- The owner's contribution to Project Costs must equal or exceed twenty percent of the Project Costs;
- Land may not be considered as a part of an owner's contribution to Project Costs.

We have been informed by AC Bank executives (and Loan Files confirm) that AC Bank policy does not differentiate between the project cost of establishing a new enterprise and the project cost of plant expansion or other improvement in applying the policy that owner's contribution must equal or exceed twenty percent of project costs. Yet, there are major differences.

1. PROJECT COSTS AND OWNER CONTRIBUTION IN A NEW ENTERPRISE

Project costs in establishing a new enterprise clearly include all of the investment required to finance the venture. The twenty percent owners' contribution to total project cost is harmless but essentially useless in such cases as it is far below what will be required by the commercial banks that assume credit risk under the regulations governing the use of the Agro-Industrial Development Fund.

2. PROJECT COST AND OWNER CONTRIBUTION IN AN ESTABLISHED ENTERPRISE

It is in this type of loan that the present interpretation of the twenty percent owner's contribution requirement does serious damage.

We have been informed by AC Bank executives (and Loan Files confirmed) that AC Bank views the cost of expanding or otherwise improving an agro-industry as an item separate from the remaining value of the enterprise when calculating project cost and the required owner contribution to project cost. To illustrate, if a plant and equipment improvement project is estimated to cost J\$1,000,000, the owner's contribution must be at least J\$200,000 regardless of the value of the total assets of the enterprise that he's prepared to offer as collateral.

It is understood that within AC Bank and among participating commercial banks that this is the prevailing interpretation of an AC Bank policy statement, "Borrower's equity in projects must be a minimum of twenty percent of project costs" that appears on Page 23 of AC Bank's manual, "Policy on Loans to Financial Institutions".

The foregoing interpretation of the requirement of twenty percent minimum contribution to project costs chokes out the very agro-industries the Agro-Industrial Development Fund was designed to strengthen. The primary target group of the Agro-Industrial Development Fund is medium sized Jamaican agro-industrial firms who were intended to benefit from long term loans for expansion.** Many of these industries have not had and do not have sufficient liquidity to provide twenty percent of the cost of a substantial expansion. The twenty percent rule in these cases denies the loan even though the full assets of the ongoing enterprise may be pledged as collateral and may be equal to twenty percent or even one hundred percent of the total amount of the proposed loan.

It would be difficult to determine how many of the past loan inquiries have been turned down or have simply withdrawn when the twenty percent rule was explained. However, four and a possible fifth of the eight "Loan Inquiries in Process" with which the writer has had substantial involvement will not qualify under present interpretation of the twenty percent rule. The number of past inquiries turned away by this unnecessary policy appears to have been one of the serious deterrents to the intended use of the Agro-Industrial Development Fund. The policy requiring a twenty percent contribution to project costs should be eliminated.

** See Page 1 of the Project Loan Agreement and Page 1 - 1 of Annex I.

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3. THE POLICY INTERPRETATION THAT THE VALUE OF LAND MAY NOT BE USED IN ESTIMATING PROJECT COST OR IN DETERMINING AN OWNER'S CONTRIBUTION TO PROJECT COSTS

I do not find anything in any of the Project Papers, the Loan Agreement or elsewhere, that established this policy. It appears to have evolved from a concern that the AC Bank should use great care to avoid using its Agro-Industrial Development Funds for farm improvements.

This broad concept of ensuring the use of Agro-Industrial Development Funds for strengthening agro-industry is fundamentally sound. However, as presently interpreted, it blocks use of funds for an integrated agro-industry where the use of a specific piece of land is an integrated and interdependent part of a growing and processing enterprise. This policy has not been reduced to writing but is applied, ^{AND} needs to be clarified. It would be more consistent with the purposes of the Agro-Industrial Development Fund. If a written policy statement was established as follows: "Land cannot be used in calculating project cost or owner's contribution to project cost except to the extent the land is an integrated part of an enterprise's assets used in the agro-industry's operation and/or clearly included for use in its expansion plan".



C. W. ROBINSON

CWR:jae

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