PN-AAA-631
92443

FEASIBILITY STUDY

FOR

LATIN & CARIBBEAN INVESTMENTS, INC.

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I. General Background

During the past decades the public sector, in the less developed countries, was viewed as the leading agent in the mobilization of a country's resources and in the creation of the necessary conditions for sustained growth and development. That is why most of the financial flows from official international institutions, and even private commercial banks, were channeled to the governments of the less developed countries.

At present, however, the public sector has come to be questioned on the grounds of its record of performance, and, therefore, on its capability of managing investment funds successfully.

It is possible that the public sector can obtain economies of scale in the use of managerial talent during the early stages of the investment process. However, the fact that government-owned enterprises are rarely subjected to market forces makes them net absorbers of funds. Thus, total capital, already a scarce resource in most countries, is reduced.

In a way the main virtue the public sector has, i.e., its capacity to mobilize resources, has turned out to be in practice also its main weakness. Rarely will unprofitable government enterprises go broke. Instead, when they cannot cover their expenses out of their own revenues, they will be subsidized with funds from other sources, often from profit generating enterprises, penalizing them by reducing their ability to generate future profits. Overall, the experience in the last thirty years has shown that, the more intervention governments have in different countries, the greater the inefficiencies, with worst cases in countries where governments have attained total control.

The capacity of the government to shift resources from profitable activities so as to finance unprofitable ones, often gives a false sense of well-being to the population, lead it to ignore economic realities and economic laws, and eliminates its ability to be an engine for growth.

The private sector is being found to be an efficient alternative to mobilize resources. This sector is subjected to profits and losses so as to continue or close operations, and therefore, it has to identify profitable opportunities correctly, and to operate cost efficiently, so as to survive. In the past, despite government distortions and interventions, the private sector has shown dynamism in identifying and undertaking investment opportunities.

Among the problems that private enterprise has had to confront in the less developed countries so as to become the lead-

ing agent in a country's growth, have been the scarcity of capital, technology and managerial skills. On the other hand, the private sector in the developed countries has a relative abundance of those same resources, and is aware of opportunities that can be mutually beneficial in the transfer of those resources. Two modalities have been commonly used to carry out that transfer of resources: the outright transfer of the resource (i.e., funds as loans, technology, professional services), or the establishment of wholly owned subsidiaries.

The present document analyses the financial feasibility of a corporation, Latin & Caribbean Investments, Inc. (LCI), which will undertake investments under a different concept from the two modalities described above. This concept centers around the principle of direct interaction and cooperation between private sectors in a joint effort to structure and develop viable enterprises.

Joint ventures, LCI's preferred mode of operation, have the advantage over wholly-owned subsidiaries in that they are integrated with a country's entrepreneurial groups. They also provide the resources lacking in less developed countries in a well structured way, rather than in a one by one fashion.

The characteristics of LCI are analyzed under Description and Nature of Latin & Caribbean Investments, Inc. There, it is seen how direct interaction between the area's private sector groups will lead to the establishment of enterprises where LCI will provide crucial resources and services, such as seed capital, technology, entrepreneurial skills, complementary financing, and marketing services, among others.

Although the equity portion that LCI will acquire will usually be around 25% of the total, its involvement will be of much greater proportions. LCI will supply complementary financing and will seek a strong managerial position in order to assure the proper transfer of technology, and the adequate use of funds and other resources.

Because of the backing it will obtain from its management and stockholders, all of which are directly involved in activities relevant to those of the corporation's, LCI will be able to provide a multiplicity of services containing unique characteristics that clearly differentiate it from other financial intermediaries.

Commercial banks lend funds to going concerns where there is capacity to repay, but take no managerial position in them. LCI, on the other hand, will deal mainly with new enterprises, usually structured and organized by it, and where its managerial influence will be paramount for the project's success. The fact that the investment opportunities will be identified and evaluated by LCI differentiates it from capital venture

firms and development finance corporations, institutions that invest in already identified projects. The wide range of other complementary services that LCI will provide (i.e., leasing, supply of productive inputs, marketing of goods), also differentiates it from other financial intermediaries.

The area of initial operations is the Caribbean Region, defined as the Bahamas, the countries of the Caribbean Community, the Central American countries, plus Panama, the Netherlands Antilles, British and U.S. Virgin Islands, Cayman Islands, Turks and Caicos Islands, French West Indies, the Dominican Republic, Haiti, and Puerto Rico.

One of the most outstanding characteristics of this area is its diversity, providing LCI the opportunity to participate in a wide variety of markets, and to produce a wide variety of goods and services. Besides the domestic and regional markets, firms operating in the Caribbean can have access to the U.S. and European markets through country agreements such as the Generalized System of Preferences and the Lome Convention.

The nature of the markets where LCI will operate is presented in Chapter III, together with a general description of the area of operations.

The diversity of the Caribbean region provides many advantages to LCI. Some of these are the possibility to spread risk in several economic sectors and several well-defined markets.

On the other hand, the services that the corporation will provide are complementary to those of development finance corporations, common in the region. These finance corporations usually do not take equity positions in the enterprises they finance, and they usually do not structure projects, relying for this stage of the investment process on local entrepreneurs.

One of the economic sectors where LCI has a large pool of accumulated technical knowledge is the agroindustrial sector. Because of soil, climate, and labor supply conditions, countries in the area have a comparative advantage. Therefore, a strong demand for the services of LCI in this particular sector is to be expected. Activities will include the production of beef, pork, poultry, and by-product processing for local consumption and export; production and processing of fruits and vegetables; drying, storage and processing of grains and other foodstuffs. Other activities that will also respond to demand in the area are the manufacturing of tools and implements; production of human and veterinary medicines and health products; manufacturing of packaging products; transportation and distribution of foodstuffs.

The seven countries analyzed in Chapter IV (Costa Rica,

Jamaica, Barbados, Belize, Panama, Dominican Republic, and Haiti) are considered representative of the other countries. They include members of the two main regional economic associations, the Central American Common Market (Costa Rica), and the Caribbean Community (Jamaica, Barbados, Belize), as well as countries that do not belong to any associations (Panama, Dominican Republic, Haiti). Those countries represent also the diversity in income per capita, and include the three countries in the area that have been designated target countries by U.S.A.I.D. (Costa Rica, Jamaica, Haiti).

Chapter IV is more specific than the previous one, where the whole of the region is reviewed. For each country, a scheme is followed where the economic structure is presented first, so as to provide an idea of where the main resources are and how they are being utilized. The international relations of each country, as determined by their membership in economic associations and their trade, are presented next. Finally, the incentives each country offers for new investments are discussed.

The financial feasibility of LCI's activities is presented in Chapter V. That Chapter also includes analytical considerations necessary to determine the development impact of LCI's activities.

The financial analysis is based on fifteen-year projections, made with conservative assumptions, of the financial statements (proforma balance sheet, statement of income, statement of changes in financial position), and the corporation's cash-flow.

Central to the financial analysis is the mode of operations that the corporation will have. Its main activity will be the structuring and organization of viable enterprises, and the financial analysis was based on assumptions about their financial structure, and LCI's participation in it.

It was assumed that a typical firm organized by LCI would finance its total assets (investment costs) with a proportion of 35% equity and 65% debt. One fourth of the equity would be provided by LCI, and almost half (40%) of the debt. The rest of the funds would come from local sources and other international investors.

Total investment costs of the typical firm would consist of 35% working capital, 61.5% fixed assets, and 3.5% of organizational costs. It was also assumed that LCI will receive this 3.5% of total investment costs as payment for the global services it will provide when the company is structured. They include technical services, designs, transfer of technology, feasibility studies, and all other costs related to the structuring of the new enterprise.

LCI's main source of income will be the services provided when organizing an enterprise, and the management services supplied for a firm's operations. This fact reflects its uniqueness as a financial institution.

Besides this income, LCI will receive dividends from enterprises where it holds equity investments. It was assumed in the projections that a newly-formed enterprise would pay dividends after its third year of operations. Other sources of income will be interest received on loans, the second main source of income, and interest received on short term investments.

Since LCI will operate in many ways as a capital venture firm, rather than as a passive holding company, one of its activities will consist of selling the equity acquired, after a given period of time, so as to obtain capital gains. Income thus generated is second in importance.

The main expenses of the corporation will be related to the technical and management services. These expenses will be high because the quality of the services will require so, in terms of the professionals and technicians hired for each project. In second place will be interest expenses.

Of crucial importance for LCI to initiate operations is the term debt of US$2.5 Million to be supplied by U.S. AID's Private Enterprise Program, under the terms described in the financial section. The term debt, and the company's initial capital of US$2 Million, will allow LCI to carry on long-term operations, until they become financially self-sustaining.

The corporation's development impact will be directly related to that of the enterprises it will organize and structure. In part, many of those enterprises will not be formed without the technological transfer, seed capital, complementary financiang, management services, and other services provided by LCI. Thus, the corporation's development impact will be equivalent to the sum of their impact in the local economies.

Of particular importance is LCI's transfer of technology and development of entrepreneurial skills. The corporation is aware, however, that the simple transfer of technology is not enough to assure the success of an investment; it is necessary that the technology be suitable to the resource endowment of each economy. Very often a technology that may be successful in a developed, labor scarce economy, will be profitable in a developing country only if protected through high tariffs and other subsidy mechanisms. Therefore, care will be taken to ensure that the technology being transferred will be successful thanks to real cost savings derived of the resource endowment, and not to artificial factors such as subsidies.

The use of adequately adapted technology will be an impor-

tant requisite for enterprises organized by LCI. Since the marketing of goods, specially in the United States, will be an important service that the corporation will provide, production will have to be cost efficient so as to compete.

Another resource transferred to the region will be entrepreneurial skills. Although this transfer will be for a definite time period, assumed to be five years in the projections, it is expected that afterwards the company will be on its own as indigenous managerial skill for a particular project develop.

The quantification of the overall economic development impact will require the undertaking of a cost benefit analysis of projects organized by LCI. In Section E of Chapter V, important considerations about the efficienty prices of labor and foreign exchange are presented. The section points out why it should be expected that the economic evaluation of projects developed by LCI should show significant positive indicators.

The most adequate form of legal organization for enterprises structured by LCI is discussed in Section A of Chapter VI. It is pointed out that, although the optimal legal organization of the enterprises will vary according to several factors, among them the country where the investment will be made, the type of investment, and the need for control, the corporation should prefer the establishment of joint ventures with local entrepreneurs.

Joint ventures, present several positive factors to LCI, specifically the access to local governments gained by working with well-known and dynamic local entrepreneurs; advantages in merchandising and marketing of having a local partner; the more positive attitude of governments toward locally owned and joint venture companies over foreign-owned subsidiaries; and the contact with a group of investors capable of acquiring LCI's equity position when and if a decision to divest is made.

Care should be taken in investigating all the existing incentive (and restrictive) laws in one country before undertaking an investment. As is pointed out in Section A of Chapter VI, this step is particularly desirable when the specific approval of the investment by the country's government may be required. The approval, with all the incentives, restrictions, and other "rules of the game" that are better specified from the beginning, will require a process of negotiations with the local government. It is important to be aware that negotiations occur in a larger context of past experiences, the country's economic development goals, and the investor's long-term planning. It will be desirable, then, to understand where the project in question fits in the country's development plans.

In spite of the conclusion of negotiations with a govern-

ment, an investor should be aware that conditions in a country can vary. The risks that LCI will incur in its operations are analyzed in Section B of Chapter VI.

It is concluded in this section that the political climate, and therefore, the political risk, of the countries where LCI will have its operations will depend, not on the poverty or richness of a nation, but on how well its leading groups, government and private enterprise, confront their economic realities and look for long-term solutions. It is pointed out also that it is practically impossible for a positive political climate to prevail in a country where all current evils are blamed upon private enterprise, even if that is just part of governmental rhetorics and through other mechanisms all sorts of incentives are offered to private investors.

The different kinds of risk factors and risk coverage that LCI will encounter are also discussed in Section B of Chapter VI, placing particular emphasis to the risk coverage provided by the private insurance market against political risk. Coverage under the name of Overseas Investors and Financial Institutions provided by AIG Political Risk, Inc. is presented in detail, since they apply to LCI's activities.

Finally, in Section C of Chapter VI, a presentation of the management and implementation plan is made. There, it is said that the top management structure of LCI will be formed by its President and its Executive Vice President. These positions are currently held by two individuals of well-known financial and moral solvency, as well as intellectual capacity. The President of the corporation, Mr. Francisco E. Blanco, a citizen of Spain and resident of the Bahamas, occupies important posts in two financial institutions, as well as in several industrial and agroindustrial enterprises. The Executive Vice President of the corporation, Mr. Francisco J. Hernandez, a U.S. citizen, has a doctorate in Agricultural Economics and extensive experience in the organization of agroindustrial enterprises, occupying important posts in firms that supply agroindustrial services and technology.

It is interesting to note that the By-Laws of the corporation contemplate, besides the usual number of officers and directors, the creation of an International Board of Advisors formed by individuals who, because of their past or present experience, can provide positive counsel to the corporation.

In that section, also, the time-frame for the implementation of the company's activities is presented, being expected that by September of the current year, LCI will initiate its operations. In Chapter VII, the General Conclusions for this feasibility study, stressing the particular nature of the corporation, are discussed.

II. Description and Nature of Latin & Caribbean Investments, Inc.

A detailed presentation of the objectives of Latin & Caribbean Investments, Inc. (LCI) is made in this chapter. Its characteristics as an investment company are compared with those of other financial intermediaries, and its uniqueness is demonstrated in that it can provide a wide range of services to the enterprises in which it invests its funds.

In the next sections, the legal nature of the company is discussed, along with a brief description of its initial stockholders and management, and the size of the investment being contemplated.

A. Objectives of the Corporation

Latin & Caribbean Investments, Inc. is empowered to engage in any business activity in any country. Nevertheless, its activities will initially be concentrated in the Caribbean area, and will have as their immediate objective the creation and administration of viable enterprises.

The company will try to fill gaps existing in the Caribbean countries. These developing countries lack many of the resources necessary for the undertaking of successful investments that will in turn speed up their growth and development. LCI will be able to provide crucial resources and services, such as seed capital, technology, entrepreneurial skills, complementary financing, and marketing services among others.

The mobilization of resources and provision of services will be oriented primarily to the private sector, and close cooperation with it will be sought in each country. The creation of new enterprises in the area will be a joint effort where local capital participation will be necessary.

The scope of activities of LCI will cover from the early stages of the investment process (i.e., the identification of an investment opportunity), to the full structuring and undertaking of the investment itself, and will also go beyond the investment process, as it is expected that the typical enterprise being organized will use LCI's managerial and marketing services for its first five years of operation.

Finally, it is important to point out that LCI intends to undertake activities not necessarily related to the enterprises it will structure. It will sell services, for instance, to other companies investing in the area, thus capitalizing on the acquired know-how. This and other activities are presented in more detail in section D below.

B. Legal Nature and Structure

Latin & Caribbean Investments, Inc. was incorporated as a stock corporation on April 13, 1983, under the provisions of the General Corporation Law of the Republic of Panama (Law 32 of 1927), and is domiciled in the City of Panama.

Its Articles of Incorporation specify that its purposes are "to establish, transact and carry on the business of a financial and investment company, and to provide financial and managerial services in general, in any country where it is lawful to do so, particularly in those developing countries of the Caribbean Basin and throughout Latin America, without being limited to those countries, in order to promote the growth of investment by the private sector of each country wherein the company conducts its business.

The specific purposes of LCI are as follows:

(i) To promote direct investments in other privately-owned (totally or partially) companies or business enterprises, whether already in existence or to be organized, particularly, but not limited to, those companies or business enterprises engaged in the business of agriculture or intermediate finance. The company may provide to such other companies or business enterprises seed money or equity, intermediate financing to cover short term credit needs, and therewith may obtain from outside sources permanent or any other type of financing.

(ii) To purchase, sell, finance, and lease (with or without trading-up provision) capital goods;

(iii) to provide services of all types to other privately-owned (totally or partially) companies or business enterprises, whether already in existence or to be organized, including, but not limited to, financial services of all sorts, management, marketing and technical services and training therefor; purchasing agent and import and export services; conducting and preparing country analyses and studies of priority sector, industry and project feasibility; and to provide any other service necessary or helpful to such company or business enterprise in the conduct of its business. The company may subcontract with third parties for the performance of some or all of such services.

The company may also,

(iv) purchase, sell and deal in all kinds of commodities, stocks, bonds and securities of any nature; purchase, sell, mortgage, lease and otherwise acquire or dispose of real property; enter into the general construction, engineering and contracting business and the manufacture or supply of

materials connected therewith; engage in the business of manufacturing, merchandising and trading; acquire and/or operate mines, quarries, forests, farms, cattle ranches, fisheries, or any business related thereto; borrow and loan money, with or without security; enter into, execute and perform contracts of all kinds; guarantee or become surety for the payment of money or for the performance of any and all obligations, and generally, transact all kinds of fiduciary, trust and agency business, either alone or in conjunction with others; and may do all such other things as are indidental or conducive to the furtherance of the purposes of the company or any of them.

(v) The stated purposes of the company shall not limit the company from transacting any and all lawful business for which companies may be formed under the laws of the Republic of Panama."

The capital of the corporation is US$2 Million, and its duration shall be perpetual, but it may be sooner dissolved in accordance with the law. Even though domiciled in the City of Panama, the corporation may, as the Board of Directors may determine, engage in business and establish branches anywhere in the world, and keep its records and assets anywhere in the world.

The officers are the following:

Francisco E. Blanco	President
Francisco J. Hernandez	Executive Vice President
John F. Watts	Secretary
Donald E. Young	Treasurer
Miguel M. Gonzalez	Assistant Secretary

The Board of Directors shall be composed by not less than three nor more than twenty members. The number of the first directors is ten, and their names are as follows:

Francisco E. Blanco
Francisco J. Hernandez
Manuel F. Vergara
Pablo Vinent
Jose Luis Rodriguez
Domingo Moreira
Jose Antonio Costa, Jr.
John F. Watts
Donald E. Young
Miguel M. Gonzalez

C. Financing, Stockholders and Management

1. Financing and Total Investment

The total amount to be invested will vary as the corporation increases its activities in the area. As will be seen in Chapter V, covering Financial Evaluation and Development Impact, during the first year of operations total assets will amount to US$3 Million, and by the end of the 15-year period analysed, they will grow to US$105 Million.

The initial pool of funds, however, will be formed by the stockholders' equity of US$2 Million, and funds of US$2.5 Million being supplied under U.S.A.I.D.'s Private Enterprise Program. Conditions for the loan are a five-year grace period during which only interest, at a 10% rate per annum, will be paid; amortization of the principal in ten equal annual payments, beginning in the sixth year (after the grace period is completed).

Funds for future growth are to be supplied from commercial banks and accumulated earnings, although an additional term debt of US$1.5 Million is also contemplated. These funds will be supplied by institutions such as the International Finance Corporation, and Eximbank, under terms similar to those of U.S.A.I.D.'s. Commercial bank debt costs are expected to be 15% on the average. This debt will take the form of revolving lines of credit.

2. Stockholders

Of the ten initial stockholders of LCI, nine are corporations. Of these, five are financial or investment institutions (three of them banks), two are agroindustrial enterprises, one is a marketing company, and one a construction company.

Four corporations, representing fifty percent of the stock, are located in the Caribbean area; the rest are incorporated in the U.S., but have important activities in the Caribbean.

The stockholders, with their domiciles and participation in LCI are as follows:

Company	Domicile	% of Stock
Agro-Tech International, Inc.	Miami, FL	10
Church & Tower, Inc.	Miami, FL	10
Ladex Corporation	Miami, FL	10
Corky Foods Corporation	Boynton Beach, FL	10
Jose Antonio Costa, Jr.	Goulds, FL	10

Reliance Overseas Ind., Ltd.	Nassau, Bahamas	30
Totalbank Corporation	Miami, FL	5
FINADE	Santo Domingo, D.R.	5
Banco Popular Dominicano	Santo Domingo, D.R.	5
Banco de Latinoamerica	Panama City, Panama	5
Total		100

A brief description of these companies is presented below:

a) Agro-Tech International, Inc.

Address: 10621 North Kendall Drive (P.O. Box 560925)
Miami, Florida 33156

Person Contacted: Dr. Francisco J. Hernandez, President

Assets: US$8.6 Million

Capital Accts.: US$3.0 Million

Total Sales: US$23.8 Million

Description of Activities: Agro-Tech International is recognized as a progressive leader in supplying knowledge, experience, and products to the animal-agriculture industries. Established in 1972, the company began its rise to success with the solidity of experience and qualified people, knowledgeable in the fields of feed manufacturing, poultry, livestock and plant agriculture.

b) Church & Tower of Florida, Inc.

Address: 10441 S.W. 187th Street
Goulds, Florida 33157

Person Contacted: Jorge Mas Canosa, President

Assets: US$4.1 Million

Capital Accts.: US$1.6 Million

Total Sales: US$12.6 Million

Description of Activities: Church & Tower of Florida, Inc. is engaged in the construction and maintenance of outside utility plants for the telephone company serving the geographical area of Dade County, Florida. The company also does work under individual contracts with the telephone company in Broward County It also does sub-contract work for the installation of water and sewer lines.

c) Ladex Corporation

Address: 8020 N.W. 60th Street, Suite D
Miami, Florida 33166

Person Contacted: Domingo Moreira, President

Assets: US$5.4 Million

Capital Accts.: US$1.3 Million

Total Sales: US$19.3 Million

Description of Activities: Ladex Corporation specializes in the importation of frozen seafood, especially shrimps and lobster tails, from Central America and other countries of the world. These products are then distributed throughout the United States.

d) Corky Foods Corp.

Address: 3452 New Boynton Rd., Suite 9
Boynton Beach, Florida 33436

Person Contacted: Jose Luis Rodriguez, Vice President and C.E.O

Assets: US$681,692.00

Capital Accts.: US$196,163.00

Total Sales: US$1.8 Million

Description of Activities: Corky Foods Corporation consists of three divisions: a packaging and sales division, a horse farm division, and a nursery division. It is engaged in the processing and packaging of a wide variety of vegetables.

e) Jose Antonio Costa, Jr.

Address: 22290 S.W. 162nd Avenue
Goulds, Florida 33170

Description of Activities: Jose Antonio Costa, Jr. is Vice President and owns 25% of Costa Nursery Farms, Inc., which has been operating for 22 years in the field of interior ornamental plants. The company sells in the U.S., Canada, and European markets, whereas the propagating material is obtained from all of Florida and through related operations in Haiti and the Dominican Republic. Sales of this family-owned company amounted to US$6.8 Million in 1982, with total assets of US$5.5 Million.

f) Reliance Overseas Industries Limited

Address: The Bank of Nova Scotia Building
P. O. Box N-3016
Nassau, Bahamas

Person Contacted: Francisco E. Blanco, President

Assets: US$5.8 Million

Capital Accts.: US$5.1 Million

Total Sales: Gross income of US$.6 Million

Description of Activities: Reliance Overseas Industries Limited is a company having investments in the Caribbean

region, specifically in the Netherlands Antilles, Panama, and the Bahamas. One of its principal activities is the lending of funds in the area, from where 89% of its gross income is derived.

g) Totalbank Corporation of Florida

Address: 2720 Coral Way
Miami, Florida 33145

Activity: Commercial Banking

Person Contacted: Manuel F. Vergara, President

Assets: US$129.7 Million

Capital Accts.: US$8.8 Million

Total Sales: N/A

Description of Activities: Totalbank Corporation of Florida is a bank holding company. This institution has steadily grown since its establishment ten years ago. It is now a medium-sized bank in Miami, having one of the strongest financial positions and a high profitability index.

h) Financiera Nacional de Desarrollo (FINADE)

Address: Ave. 27 de febrero No. 215
Santo Domingo, Dominican Republic

Person Contacted: Dr. Eduardo Tejera, President

Assets: US$16.5 Million

Capital Accts.: US$2.7 Million

Total Sales: N/A

Description of Activities: FINADE is a development finance corporation, orienting its activities toward the domestic market. More than half of its total loans are concentrated in the agricultural (including cattle) sector.

i) Banco Popular Dominicano

Address: Isabel la Catolica 251 (P. O. Box 1441)
Santo Domingo 1, Dominican Republic

Person Contacted: Alejandro E. Grullon, President

Assets: US$303.9 Million

Capital Accts.: US$20.8 Million

Total Sales: N/A

Description of Activities: Banco Popular Dominicano is engaged in commercial banking for the Dominican domestic market. This institution belongs to the Popular Financial Group, and was established in 1963. It is the second largest commercial bank in the country in terms of asset volume, and has correspondents in the main U.S. and world financial centers.

j) Banco de Latinoamerica

Address: Calle Ricardo Arias
Edificio Macondo (Apartado 4401)
Panama 5, Rep. de Panama

Person Contacted: Mario Luis del Valle, General Manager

Assets: US$1.2 Million

Capital Accts.: US$1.0 Million

Total Sales: N/A

Description of Activities: Banco de Latinoamerica is a General License Bank focussing on international business in Latin America. Of recent foundation, the bank will be basically oriented to finance trade business by opening and negotiating international letters of credit through an effective correspondent bank network.

3. Management

The top management of the company is formed by the President and the Executive Vice President. These positions are occupied by two individuals of recognized capacity and financial solvency, well known in the U.S. and throughout the Caribbean.

Mr. Francisco E. Blanco, President, holds important posts in several enterprises, including a Miami based bank and an investment company. Mr. Blanco is a resident of the Bahamas.

Mr. Francisco J. Hernandez, Executive Vice President, is President of Agro-Tech International, Inc. and holds important posts in other agroindustrial companies in the Caribbean. Mr. Hernandez is a citizen of the U.S.

A more detailed description of the management structure is presented in Section C of Chapter VI.

D. Characteristics of the Corporation

It is within the general framework described in Section A that the main characteristics of LCI and its differences and similarities with other institutions, are to be presented and its particular nature understood. In that section we saw how the corporation has as its main objective the mobilization of resources for the creation and supervision of viable enterprises, and how its underlying premises are that increased communication and cooperation between the private sectors in the different countries of the region can be beneficial to all participants. In this and the next sections, we shall specify the main characteristics of the corporation, see why they make it a well suited vehicle for the mobilization of resources, why it differs from other institutions, and what are its actual and expected ways of operation.

The two most outstanding characteristics of the corporation are its flexible institutional framework and the nature of its management and stockholders.

1. Institutional Flexibility

As was seen is Section B, according to its Articles of Incorporation, LCI can operate in the Republic of Panama, the Caribbean Basin, other Latin American countries, and in any other countries where it may legally do so, and it can have three main areas of activity, without being necessarily limited to them. These comprise the making of direct investments in other companies and business enterprises, whether in existence or to be organized; a second area involves the purchase, sale, finance, and lease of capital goods.

The sale of services that do not necessarily require the taking of any exposure is a third area of activity; these services include the undertaking of country analysis, sector and industry studies, project feasibility study, company management services, and serving as an import purchasing and export trading agent.

2. Management and Stockholders

These include individuals and institutions who have first-hand knowledge of the region, strong technological know-how, and managerial experience in productive sectors relevant to the area's growth.

The combination of these two outstanding characteristics of LCI make it, in a sense, unique and well endowed to attain its objectives.

E. The Corporation and Other Financial Intermediaries

We can say that LCI is unique in that no other existing financial intermediaries, whether in the developed or in the less developed countries, channel funds to enterprises, together with their own know-how and technology, and with a strong supervisory capacity.

1. Commercial and Merchant Banking

A commercial bank, for instance, whereas it can obtain deposits from the public, a modality of debt-acquisition that the corporation does not have, is not structured to channel those resources to the identification and development of viable investment projects. Usually, it looks for well established going concerns where a past record of income and expenditures for the enterprise exists, and where, at most, a medium-term exposure is involved. Commercial banks rarely have the personnel or the financial incentive for project identification and development activity, and are usually restricted

by law in the amount of equity investment they can make.

The European version of the Merchant Bank, a mixture of American commercial and investment bank, has more similarities to the corporation than a commercial bank proper, in that it can take equity positions and longer term exposures. It lacks, nevertheless, the ability to identify projects, develop, and closely supervise them.

2. Development Corporations and Capital Venture Firms

Perhaps some financial intermediaries more similar to LCI are the so-called Development Finance Corporations common in less developed countries, or Capital Venture Firms which have been operating recently in the United States.

Development Finance Corporations were created in less developed countries so as to meet the general shortage of experienced entrepreneurs, managers, and private equity, coupled with the weak, local technical support. In theory, borrowers can receive assistance in the financial structuring of projects, technical engineering studies, identification of prospective suppliers and markets, and equity financing. Also, these institutions in theory can help identify investment projects.

As far as their actual performance is concerned, however, Development Finance Corporations have tended to specialize as financial institutions and less as project developers, due to their lack of human resources. Their portfolio is concentrated in long-term loans and equity investments, with little rotation and very limited management participation, if any.

Capital Venture Firms are institutions in the United States that specialize in financing projects from their early stages of development. Their rationale is that, once the project is a well established enterprise, having passed through the riskiest stages of its development, the initial equity participation that the Venture Firm took, increases substantially in value. The Capital Venture Firm usually realizes capital gains on its investments once they reach maturity. A ratio of three or four times the initial investment, would not be unusual. Of course, the rate of return of all the Capital Venture Firms' funds is not that high, as there will be some investments that do not appreciate or are even lost.

A successful Capital Venture Firm will, however, average out a high rate of return on its funds. To do so, most such institutions in the United States search for projects involving advanced technology in a particular field, with electronics now being one of the most dynamic. Often the Capital Venture Firm will seek management participation in the project

it is funding, and obtain it, even though it may not have the technological know-how required in the particular project.

3. Intermediation by LCI

Despite the greater similarities that Capital Venture Firms have with LCI, this latter differs in some important respects. For instance, whereas the Venture Firms fund investment opportunities that have been identified and evaluated by agents external to the firm, the corporation has the ability to take the initiative, and in fact, will rely greatly upon it, drawing on its own pool of expertise and technical know-how so as to identify and develop investment opportunities.

In a real sense we can say that the corporation has unique characteristics that give it a good base from which to attain its objectives. This is illustrated by the different stages in the development of a project in which the corporation can participate:

____ Identification of Investment Opportunities

____ Technical Studies Related to Investment Projects

____ Transfer of Technology

____ Financial Structuring of Projects

____ Determination of Key Personnel Staffing

____ Provision of Share Capital and Long-term Loans

____ Provision of Outside Capital Participation, particularly from the U.S.

____ Management Supervision

Finally, LCI will be able to provide many additional services to the affiliated enterprises, described in the section on "Future Business Opportunities", thus giving a full "package" of financial and related services that can help assure the success of an investment project.

F. Investment and Lending Policies of the Corporation

As we will see ahead, the regions where LCI will have most of its operations, have some definite characteristics as compared to other areas. They will require the designing of investment and lending policies adapted to this environment, as discussed below.

1. Industry Diversification

Since the assets of the corporation will consist mostly of a portfolio of equity investments in and long-term loans to other enterprises, its financial position will be

closely correlated to the failure or success of these enterprises. One way the corporation can reduce risks beyond its control is by lowering its overall exposure at one time in a particular economic sector. The more diversified the portfolio of investments, the smaller the chances that fluctuations in a particular market will endanger the corporation's over-all financial situation.

The economies of the Caribbean area and some of the smaller Latin American countries tend to be little diversified themselves, with a heavy concentration in the production of raw materials and a small manufacturing sector producing light consumer goods. Nevertheless, there is room for diversification by analyzing, for instance, which agricultural products are affected, price-wise, by drops in world economic activity, which by technological substitution, and which by the internal market. A careful industry diversification will also have at its base a careful market diversification.

Two important considerations, therefore, would be the characteristics of the goods to be produced, and the market to which they are oriented.

The corporation will concentrate its lending and investment activities in agro-industry, with additional areas being light manufacturing, transportation, distribution, and health oriented industries. Some investment policies and guidelines for the corporation are:

a) Production of Goods that Substitute Imports:

There is ample room in many of the countries to produce efficiently goods that are now imported. The corporation will invest in the production of goods in which the recipient country has a fundamental comparative advantage, and where the profitability of the investment is due to this advantage and not to any artificial incentive. Many of the agro-industrial products actually being imported meet these conditions.

b) Production for Export to Preferential Markets:

In Chapter III a detailed description is given of the different markets open to the Caribbean countries. Here we can point out, however, that the preferences given to these countries by, for instance, the Lome Convention, or the U.S. Generalized System of Preferences, offer attractive investment opportunities that deserve to be evaluated. One drawback that has to be taken into consideration is the long-term relative uncertainty of these preferences. Therefore, those investments where relatively less fixed assets are required, and where there is a fast maturity, should be preferred.

c) Production of Goods for the World Market:

There is a wide range of goods for the production of which the Caribbean countries have a natural competitive advantage in the world market. Included are goods that require a particular mixture of resources (less expensive labor, climate, soil) with which these countries are endowed, and that would offer profitable investment opportunities even though the market to which they would be destined offers no particular fiscal incentives. A careful selection of the most adequate and efficient technologies is crucial for the success of their investments.

Some target activities that can be undertaken in line with the above-mentioned guidelines are:

1. Production and processing of fruits and vegetables for local consumption and/or export.

2. Production of beef, pork, poultry and by-product processing for local consumption and/or export.

3. Drying, storage, and processing of grains and other foodstuffs.

4. Manufacturing of tools and implements.

5. Production of human and veterinary medicines and health products.

6. Manufacture of packaging products.

7. Transportation and distribution of foodstuffs.

2. Lending, Equity Investments, and Overall Exposure

Careful budgeting should eliminate excess liquidity. However, it is impossible to determine with great accuracy LCI's cash flow over a period of time, given that same will be detemined by the financial results of other enterprises. Thus, it is desirable that a portion of LCI's assets be maintained in liquid form, or near liquid form.

We can say that, initially, a high percentage of the corporation's assets, perhaps more than 15%, should be maintained in liquid form. Once operations are more or less established, no more than that percentage should be necessary.

The rest of the portfolio will consist of loans and equity investments. Their optimum mix will be determined by the desired income on the one hand, and the expected return on investments, on the other.

While loans offer a safer but lower return (with assets

of the borrower as collateral), the corporation does not have an automatic right of supervision. Equity investments, on the other hand, offer the opportunity for higher returns and control, but they are also riskier.

To determine the specific mix of loans and equity, we have to take into consideration that LCI can transfer technology and management. Thus, to make full use of this advantage, an important concentration in equity investments will be desirable, given that this is the most convenient form of investment for such transfer.

A compromise between the necessity for a constant income flow and high investment returns can be convertible debentures. LCI has the advantage that it receives periodical interest payments, and it can convert the debt to equity once the enterprise turns profitable, and other conditions are met.

3. Project Supervision

The corporation will have two ways to ensure that its technical know-how is used effectively. These are: Specific contracts where management participation is specified; and supervision through participation in the Board of Directors of newly formed enterprises. The first form of supervision would correspond more to its lending activities, whereas the latter, to equity investments.

In projects where there is strong control by the corporation, and when it may be desired, the management structure can be chosen and directly supervised.

G. Other Services

LCI will acquire important information and valuable contacts that can be transferred to other companies investing in the area, and thus assist them in their investment effort goals.

Some of the services are:

____ General Information on Particular Countries

____ Sector and Industry Data

____ Identification of Management Resources

____ Coordination of Feasibility Studies

____ Marketing Contacts

The corporation can undertake some merchant banking activities by acquiring equity positions in new projects solely for the purpose of reselling that stock at a profit.

In offering the services that have been pointed, out, LCI should be able to channel additional resources to the area of operations.

H. Future Business Opportunities

As the volume of business in the region increases, other business opportunities should be explored and taken into consideration as possible areas of expansion. Some of these activities are:

1. Leasing and Technical Assistance

The advantage of leasing capital goods in the less developed countries cannot be underestimated. There is a relative scarcity of capital and leasing reduces the need to increase total assets, thus a perfect match is attained. Also, leasing can lead to a greater transfer of technology if provisions for the replacement of outdated equipment with superior models are contained in the agreement.

2. Import Purchasing Agency/Export Trading

The contacts developed in the area, plus stockholders business relationships already existing in Miami, will give LCI an advantage in expanding its activities as a trading corporation. All the facilities that Miami has to offer as a Latin American Trading Center, also as a gateway to Europe, can be used so as to supply the Caribbean with cheaper inputs, and in marketing their products.

3. Affiliation with a Bank

Another possible area of diversification and expansion for LCI is to develop a relationship with a bank that would allow it to complement the other services offered. This relationship can be through the equity participation in a new bank, or other similar means of affiliation.

The establishment of a bank would allow the corporation to capitalize, i.e., through the obtaining of deposits, on the goodwill built in its operations, and to offer complementary services, especially in trade financing and working capital.

4. Conclusions

As a conclusion, we can say that Latin & Caribbean Investments, Inc. is an institution that will provide all the necessary elements for enterprises to succeed. It will provide technological know-how, seed capital, loans, administrative services, and marketing services. This direct and well-rounded involvement of LCI in the enterprises it will deal with, will also help reduce the risk, together with a careful industry and

geographical diversification, resulting from its exposure in those enterprises. Taking into consideration the mobilization of resources, technical and financial, that LCI will be able to undertake, we can say that this corporation is an effective vehicle to assure the success of private enterprise cooperation in the region where it will operate.

III. Overview of the Area of Operations

Given that the services of the corporation will initially be oriented to the Caribbean area, an analysis of this region as a market for those services is desirable. Since the similarities of the region with the rest of Latin America are greater than the differences, most of the conclusions reached in this analysis will be applicable to that wider area of action towards which LCI will direct future efforts.

One of the main objectives of this chapter is to determine the conditions affecting the success of the corporation and that have their origin in the nature of the area where it will operate. The success of the corporation will depend on the success of the enterprises in which it will invest, and theirs in turn, on the general market conditions where they will have their activities.

A. Size and Nature of the Market

1. General Outlook

For purposes of this study, the Caribbean includes the 12 CARICOM countries, the Bahamas, the Netherland Antilles, British Virgin Islands, Cayman Islands, Turks and Caicos Islands, U.S. Virgin Islands, French West Indies, the Dominican Republic, Haiti, Puerto Rico, and the Central American countries, plus Panama.

In June 1980, the "Task Force on Private Sector Activities" of the Caribbean Group for Cooperation in Economic Development presented its report on Measures to Promote the Role of the Private Sector in Caribbean Development. Although the report covers only the CARICOM countries, the Bahamas, the Dominican Republic, Haiti and the Netherland Antilles, the observations apply to the rest of the area, with the possible exception of Grenada and Nicaragua, where uncertainty for the private sector prevails.

According to the Task Force, every Caribbean country has opportunities for economic growth and expanded private investment. Many of these countries have significant mineral, land and forest resources, and virtually all have a considerably greater agricultural potential than is presently being exploited. Some because they have never developed it (Guyana, Belize, Dominican Republic, and to a lesser extent, the Bahamas), while others because they have allowed agricultural production to run down dramatically compared to earlier periods. In addition to the export potential of agriculture and agro-industry, in most countries the tourist industry's food requirements can be domestically produced.

The Caribbean countries generally have high literacy rates compared to most other developing countries, giving them an advantage in terms of the quality of their human resurce base. The structure of wages, combined with proximity to the U.S. markets and special trade relations with Europe, add up to significant comparative advantage in a number of export categories.

The industrial structure consists primarily of light manufacturing or processing, based largely on imported raw materials, and oriented to domestic or regional markets, requiring high levels of protection for domestic producers, and duty-free access to imported raw materials, capital goods and spare parts. Also, because of the limited size of the markets, a quasi-monopoly status has been given to existing producers. As a result, the industrial sector is often composed of inefficient and uncompetitive firms which contribute to high economy-wide costs and prices. In general though, a shift away from this kind of import-substitution policies is being experimented in the countries of the area, giving more emphasis to export promotion.

The United States and the European Economic Community have special exemptions to their regular import duty schedules that cover the Caribbean countries and that the latter have not adequately explored. The initiative to take advantage of the U.S. Generalized System of Preferences and of the Lome Convention Preferences has to come from the exporting countries.

The size of the Caribbean market in terms of people, gross national product and income per capita, can be seen from the table below:

Table III-1. Population and Income in the Caribbean Area

Country or Region	Population (000's)	GNP (Million US $)	GNP/PER CAPITA) (US $)
Caribbean Community *	5,180	9,174	1,771 w
Bahamas	226	677	2,620
Netherlands Antilles	253	864	3,472
Br. Virgin Islands	11	630	5,980
Cayman Islands	17	49	2,857
Turks and Caicos Is.	8	6	750
U.S. Virgin Islands	100	400	4,000
French West Indies	650	900	1,385
Dominican Republic	5,400	6,264	1,160

Country or Region	Population (000's)	GNP (Million US $)	GNP/PER CAPITA (US $)
Haiti	5,000	1,350	270
Puerto Rico	3,300	9,240	2,800
Central America **	20,300	18,656	919 w
Panama	1,800	3,114	1,730
	42,245	51,324	1,200 w

w - weighted average

* - Includes Antigua, Barbados, Belize, Dominica, Grenada, Guyana, Jamaica, Montserrat, St. Kitts-Nevis, St. Lucia, St. Vincent, and Trinidad and Tobago.

**- Includes Guatemala, Honduras, El Salvador, Nicaragua and Costa Rica.

Sources: World Bank, World Development Report 1982, IMF Statistics. Calculations based on The Caribbean Year Book.

As we can see from the Table, total population is more than 42 millions, with a total Gross National Product of US$51.3 billions, a large potential market. The relatively high average income per capita in most countries allows more sophisticated consumption patterns than in other less developed countries. Although the size of the Caribbean market, when viewed in terms of population and Gross National Product, is impressive, it is not one unified market, and the different trade arrangements existing among these countries have to be understood. The trade arrangements are presented in the next sections.

2. Regional Associations

The geographic elements uniting the Caribbean have not been sufficient to create trade or economic unity. Individual countries and groups of countries in the Caribbean have more important trade relations, and are in fact more economically integrated, with other countries outside of the region. It may be easier, for instance, for a Jamaican exporter to sell its goods in England, than in, say, Honduras, a much closer market.

The variety of economic relations in the Caribbean range from those found in places where there is total economic integration to "Metropolitan" countries, to that of completely independent units, not even belonging to any of the regional associations.

Belonging to the first category, that is, places in the Caribbean fully integrated to a "Metropolitan" country, are the following:

French West Indies, which include the islands of Martinique and Guadaloupe. Both of these islands are French Overseas Departments, that is, legally a part of France, and even have representation by deputies in the French National Assembly.

The Netherlands Antilles, is formed by a group of six islands, including Aruba, Bonaire, Curacao, St. Eustatius, Saba and half of St. Maarten, and are a part of the Kingdom of the Netherlands.

Puerto Rico, one of the most industrialized locations in the Caribbean, is economically integrated to mainland U.S.A. in the sense that there are no export duties from one country to the other, and there is total mobility of factors of production (capital and labor).

U.S. Virgin Islands, include the islands of St. John, St. Thomas and St. Croix. As possessions of the United States, the islands benefit from U.S. tax and tariff laws in somewhat the same manner as Puerto Rico.

British Virgin Islands, are a group of 36 small islands, the larger ones being Tortola, Virgin Gorda, Anegada and Jost Van Dyke, and like the Turks and Caicos, (a group of 30 islands only 8 of which are inhabited), they are a part of Great Britain.

On the other extreme of economic relations we find those countries that are completely independent, and that do not even belong to the regional associations. These countries are Haiti, Panama, the Dominican Republic, the Bahamas and the Cayman Islands. The first three are studied individually and in more depth in the next chapter. The other two countries, the Bahamas and the Cayman Islands, are important international financial centers for offshore banks, depend a great deal on tourism for their economic activity, and have close trade relations with the United States.

Between these two extremes of economic relations we find those countries in the Caribbean that have special trade relations among themselves and that have formed regional associations so as to undergo a process of economic integration. These three groups of countries, the Central American Common Market (CACM), the Caribbean Community (CARICOM), and the Eastern Caribbean Common Market (ECCM), together comprise more than half the population

and the economic activity of all of the Caribbean area. A brief overview of these associations is presented next.

The Central American Common Market

This association was the first of its kind to be tried in the less developed countries. The formal process of Central American integration was initiaged in 1960 when the General Treaty for Central American Integration, also known as the Treaty of Managua, was signed. Although inspired by the European process of integration that led to the creation of the European Economic Community, there was awareness that the economic reasons behind one process and the other were quite different, given the size and stage of development of the individual countries. The main rationale behind the process of Central American integration was to create a large enough market for the undertaking of more efficient import-substitution than would otherwise have been possible.

The population and income for the member countries is given in the table below. The totals correspond to those in Table III-1.

Table III-2. Population and Income in the Central American Countries

Country	Population (000's)	GNP (Million US $)	PER GNP/CAPITA (US $)
Guatemala	7,300	7,884	1,080
Honduras	3,700	2,072	560
El Salvador	4,500	2,970	660
Nicaragua	2,600	1,924	740
Costa Rica	2,200	3,806	1,730
Total	20,300	18,656	919 w

w - weighted average

Source: World Bank. World Development Report 1982

As we can see by comparing with Table III-1, each of the Central American countries individually can be classified among the largest in the Caribbean region in terms of population and gross national product. Together, they represent the largest economic unit in the area.

It is important to point out, however, that even though there was great success initially in the Central American integration process, two events have slowed it down. The first one is the exit of Honduras as a result of its war with El Salvador in 1969. The other one has been the uncertainty brought about by the revolution in Nicaragua in 1979.

Nevertheless, the Central American Common Market continues to operate: After Honduras left the CACM, the other four countries continued trading inside its framework. Honduras soon after signed bilateral agreements with other members of the area. The growth in commodity trade has been spectacular, growing from little more than US$30 million in 1960 to more than US$1 billion in 1980. Important achievements have been made in creating the legal and institutional framework to undertake the development of a common market and economic integration. Fiscal incentives to industrial investment were harmonized, with the establishment of four basic types of incentives such as tax holidays, duty exemptions on machinery and equipment, capital assistance (loans and equity funds), and tariff protection.

The institutional framework is composed mainly by a Permanent Secretariat (SIECA) that gathers information on an ongoing basis for support of the Economic and Executive Councils of the CACM with research, advisory and administrative services; the Central American Bank for Economic Integration (CABEI), established in 1960; and in the monetary area, two institutions that are of particular interest, the Central American Clearing House and the Central American Monetary Council. The first one redistributes country deficits and surpluses so as to further inter central american trade, whereas the latter was designed to supervise and coordinate monetary, exchange and credit policies.

At present, the system continues to operate with reasonable regularity, in spite of the deteriorating political conditions of recent years. The General Treaty, which had a twenty year duration, expired in June 1981, but, since none of the parties thereto has denounced it, it is considered to be still in operation, and intra-regional trade continues to be important in spite of the difficult economic situation of most of its members.

The Caribbean Community

The Caribbean Community had its origins in the Caribbean Free Trade Area (CARIFTA), organized in 1968 for much the same economic reasons that the Central American Market was created. It is formed by the twelve countries listed below with their population and income. Again, the totals correspond to those in Table III-1.

Table III-3. Population and Income in the Caribbean Community Countries

Country	Population ('000's)	GNP (Million US$)	PER GNP/CAPITA (US $)
Antigua	75	83	1,111
Dominica	74	34	410
Grenada	108	50	459
Montserrat	13	17	1,450
St.Kitts-Nevis	45	49	980
St. Lucia	124	210	1,696
St. Vincent	107	42	485
Belize	145	128	886
Barbados	259	572	2,292
Guyana	830	457	550
Jamaica	2,200	2,288	1,040
Trinidad-Tobago	1,200	5,244	4,370
Total	5,180	9,174	1,771 w.

w - weighted average

Sources: World Bank, World Development Report 1982
IMF Statistics.

CARICOM has been successful in its economic integration objectives: the great bulk of intra-regional trade has been liberalized and it has grown considerably. Compared to 1967, the year before CARIFTA began, intra-regional trade had by 1974 more than quadrupled in value. Important steps have been taken to establish the Common External Tariff that will eliminate differences between national tariff rates, and also to establish common quantitative trade restrictions.

In the field of economic policies, attempts have been made to coordinate them so as to promote the general cause of economic integration. Common fiscal incentives to industry have been established under the Harmonization Agreement, whereby benefits are granted by all CARICOM countries in accordance with an agreed scale and in relation to the contribution made by the benefiting industry to the home economy.

As has been the case with the Central American Common Market, an institutional infra-structure has been

developed so as to facilitate the integration process. Thus we have the Caribbean Development Bank, the Caribbean Investment Corporation, and the Community Secretariat, which is an administrative agency with a policy-advisory and coordinating body functions. Of particular interest is the Caribbean Food Corporation (CFC) which has as its objective the implementation of an improved trade regime in the agricultural sector through the establishment of joint regional projects. The CFC is a regional, public, profit-making enterprise, and is not designed to compete with existing national agricultural projects, but to complement them. It is essentially a holding company to arrange projects through subsidiaries which may be wholly-owned or joint ventures, having as objectives the production, packaging, storage, transportation, distribution and marketing of foodstuffs. In 1980 it was working on some 25 projects included in its investment programs for the next three years.

The integration effort of the Caribbean Community has continued. In 1982, for instance, a legal project concerning the harmonization of laws for commercial associations was approved. The level of intra-regional trade activity in 1980 had already surpassed that of the pre-crisis period of 1978-79, when import restrictions imposed by some member countries seriously threatened to dislocate the integration movement.

The Eastern Caribbean Common Market

The Eastern Caribbean Common Market was formed in 1968 by the less developed countries members of CARICOM (which was then called CARIFTA) with the objective of integrating themselves in a more accelerated way than was the case with the larger integration movement. It is, then, an integration movement within an integration movement. The initial agreement required the elimination of customs duties and quantitative restrictions between its member states, the removal of obstacles to the movement of factors of production, the harmonization of tax structures, fiscal incentives and development policies. It also required the establishment of a common policy on agricultural development and the imposition of common custom tariffs and commercial policies towards countries, including other CARICOM countries not parties to the agreement.

As we can see from the table below, the decision to form the ECCM was a wise one, taking into consideration the small size, in terms of population and gross national product, of the member countries. The total population of the seven countries, for instance, is four times

smaller than Jamaica's, in itself a small country, and their total GNP is ten times smaller than Trinidad and Tobago's.

Table III-4. Population and Income in the Eastern Caribbean Common Market Countries.

Country	Population (000's)	GNP (Million US $)	PER GNP/CAPITA (US $)
Antigua	75	83	1,111
Dominica	74	34	410
Grenada	108	50	459
Montserrat	13	17	1,450
St.Kitts-Nevis	45	49	980
St. Lucia	124	210	1,696
St. Vincent	107	42	485
Total	546	485	887 w.

w - weighted average

Source: Table III-3.

Given that the integration pace of these countries has been faster than the one of the other two systems, the common institutional framework is more developed. For instance, there is one common monetary authority (Central Bank) for all the countries, the Eastern Caribbean Currency Authority (ECCA), with one common monetary currency. The country members have even taken a step towards political integration by forming the Organization of Eastern Caribbean States (OECS), which has as its goals, among others, the developing of a framework for common services (judiciary, currency, civil aviation), the adoption of common positions on international issues, and the establishment of arrangements for overseas representatives.

B. Related Markets

In the preceding section we have seen how the different countries in the Caribbean area can be classified in three categories: 1. Places integrated to a Metropolitan Area (French West Indies, Netherland Antilles, Puerto Rico, U.S. Virgin Islands, British Virgin Islands, and Truks and Caicos Islands); 2. Non-Associated Countries (Haiti, Panama, Dominican Republic, Bahamas and Cayman Islands); and 3.

Regionally Associated Countries (Central American and Caribbean Community countries).

Here, trade preferences given to countries in categories two and three above by the developed countries, are presented.

1. The U.S. Generalized System of Preferences

The Generalized System of Preferences (GSP) concept of preferential tariff treatment emerged from sessions of the United Nations Conference on Trade and Development (UNCTAD) in the mid-1960's as a means of increasing the exports and purchasing power of the less developed countries (LDC's) in the short run, and diversifying their economies in the long run, by promoting the export of manufactured and semi-manufactured articles.

It was not until 1971, however, that GSP's were authorized by GATT (General Agreement on Tariffs and Trade), first as an exception to the Most Favored Nation (MFN) clause, and then as a unanimous decision of the Tokyo Rounds in 1979.

On January 1, 1976, the U.S. became the twenty-third major developed nation to implement a GSP, whereby generalized, non-discrimatory, and non-reciprocal preferential tariff treatment for exports of LDC's is granted, and is instituted in the norms of Title V of the U.S. Trade Act of 1974.

The President designates LDC's that can benefit under the Agreement for duty-free access. To be eligible, a product or country must fulfill the following requirements:

a) The product and the country must appear on the list of eligible beneficiaries. Negotiations for the GSP are on a product-by-product basis. For a country to be eligible, it must be a member of GATT and must have MFN as status.

b) The product must be imported directly into the United States from the beneficiary country without any intermediate processing or trading.

c) The product must have had 35% of its appraised value added in the beneficiary country.

d) Importers should request GSP treatment.

e) Imports from the beneficiary country should not exceed U.S.$41.9 million (this amount is adjusted annually in relation to the U.S. GNP) and must not exceed 50% of U.S. imports of the product.

Virtually all countries in the Caribbean are eligible for GSP treatment, and a high percentage (around 90%) of their exports to the U.S. is duty-free.

2. The Lome Convention

The Lome Convention between the European Economic Community (EEC) and the African, Caribbean and Pacific States (ACP) is a unique model in the political economy of North-South relations. The Convention covers the largest agglomeration of nations in the developing world engaged in an economic cooperation agreement with the EEC, and with the developed world as a whole.

When the Convention was first signed in 1975, the ACP States (mainly former colonies of the UK and France) numbered forty-six. They are now fifty-eight. The Lome I Convention formally expired in March 1980 and negotiations for Lome II began in July 1978, with agreements completed in 1980, and will expire in 1985.

The two Lome Conventions are based on the following principles:

a) Free access, without reciprocity, to the European market for goods exported from the ACP.

b) A stabilization scheme to compensate ACP staffs for a reduction in export receipts for their principal primary products.

c) Financial aid for the ACP.

d) Industrial and technological cooperation for promoting an international division of labour more favorable to the ACP.

e) Joint institutions to supervise the Agreement and to stimulate discussions between the two groups of states.

f) Investment guaranties against expropriation have been built to stimulate foreign investment in ACP states.

As far as the Caribbean area is concerned, only the CARICOM countries are signatories, and therefore, potential beneficiaries of the Lome Convention. Nevertheless, their major trading partner is the U.S., rather than the EEC, and most ACP-EEC trade is dominated by the African countries. In general, it can be said that the Lome Conventions have had a relatively limited impact on ACP exports to the EEC, although the potential for a transformation is there.

3. The Caribbean Basin Initiative

The Caribbean Basin Initiative (CBI) was presented by President Reagan on February 1, 1982 in his OAS speech, and puts into practice the general principles enunciated in the North-South meeting that took place at Cancun, Mexico in November, 1981.

The centerpiece of the CBI program is the proposal for a twelve year, one-way free trade area covering all imports from the Caribbean, except textiles and apparel subject to international textile agreements, and sugar imports only to the limit where the U.S. domestic price support program is protected.

Complementary to the one-way duty-free provisions, are incentives oriented to increase the flow of direct private investment to the Caribbean. If approved by Congress, these incentives would consist of the extension of a ten percent investment tax credit to qualifying U.S. investments in the Basin, and the negotiation of double taxation and bilateral investment treaties with interested countries.

There was also an element of economic assistance in the plan for US$350 million to the area, which is the only part of the initiative so far approved by Congress. The House of Representatives passed the trade component of the CBI bill on December 17, 1982, but eliminated the ten percent investment tax credit. The Senate did not have time to consider the proposed plan last year, but is expected to do so, and approve it, by mid-year.

4. Regional Markets

Because of the great similarities existing between the economies of the individual Caribbean countries and other countries in Latin America, their trade relations, other than those of countries associated one way or another, are minimal.

Efforts, however, are made to increase trade relations and other forms of cooperation. An institutional framework exists that makes possible the furthering of economic integration among all Latin American countries. These institutions are the Economic Committee for Latin America (ECLA, better known as CEPAL in its Spanish acronym of the United Nations, which provides theoretical studies. There is the InterAmerican Development Bank which provides long-term financing with a regional perspective and has an Institute for Latin American Integration (INTAL) that provides services and technical assistance on the process of economic integration, and, finally, the Latin American Economic System (SELA), created to defend, and increase flow of resources to, the region's economies.

5. Other Markets

Other potential markets for Caribbean products are contained in the Commonwealth preferences given by Canada and Australia.

Also, the off-shore assembly of operations under Headnotes 806 and 807 of the U.S. Tariff Code should be analyzed. These headnotes refer essentially to products that are assembled, out of U.S. parts, in less developed countries.

C. Institutions Similar to LCI

The Caribbean region is relatively well endowed with financial institutions. There are many long-established commercial banks and insurance companies with good international connections; there are national and international development finance institutions, and the more developed countries have relatively sophisticated equity capital instruments.

The development banks or financial corporations, whose functions have been compared to LCI's in Chapter II, exist in most countries, and a number of official international institutions supply loans or equity capital directly or indirectly to the private sector. In this section we present an overview of national development finance corporations, and of the three main regional development institutions (Central American Bank for Economic Integration, Caribbean Development Bank, and Caribbean Investment Corporation).

1. Development Finance Corporations

In all the Caribbean countries we find development finance corporations that supply long-term funds to enterprises in the area. These corporations are either

private or state-owned, (the larger countries usually having both types), but their functions are always intended to be related to the promotion of enterprises in priority economic sectors. In a real sense, then, their services will be complementary to the services of LCI. In the CARICOM countries the development finance corporations cater to medium and small-sized enterprises and they are linked to the Caribbean Development Bank, which provides them with loans that may be re-lent to other businesses.

Usually, the privately owned development finance companies take a more passive role in the identification and structuring of projects. The state controlled companies, on the other hand, besides granting credit to corporations for the acquisition of fixed assets and working capital, will lend and help in the undertaking of feasibility studies, and will take equity participation. Those activities of the state-owned development finance corporations will, however, be concentrated in what are perceived by the government to be strategic development sectors.

2. The Central American Bank for Economic Integration (CABEI)

The Central American Bank for Economic Integration was created in 1961. Its two main objectives are the promotion of economic integration among the members, and the promotion of their balanced economic development. It is an autonomous regional institution.

CABEI can finance public projects as well as those of the private sector, as long as they have a regional perspective. Traditionally, 80% of the financing has been destined to the public sector and 20% to the private sector.

Total funds to the private sector have totaled some US$320 millions, of which 98% have been used for fixed investment and working capital, 1.7% for share investments, and .3% for feasibility and technical studies.

The total resources of the Bank (US$1,600 millions), have been oriented primarily (55%) to economic infrastructure, with only 3.9% of the funds going to agricultural activities.

As an economic integration instrument, CABEI finances only projects that have regional impact, and which are usually large in size. It has taken a secondary role in the identification and structuring of new investment. This

Bank has proved to be a more positive vehicle for the promotion of balanced integration than of new project development, and heavy emphasis has been placed in the financing of government infrastructure projects.

3. The Caribbean Development Bank

The Caribbean Development Bank was established in 1969 also as a regional development institution with the objective of contributing "to the harmonious economic growth and development of the member countries in the Caribbean and to promote economic cooperation and integration among them".

CDB funds in the form of loans and equity made available to private enterprise, either directly, through loans to development finance corporations, or to construct industrial estates, absorbed US$59.2 million. This amount was 22% of the Bank's total financing approvals during its first ten years of operation, which totaled US$269 million.

The Bank may invest in the equity of enterprises, and its maximum participation should not exceed 33-1/3 of the equity of any enterprise.

Among the functions which CDB can perform to achieve its purpose is the provision of appropriate technical assistance to its regional members, particularly by undertaking or commissioning pre-investment surveys and by assisting in the identification and preparation of project proposals. To undertake this function, CDB has a Projects Department. Recently a Technical Assistance Fund of US$4 million was set up to finance expanded technical assistance for project-oriented and economy development requirements.

4. The Caribbean Investment Corporation

The Caribbean Investment Corporation (CIC) was established in 1972 with joint public-private ownership to make development finance available to private firms. By its charter, CIC loan and equity financing is limited to the less developed countries of the Caribbean. About 80% of its total portfolio is concentrated in equity financing.

Over the years, however, CIC has gotten into difficulties over funding, and it has never obtained all its initially authorized capital, has never recruited a large enough technical staff, and has suffered from poor management and inadequately prepared projects. As a result, it is becoming increasingly clear that it will be playing a reduced role.

D. Other Sources of Financing in the Region

Two of the most important sources of funds for countries in the Caribbean region are the World Bank and the Inter American Development Bank. To have an idea of the importance of these two institutions in financing Caribbean countries, we can compare their cumulative lending with that of the two regional institutions we analyzed earlier, CABEI and CDB, to the countries in their respective associations, CACM and CARICOM.

Table III-5. IDB and IBRD Caribbean Financing Compared with CABEI and CDB Financing (Cumulative)

Millions of U.S.$

	IBRD	IDB	CABEI	CDB
CACM	1722.1	2542.7	1600	-
CARICOM	833.9	485.9	-	269

Sources: InterAmerican Development Bank Annual Report 1981. The World Bank Annual Report 1983 CABEI and CDB Annual Reports.

As we can see from the Table, IBRD financing for CARICOM countries is more than three times CDB's and equal to CABEI's financing to CACM countries. Financing by IDB is also larger than the financing provided by the other two institutions.

It is important to note, though, that most of the funds channeled by IBRD and IDB are for infrastructure and government loans. However, the private enterprise branch of the IBRD, the International Finance Corporation (IFC), has increased its lending and equity investment activities. Also, the IDB through its Venezuelan Trust Fund, provides equity capital.

The IFC has a cumulative portfolio in the Caribbean Region (CARICOM and CACM countries, plus Haiti, Panama and Dominican Republic) of US$46.7 millions, of which US$8.6 million are equity investments, and the rest are long-term loans. In November 1981 the United Nations Development Program established the Caribbean Project Development Facility, which IFC helped to finance along with the UNDP, the Carib-Bean Development Bank, the Inter-American Development Bank, U.S. AID, CIDA and the Netherlands Ministry of Development Cooperation.

The IFC, in cooperation with the International Bank for Reconstruction and Development (IBRD) acts as executing agency for this Caribbean facility, which is oriented to encourage active participation of the private sector in the development of the region, and has examined well over 20 projects located in 12 of its 21 member states in the Caribbean. Of these projects, one has been successfully financed and several more are in the process. The facility has also provided financial counsel to several governments as well as individual client companies on commercial banking relationships, marketing arrangements and obtaining technical, managerial and financial assistance through joint ventures.

Other sources of funds available in the region for private enterprise are the Netherlands Finance Company for Developing Countries, the Commonwealth Development Finance Company, the Overseas Private Investment Corporation and, recently, U.S. AID through its Private Enterprise (PRE) Program.

E. Fiscal Incentives

Practically all countries in the Caribbean region have an array of fiscal concessions, subsidies, protection, and other incentives aimed at stimulating foreign and domestic private investment. We will concentrate here on the fiscal incentives that are common to the countries associated to the CACM on the one hand, and CARICOM on the other. Because of the different types of incentives, an in-depth analysis would be necessary to evaluate their impact on each particular investment.

The CACM countries have harmonized their incentives for manufacturing, consisting basically of tax holidays, and duty exemptions; the first kind includes complete exemption from income and capital taxes for up to 10 years, and the latter exemptions on tariffs for raw materials, machinery and equipment.

Industries are divided into three groups, with most generous incentives available to Group A - i.e., companies that produce industrial raw materials and capital goods, or consumer goods, containers, or semi-finished products that have more than 50% value added. Group B covers industries that produce consumer goods, containers, or semi-finished goods that use a "high percentage" (but less than 50%) of local materials and realize substantial foreign exchange savings. Group C includes simple assembly or packaging operations, cosmetics, beverages and tobacco products, and all other industries not classified under A or B.

As we can see in Table III-6, Groups A and B are further subdivided into "new" or "existing" industries. New are those with products not already manufactured within the host country, or that fill an important part of unsatisfied local demand, or that introduce radically different manufacturing processes which raise productivity and lower costs. Honduras, being the less developed of the CACM countries, was allowed 1 to 2 years longer for some of the investments.

Table III-6. CACM Duty and Tax Incentives for Manufacturing Investment.
(Percent and Term of Exoneration)

Import Duties & Consular Fees:	Group A New	Group A Existing	Group B New	Group B Existing	Group C
a) Machinery & Equipment	100%/ 10 yrs.	100%/ 6 yrs.	100%/ 8 yrs.	100%/ 5 yrs.	100%/ 3 yrs.
b) Raw Materials & Packaging	80%/5Yrs. 50%/next 5 yrs.	- -	80%/3yrs. 50%/next 2 yrs.	- -	- -
c) Industrial Fuels (Except gasoline)	100%/5Yrs. -	- -	100%/3Yrs. 50%/next 2 Yrs.	- -	- -
Taxes on Income and Profits	100%/8Yrs.	100%/ 2Yrs.	100%/6Yrs.	-	-
Taxes on Assets & Net Worth	100%/10 Yrs.	100%/4 Yrs.	100%/6Yrs.	-	-

Additionally, all qualified enterprises may deduct from taxable profits the amount reinvested in machinery and equipment that increases their productivity.

In CARICOM countries benefits under the Fiscal Harmonization Agreement are granted to approved enterprises only with respect to approved products. The length of the tax holiday is related to the contribution which the enterprise makes to the national and regional economy in producing those products. Also, the two major benefits are exemptions from income tax and tariffs on imports of plants, equipment, spare parts, and raw materials.

Contribution is measured in terms of the "local value added" which is the amount the entire CARICOM region (and not just a particular country) receives in payment from a manufacturer. Also, incentives are larger in the less developed countries (LDCs) of the Association, as we can see from the table that follows.

Table III-7. CARICOM - Terms of Tax Exoneration to Industries According to Value Added

GROUP	MDC	BARBADOS	LDC
Group I:			
50% or more V.A.	9 yrs.	10 yrs.	15 yrs.
Group II:			
25-50% V.A.	7 yrs.	8 yrs.	12 yrs.
Group III:			
10-25% V.A.	5 yrs.	6 yrs.	10 yrs.

Special provisions are also made for enclave enterprises, that is, those with their entire production sold to countries outside the region, being eligible for tax holidays without reference to local value added.

Also, in order to encourage exports, firms can obtain partial exemption from income tax after the expiration of the tax holiday. The greater the export share of the firm's profits, the greater the relief.

F. Human Resources and Costs of Production

Because of the abundant unskilled labor, its cost tends to be a fracion of that of the industrialized countries.

Most Caribbean countries have Industrial Training Boards for the development of skilled labor, and some provide public subsidies for apprenticeship programs and labor training in new enterprises.

G. Potential Demand for Corporation's Services

LCI will provide services that will require essentially two activities, the identification, and the structuring, of investment opportunities and projects, including their loan or equity financing. The countries in which LCI will operate are characterized by their multiple investment opportunities as they proceed to make full use of their resources. The demand for LCI's services is quite wide, particularly the need for the adequate structuring of projects.

The report made to the Caribbean Group for Cooperation in Economic Development by the Task Force on Private Sector Activities, mentioned in Section A of this

chapter, considers that there is an ample number of financial institutions and multiple sources of funds for financing private enterprise in the Caribbean. At the same time, there are potential borrowers who claim that no adequate financing is available, giving the impression that there is a "financing gap" for the private sector. The two different points of view can be reconciled if we understand that, even though potential borrowers see the investment opportunities, they are not able to structure them in an adequate, "bankable" way.

Those observations are considered to be even truer by the Task Force with regard to large and medium-scale investment projects. They consider it misleading to speak of "financing gaps" when "the main bottleneck is project identification and preparation rather than the supply of finance *per se*." Given that LCI will supply this needed package, we can view existing resources and institutions as complementary to its services.

To determine the demand for the structuring and financing of projects in the productive sectors, an overview of those sectors is presented below.

1. Agribusiness

In Table III-8 we can see that the contribution of the agricultural sector to the Gross Domestic Product varies from a low of practically non-significant amount for Trinidad-Tobago (which is a petroleum exporting country) to a high of 39% in Haiti. For most countries, however, the contribution is more than 10%, and for 8 out of 13 countries, it is more than 15%.

Table III-8. Contribution of Agricultural Sector to Gross Domestic Product: Selected Caribbean Countries, 1980
(Percentages)

Country	Contribution
Bahamas	4.4
Barbados	10.8
Costa Rica	17.7
Dominican Republic	16.6
El Salvador	24.4
Guatemala	25.2
Guyana	18.6
Haiti	39.0
Honduras	28.1

Country	Contribution
Jamaica	8.6
Nicaragua	23.2
Panama	14.3
Trinidad-Tobago	-

Source: InterAmerican Development Bank, Economic and Social Progress in Latin America 1980-81 Report

The InterAmerican Development Bank views total agricultural product growth as modest in all of Latin America, but finds that the dynamism of certain items changed the composition of the production of some countries. Those products were rice, cocoa, vegetables, pork and poultry, which increased more than 50 percent in absolute terms from 1970 to 1980.

The possibilities for investment in the agricultural sector can be seen from the trade situation in agricultural goods, foodstuffs, and selected foodstuffs (beef, milk, eggs, cereals, potatoes, dried legumes, fruit and vegetables) for the Caribbean and Central American countries.

Table III-9. Trade in Agricultural Products, Foodstuffs, and Selected Foodstuffs, the Caribbean and Central America 1978
(Millions of Dollars)

	Central America	Caribbean
Agricultural Imports	497.8	684.3
Agricultural Exports	3,121.0	761.2
Balance	2,623.2	76.9
Foodstuffs Imports	406.9	528.0
Foodstuffs Exports	2,578.7	670.5
Balance	2,171.8	142.5
Selected Foodstuffs Imports	286.8	425.1
Selected Foodstuffs Exports	656.8	73.6
Balance	370.0	-351.5

Source: Same as Table III-8.

Thus, substantial investments will be required to eliminate the imports of selected foodstuffs. These imports amount to a total of US$350.5 millions.

2. The Industrial Sector

The Industrial Sector has been more dynamic. This can be seen from the list of selected countries below. In a 20-year period, growth has been positive and large, except in the last five years for Jamaica and El Salvador.

Table III-10. Growth of Manufacturing Value Added, Selected Countries 1961-80

Country	1961-70	1971-75	1976-80
Barbados	8.6	6.3	3.5
Costa Rica	9.0	8.9	5.0
Dominican Republic	8.8	9.3	3.1
El Salvador	8.2	5.7	-2.4
Guatemala	7.7	4.8	5.8
Guyana	2.7	8.2	1.2
Haiti	.8	4.8	9.1
Honduras	7.1	2.9	9.7
Jamaica	6.0	2.7	-5.6
Nicaragua	11.2	6.0	.2
Panama	11.0	2.7	2.2
Trinidad-Tobago	2.8	1.1	5.6

Source: Same as Table III-8.

In all of these countries manufacturing has constantly increased its contribution to the gross domestic product during the same 20-year period.

3. Other Sectors

Of particular importance in the Caribbean, mostly because of their great potential, are the tourism and fishing sectors. These employ extensively the natural resources with which the countries are endowed.

In individual countries the mining sector has particular importance, and the construction sector, as the countries modernize and grow, offers investment and projects opportunities.

IV. Profiles of Main Countries of Initial Activity of the Corporation

In this chapter we present a profile for each of seven countries where LCI will initiate its activities. These seven countries are representative of the wider Caribbean region, and include one country member of the Central American Common Market (Costa Rica), three country members of the Caribbean Community (Jamaica, Belize, and Barbados), and three non-associated countries (Panama, Dominican Republic, and Haiti). This selection also includes Caribbean countries classified as "Target Countries" by the Private Enterprise Program of U.S. AID: Costa Rica, Haiti and Jamaica.

The purpose of these profiles is to provide more comprehensive information about the area of investment where LCI will direct its immediate efforts. Although the information here provided is more specific than the one presented in the previous chapter on the whole of the region, it should be viewed within that wider context. For each country, the economic structure is presented first, so as to give an idea of where the main resources are and how they are being utilized. Following this presentation, the international relations of each country, as determined by their membership in economic associations, and their trade, are presented next. Finally, the special incentives each country offers for new investments are discussed.

A. Costa Rica

Costa Rica has undergone an important industrialization process as a result of its membership in the Central American Common Market. Its single largest industry is food processing, although chemical products, metals, metal working, and textiles, are also of importance. Agricultural production, as can be seen from the table below, is the second most important economic activity, apart from commerce, but if we take into account that a great deal of industrial production consists of the processing of agricultural products, we can conclude that this sector is the most important one to the Costa Rican economy.

Table IV-1. Costa Rica: Gross National Product by Sector Origin (Percentage) 1981

Economic Sector	Participation
Agriculture	23.0
Mining and Manufacturing	20.0

Economic Sector	Participation
Construction	5.0
Electricity, Gas and Water	2.0
Transport and Communications	5.0
Wholesale and Retail Trade	18.0
Banking, Insurance and Real Estate	10.0
Central Government	13.0
Other Services	4.0
Total	100.0

Source: Inter-American Development Bank.

Costa Rica has invested in a well developed infrastructural base, and has an extensive hydroelectric energy power grid, being basically self-sufficient in electric power, although only ten percent of its hydroelectric potential has been tapped.

In agriculture, small holding, rather than the typical extremes of latifundia and minifundia, is characteristic of Costa Rica's agriculture. The relative equality of land holding may help explain why a rise in per capita food production in the 1970s has been accompanied by a rise in nutritional standards, as measured by average intake of calories and fats. The principal cash crops are bananas, coffee, cocoa, and sugar cane. Maize, beans, rice, potatoes, cotton and tobacco are minor crops. The cattle industry is an important factor in the country's agrarian economy, utilizing a large land area, and is being encouraged by the government.

Forestry is still a small industry, but commercially exploitable stocks of rosewood, cedar, mahogany and other tropical hardwoods are known to exist. In an effort to encourage re-forestation, expenditure on replanting is directly tax deductible. There is a growing fishing industry, particularly for shrimp, sardines and tuna, and the government has initiated a US$19.4 million program to increase the total catch, part of which has been channeled to cooperatives.

In 1960 an industrial development law was introduced aimed to promote new industries by a system of tax and import duty exemptions, tariff protection and state guaranties for internal and external loans. The government has also authorized the establishment of two free trade zones in coastal areas to promote employment and foreign exchange earning in manufacturing.

2. Membership in Associations

Costa Rica is a member of the Central American Common Market (CACM) where it exports 18% of its total export goods, but a substantially higher percentage of its manufactured goods.

It is also a beneficiary of the U.S. Generalized System of Preferences, and is a signatory of the General Agreement on Tariffs and Trade (GATT).

3. Main Imports and Exports

The table below presents a calculation of the value and structure of Costa Rica's main imports and exports:

Table IV-2. Costa Rica: Main Imports and Exports Value-Structure 1981

Product	Value (US$Millions)	Structure (%)
Exports:		
Coffee	240.7	23.0
Bananas	246.9	24.0
Meat	74.0	7.0
Sugar	43.1	4.0
Manufactured Goods	325.9	32.0
Other	105.2	10.0
Totals	1,035.8	100.0
Imports:		
Non-Durable Cons. Goods	164.9	13.6
Durable Cons. Goods	91.5	7.6
Fuel & Fuel Oils	69.1	5.7
Raw Material & Intermediate Goods	573.4	47.3
Construction Materials	48.4	4.0
Capital Goods	263.9	21.8
Totals	1,211.2	100.0

Source: Inter-American Development Bank.

Costa Rica has a strong dependency on two products, coffee and bananas, for its earning of foreign exchange, and four agricultural products (agroindustrial in the case of sugar), represent 58% of total exports.

In January 1976 a temporary import tariff surcharge was imposed and higher selective consumption taxes introduced. The proceeds of these taxes and duties are to be used to finance the promotion of non-traditional exports, especially those which use local raw materials. Non-traditionality refers both to agricultural and manufactured goods that have not been largely produced in the past.

4. Financial System

Since 1948 the banking system in Costa Rica has been a state monopoly. Demand deposits from the public are restricted to state-owned national banks. Besides these institutions, the system is also comprised by the private "financieras" and the Corporación de Desarrollo (CODESA).

The appearance of the "financieras" has made the credit and capital facilities more sophisticated. They provide medium and long-term funds to facilitate equity placement. CODESA was established in 1973 as a development corporation to prepare and carry out specific development projects and to assist and develop productive enterprises. It can finance Costa Rican partners for the buying of their portion of stock in a joint venture, and provide financing, on a long term basis, for equipment and construction of factories for companies with Costa Rican capital. At present CODESA has interests in a wide range of areas including agriculture, industry, mining, oil exploration and transport.

5. Investment Incentives

As a member of the Central American Common Market, Costa Rica participates of that region's agreement of Fiscal Incentives for Industrial Development, which grants customs duties and tax exemptions to qualified industrial projects. Projects are divided into three categories according to the degree of regional value added.

Costa Rica has, also, a law providing fiscal incentives for exports, called the Export Promotion Law. It grants such incentives as duty-free treatment of imports of machinery, equipment and raw materials, provided that the product exported has a minimum of 35% local value added. Included as benefits are instruments denominated Tax Credit Certificates and Export Increment Certificates. The first

kind of instruments are issued by the Central Bank in amounts up to 15 percent of the FOB value of the export sale. Export Increment Certificates are also documents issued by the Central Bank in amounts up to 10% of the increase in exports compared with the previous year and are immediately negotiable.

The Export Promotion Law, however, specifies that only those companies with at least 60 percent Costa Rican ownership and foreigners who have been residents for over five years are eligible to receive the benefits from the law. These limitations, though, may be waived with the approval of the Ministry of Finance.

- Jamaica

1. Economic Structure

With a total gross national product of US$2,288 millions, Jamaica has the second largest economy of the Caribbean Community countries after Trinidad-Tobago. It is also the second most populated with 2.2 million inhabitans, and it has one of the higher per capita incomes.

Jamaica should be one of the richer Caribbean nations. It is well endowed with mineral resources. It has fertile agricultural land and an even sub-tropical climate well suited to a variety of high value crops, including sugar, bananas, coffee, citrus, spices and tobacco. Its transport and communications infrastructure are well developed and it is located within easy shipping distance of North and South America, Europe and Africa.

Its economic structure can be seen from the following table:

Table IV-3. Jamaica: Gross National Product by Sector Origin (Percentage)

Economic Sector	Participation
Agriculture	9.2%
Export Agriculture	1.7
Domestic Agriculture	4.3
Livestock	2.3
Other	.9
Mining	11.5
Manufacture and Construction	23.0

Services Sector	Participation
	56.3
Distribution	15.0
Government Services	13.8
Other Services	27.5
Total Gross National Product	100.0

Source: Based on data published in Price Waterhouse's Doing Business in Jamaica. Data is for 1979

The agricultural sector makes a rather small contribution to the national product in comparison to other less developed countries, and the services sector is quite large, generating more than half of national production. A key factor in Jamaica's near future is investment in new economic enterprises so as to undertake an export thrust. Opportunities for foreign investment can be found in all major sectors of the Jamaican economy Among prospects in agriculture and agribusiness we find coffee, tobacco, and horticulture. In mining, the island's limestone and gypsum reserves offer possibilities for new ventures, while production from Jamaica's ample bauxite reserves can be expanded. In tourism, resort development and hotel management are possibilities. In manufacturing for export, there are opportunities in garments, electronics assembly, furniture, and handicrafts. For the domestic market, animal feed, paper products, industrial chemicals, building materials, and food processing probably offer the best prospects.

2. Membership in Associations

Jamaica is a member of the Caribbean Community (CARICOM). CARICOM trade represented 50 percent of Jamaica's total non-traditional exports, equivalent to about 7 percent of total merchandise trade in 1979.

Jamaica is also one of the countries in the African, Caribbean and Pacific (ACP) Group of fifty-three developing countries that form the negotiating unit with the European Economic Community and that have concluded the LOME I and LOME II Conventions. Approximately 95 percent of ACP products enjoy access to the EEC, but the 5 percent falling outside of this agreement are significant, for example, Jamaican rum, although small improvements for this product were obtained in the latest negotiations (LOME II).

The country is also a beneficiary of both the Canadian and U.S. Generalized System of Preferences allowing

the duty-free entry of a broad range of formerly dutiable goods. The Government is party to an investment treaty with Canada and has stated its intention to negotiate bilateral investment treaties with the United States and with several European governments. Jamaica is a signatory to the General Agreement on Tariffs and Trade (GATT), but has not acceded to the Multilateral Trade Negotiations (MTN) codes.

3. Main Imports and Exports

In the table below we can see the value of the structure of the imports and exports of Jamaica.

Table IV-4. Jamaica: Main Imports and Exports Value and Structure (1979)

Product	Imports US$Million	Structure	Exports US$Million	Structure
Food	128.4	12.9	109.7	13.5
Beverages & Tobacco	8.2	.8	26.7	3.3
Crude Materials	43.9	4.4	586.2	2.3
Mineral Fuels	332.5	33.5	32.0	4.0
Animal & Veg. Oils	8.3	.8	.3	-
Chemicals	105.3	10.6	16.7	2.1
Manufactured Goods	182.2	18.3	15.6	1.9
Machinery & Trans. Equip.	141.9	14.3	6.6	.8
Misc. Manufactures	37.6	3.8	16.8	2.1
Misc. Commodities	5.7	.6	.1	-
Total	994.0	100.0	810.7	100.0

Source: Same as for Table IV-3.

More than 70% of the total exports consist of bauxite/alumina, food being the second category in importance with only a 13.5% contribution to total exports. It is important to notice that Jamaica imports a larger amount of food than it exports, in spite of having the conditions to be self-sufficient in that area. Also to be noted is the large amount of foreign exchange dedicated to the import of mineral fuels, which make up 33.5% of total imports.

4. Financial System

Foreign investors are required to obtain Bank of Jamaica approval if they wish to borrow locally. Loans, advances, and overdraft facilities from local financial institutions generally cannot exceed 25 percent of the total of the paid-up capital and revenue reserves of the borrowing enterprise. No dividends or director's loans may be paid to overseas shareholders until the loan has been reduced to some prescribed limit. (These stipulations are subject to variation according to particular circumstances).

Local financing is available from commercial and merchant banks and similar institutions. The major commercial banks currently operating in Jamaica are of Canadian and British origin and were established prior to the 1930's, having their activities largely confined to deposit taking and short-term lending. In the early 1960's the older commercial banks established Trust Companies both to undertake trustee activities and to offer longer-term credit. The resources of these institutions consist mainly of local deposits, bank borrowing and share capital subscribed by the parent commercial banks. Their lending activity has been concentrated in long-term mortgages. The merchant banks, which initiated operations in the 1970's, have a lending activity concentrated mainly in the medium and long-term markets.

The Jamaica Development Bank (JDB), established in 1969, is an autonomous government-sponsored institution and succeeded the Development Finance Corporation which was established in 1959. It is designed to fill various gaps in the existing financial system by increasing the availability of medium and long-term financing, and also to assist in the establishment and expansion of development enterprises by participating in share capital. A Capital Development Bank is expected to be formed with the Jamaican and other governments to provide loan and some equity capital for large projects. It is felt that this bank, having international participation and flavor, will attract foreign investment.

Other institutions which extend credit to industries and commerce are the Jamaica Industrial Development Corporation and Small Business Board, both statutory corporations.

5. Investment Incentives

Incentives have been regularly granted in Jamaica since the 1950's for one or more of the following reasons:

1. To assist industry in becoming established.

2. To encourage the development of local resources and extend and deepen linkages within the country.

3. To provide employment.

4. To enable Jamaica to compete with other countries in attracting investment.

For instance, under the Industrial Incentive Law, companies manufacturing approved products (which, potentially, include most products) are entitled to income tax holidays ranging from five to nine years, depending on the percent of local value added in the final product. Similarly, under the Export Industries Encouragement Law, companies producing approved products for export are entitled to income tax holidays, again, for five to nine years, and import duty exemptions on all goods imported for use in the manufacture of the exported product. Lastly, under a number of special acts - the Agriculture Incentives Act, the International Finance Companies Act, the Hotel Incentives Act - tax holidays, import duty exemptions, and special investment tax credits are available to investors in these specialized industries.

C. Barbados

1. Economic Structure

Barbados has the second largest income per capita of the CARICOM countries, and it is fourth in population size. About a fifth of the total land area is rocky or residential land, and some 65% of total area is under cultivation. Relying at one time exclusively on sugar, the country now has strong manufacturing and tourist sectors. The table below shows the contribution of each economic sector to total production.

Table IV-5. Barbados: Gross National Product by Sector Origin (Percentage) 1979

Economic Sector	Participation
Agriculture, Forestry & Fishing	8.1
Mining & Quarrying	.7
Manufacturing	9.8
Public Utilities	1.3

Economic Sector	Participation
Construction	6.6
Wholesale & Retail Services	30.0
Transport & Communications	5.2
Government and Others	38.2
Total	100.0

Source: UN Monthly Statistical Bulletin

The Barbados economy is highly service oriented, this sector accounting for 73.4% (the 3 last entries in the table) of total production. Of these services, tourism is the most important source of income, although it has declined in recent years. The Government has made efforts to reduce dependency on this sector, particularly through the expansion and diversification of agriculture and fishing in order to reduce food imports and provide a basis for food processing industries. Other areas of major government interest are manufacturing activities that take advantage of special trading relationships such as CARICOM and the European Community. The tourist sector is to be transformed also by aiming for high income visitors rather than the mass tourist market.

Total land under cultivation amounts to approximately 81,100 acres. Of these, 41,400 are planted with sugar cane, while another 9,000 acres produce food crops in rotation, 700 are planted with cotton, 9,000 with pastures, and the rest with other crops. In spite of the large area dedicated to sugar production, its contribution to the national product has steadily decreased, and because of the uncertain future of sugar as a commodity, the government is emphasizing agricultural diversification.

The manufacturing sector, other than the production of sugar, produces edible oils, soap, margarine, and lard compounds. The production of textiles and clothing has increased in importance, and factories in the eight industrial trading estates in the island produce light consumer goods such as paints, paper products, furniture, data processing and electronic components. Crude oil was first exploited in 1973 and by the end of 1977 output was running at 700 b/d. In 1980 crude production reached 305,000 barrels per day. There is a 3000 b/d refinery whose output is exported.

In short, then, Barbados has the natural resources to continue successfully the growth it has experienced in other years.

2. Membership in Associations

Barbados is a member of the Caribbean Community, and is also one of the countries in the African, Caribbean and Pacific (ACP) Group. The country is also a beneficiary of both the Canadian and U.S. Generalized System of Preferences allowing the duty-free entry of a broad range of formerly dutiable goods. Barbados is a signatory to the General Agreement on Tariffs and Trade (GATT).

3. Main Imports and Exports

Sugar is still the main commodity traded, providing between 25 and 45 percent of total exports during most of the last decade, though its contribution has declined The table below shows the structure of imports and exports.

Table IV-6. Barbados: Main Imports and Exports Structure
(Percentage)

Product	Structure
Exports	
Sugar	32.4
Molasses	3.5
Rum	1.0
Foodstuffs	2.4
Chemicals	6.4
Electrical Components	18.8
Clothing	14.5
Other Manufactures	15.5
Other Products	5.5
Total	100.0
Imports	
Food and Beverages	17.6
Other Consumer Goods	19.2
Fuels	11.6
Chemicals	5.4
Textiles	4.2
Other Intermediate Good	10.6

Imports (Cont.)	Structure
Machinery	20.1
Construction Materials	8.6
Other	2.7
Total	100.0

Source: Central Bank of Barbados
Economic and Financial Statistics (1980)

Barbados has a heavy visible trade deficit, which is largely offset by the tourist industry, remittances from Barbadians overseas, other transfers and long-term capital inflows.

4. Financial System

Barbados has a number of commercial banks operating in its territory, and has its own development finance corporation which gives long-term financing and has made equity investments. Barbados is also a beneficiary of the Caribbean Development Bank funds.

5. Investment Incentives

An approved enterprise (i.e., one which has a beneficial economic effect on the country) may be granted an exemption from corporate income tax of up to 10 years and from payment of custom duties for a period of up to 10 years. The length of the exemption depends on the extent of value added in the local manufacturing process, with the longer exemptions going to those with 50% or more of local value added. Offshore companies which do not trade in Barbados or in CARICOM may also obtain exemptions from corporate income tax and on dividends paid to non-residents.

Barbados has double taxation agreements with the U.S., Canada, the U.K., Denmark, Norway and Sweden. Barbados has an extensive training subsidy program, and also operates seven industrial estates which provide factory shell space at subsidized rates. For prospective investors, the Government will build factory shells, either standard or custom.

D. Belize

1. Economic Structure

Agriculture dominates the economy, and is concentrated near the coast. There were some 46,000 head

of cattle in 1980, while other livestock numbers were: pigs - 20,000, sheep - 3,000, and poultry - 290,000. Production is mainly for local consumption but there are exports to other CARICOM countries and to the U.S. Presented below is the economic structure of Belize.

Table IV-7. Belize: Gross National Product by Sector Origin. (Percentage)

Economic Sector	Participation
Agriculture, Forestry and Fishing	24.6
Mining and Quarrying	.3
Manufacturing	13.0
Electricity, Gas and Water	1.2
Construction	5.9
Wholesale and Retail Trade	17.3
Transport and Communications	8.6
Other	29.1
Total	100.0

Source: U.N. Statistical Bulletin (1979)

Rice, maize, beans and cassava are grown mainly for local consumption although there has been surplus rice for export in some years. Fishing has developed rapidly since 1974-75 due to attractive prices in the U.S. for oysters and other fine fish. Beef and dairy farming development is being particularly encouraged by the Government and by the Carib-Bean Development Bank, and the regional food plan of the CARICOM countries has earmarked Belize for investments in livestock and cattle feed projects which will make the country a major meat producer and exporter. Of 5.7 million acres of land, 2.2 million are considered suitable for agricultural development, of which 50 percent is suited for arable farming and 50 percent is suitable for grazing. It has been estimated that only some 15 percent of the land suitable for agriculture is being utilized for that purpose.

The agricultural sector is characterized by large plantations producing sugar, citrus crops and bananas mainly for the export market, while the output of the small-scale units is oriented to the domestic market. Citrus production has been successful in the past, and there appears to be a firm demand from traditional customers such as Trinidad and Tobago. There is a need in the industry, however, for

increased processing capacity. Over 85 percent of total production is processed into juices and concentrates for the export market.

Belize's forestry potential is estimated at around 585,000 hectares of tropical and sub-tropical timber, 81 percent of which belongs to the state. A plywood factory was commissioned in 1980 to supply the domestic market.

No minerals are exploited, and oil exploration carried out over several years has not yielded significant results. Manufacturing is largely confined to the processing of the main agricultural products and timber.

2. Membership in Associations

Belize is a member of the Caribbean Community, and is also one of the countries in the African, Caribbean and Pacific (ACP) Group. The country is also a beneficiary of both the Canadian and U.S. Generalized System of Preferences allowing the duty-free entry of a broad range of formerly dutiable goods. Belize is a signatory to the General Agreement on Tariffs and Trade (GATT). Because of the great distance and poor transportation services, Belize has taken relatively little advantage of the preferential trading arrangements with CARICOM.

3. Main Imports and Exports

Normally, Belize has a large current account deficit on the balance of payments, even allowing for remittances from Belizeans working abroad. This deficit has traditionally been financed by private capital inflows, public sector borrowing and Government grants. The following table presents the percentual structure of the country's imports and exports.

Table IV-8. Belize: Main Imports and Exports

Product	Structure
Exports	
Sugar	38
Citrus Products	3
Mahogany	1
Bananas	2
Fish Products	5

Exports (Cont.)	Structure
Garments	15
Other Exports	36
Total	100
Imports	
Food, Beverages and Tobacco	24
Fuels	13
Chemicals	7
Manufactures	29
Machinery and Transport	25
Other Imports	2
Total	100

Source: Statistical Bureau.
Statistics correspond to 1977.

Sugar has traditionally been the main expo commodity of Belize; citrus fruit is the second next impo ant export crop, whereas cucumbers, cocoa and bananas have also been exported. Belize is highly dependent on foreign trade and most economic activity is trade oriented. Despite an abundance of fertile agricultural land, the country still imports 20% of its food. Other principal import categories are manufactured goods, machinery and transport equipment, and refined fuels. Principal trading partners are the U.S., U.K. and Mexico, the first country being the largest by far. The U.K. is second, offering a preferential market for sugar and bananas.

Economic growth has been constrained by an inadequate economic infrastructure. Large tracts of arable land are still not serviced by any form of road or river communication, and external marketing is limited and inefficient because of inadequate transportation facilities. Present port facilities are not capable of handling a larger volume of export trade, so that in the event of a significant expansion in such export industries as sugar, citrus, bananas and lumber, port facilities will have to be expanded. Overall infrastructure, however, should improve as a result of several ongoing and scheduled projects that are being financed by international financial institutions.

4. Financial System

A number of commercial banks operate in Belize, and it has a development finance corporation. This institution assists investors through its Investment Promotion Unit, and makes available capital, secured from the Caribbean Development Bank, for joint venture projects. The corporation is actively doing its part to promote investment in Belize and has recently built a new industrial park near the Belize International Airport to provide facilities for foreign firms.

In Belize there are no private facilities for long-term financing, as the banks usually do not provide medium or longer term funds for new investments. The four commercial banks provide mainly short-term credit, and do not normally borrow money from the international financial markets or other external sources to lend in Belize and instead rely on local deposits, supplemented by occasional short-term borrowing from the Monetary Authority.

Besides the development finance corporation, the Caribbean Development Bank is another official source of long-term financing. However, most of its loans in Belize have been for public sector projects.

5. Investment Incentives

The Government offers concessions for new and expansion investment, available for both local and foreign investment, and are based primarily on exemptions from income tax and customs duties. The income tax exemption is for up to a period of fifteen years, or until the total of dividends paid out or profits realized equal the amount invested. Exemption from customs duties is granted on building materials, plant, vehicles, machinery, equipment and other items considered necessary for the establishment or expansion of an enterprise. Duties on raw materials are also exempted where they are to be exported in the form of finished products. As an additional incentive, the Government will also protect a new industry by restricting or prohibiting imports of the product.

E. Panama

1. Economic Structure

Panama has one of the largest economies in tl Caribbean region as measured by its gross national product, a fact that can be seen from Table III-1 of Chapter III. Its economy depends mostly on the services sector and is substantially geared to international trade. Since the late 1960's

the public sector has played a greater role through a massive public investment program, mainly in infrastructure, but also in support of production facilities in key industries, such as sugar and coconut. There are almost no restrictions on foreign investment, which plays a very important role in certain sectors of the economy. The Table below shows Panama's economic structure:

Table IV-9. Panama: Gross National Product by Sector Origin (Percentage)

Economic Sector	Participation
Agriculture	14.4
Manufacturing	14.0
Construction	5.3
Transport, Communications, Storage	12.0
Commerce	14.2
Banking and Finance	8.2
Other Services	31.9
Total	100.0

Source: Inter-American Development Bank. 1981 Statistics.

In Panama, 24% of the land area is farmed. In 1971 there were a total of 105,272 farm holdings, of which 103,631, representing an area of 2,098,062 were being worked. 85,475 of the worked holdings were principally for domestic consumption. Of the remaining 19,797, three quarters were devoted to crops, and the rest to the raising and breeding of cattle and poultry. The main export crops are bananas and sugar. Large food imports are still necessary, but self sufficiency has been attained in some basic products like rice, coffee, and maize.

Agriculture is beginning to receive much greater priority than in the past: all public agricultural offices, including autonomous ones, were incorporated in a new Ministry of Agricultural Development in 1973. The Instituto de Mercadeo Agropecuario is encouraging the production of agricultural goods both for export and domestic consumption. There are vast unexploited forest resources, a timber industry is now being developed, and an international fishing port is being built at Vacamonte with considerable foreign backing.

An important source of national income is services rendered to the Panama Canal and related areas. Part of this includes salaries paid in the former Canal Zone to persons residing outside the zone. In addition to salaries, other Canal Area goods and services, construction contracts, tourism services, and transfer payment in the form of pensions and compensations to former employees represented net income of US$418.8 million in 1980.

On the other hand, the ready availability of imported consumer goods from the former Canal Zone has held back industrial development despite special government incentives to investors. Existing industry is mainly food processing and there are no heavy industries, except for a small state mill and a cement plant. The Government is trying to encourage greater private sector investment in industries through the Corporacion Financiera Nacional, institution empowered to aid private companies and to become involved in mixed enterprises. The Government has made important investments, having installed four new sugar mills and built a cement plant at Bayano.

2. Membership in Associations

Panama is not associated to any of the regional economic associations. It is, however, a beneficiary of the U.S. Generalized System of Preferences, and is a signatory of the General Agreement on Tariffs and Trade (GATT).

3. Main Imports and Exports

As we can see from the Table following, Panama has a large trade deficit in its merchandise account, which is mainly covered by invisible earnings. The low volume of merchandise exports, as compared to other countries in the area of similar size and population, reveals a sub-utilization of the country's resources.

Panama maintains trade relations with a diversified group of countries from all continents and political backgrounds. However, its import and export trade is highly concentrated in the Western Hemisphere, which supplies 74% of all imports and receives 81.3% of all exports. The United States is the largest supplier of imports and the major purchaser. The Latin American Free Trade Area (LAFTA) is the second largest supplier, especially of crude oil from Venezuela and Ecuador. Asian imports originate mainly from Japan, Hong Kong, and South Korea.

Table IV-10. Panama: Main Imports and Exports Value and Structure (1981)

Product	Value (US$Millions)	Structure (%)
Imports:		
Fuels and Lubricants	415.0	28.0
Machinery & Trans.Equip.	319.0	22.0
Diverse Manufactured Goods	385.0	26.0
Foodstuffs	98.0	7.0
Others	242.0	17.0
Total	1,459.0	100.0
Exports:		
Petroleum Products	58.0	17.0
Bananas	69.0	20.0
Shrimp	42.0	12.0
Sugar	51.0	15.0
Others	123.0	36.0
Total	343.0	100.0

Source: InterAmerican Development Bank.

4. Financial System

Panama's financial system has been substantially dominated by the banking sector, which has achieved a volume of operations and a level of development quite large compared to other financial institutions. Growth has been a result of the July 1970 banking law, which attracted foreign banks. The Panamanian banking institutions have a fundamentally commercial nature and are geared to short-term operations and charge high interest rates for local transactions. Consequently, the public sector has had to create a number of specialized financial entities to meet the special requirements of agriculture, manufacturing, and housing.

One of the most important finance development institutions is COFINA (Spanish acronym for National Finance Corporation) which is autonomous and was established in 1976 with the main objectives of creating and strengthening

private, mixed, or state-owned corporations engaged in high priority development projects. COFINA can participate in the risk capital of firms and is planning to establish a leasing program.

The Agricultural Development Bank was organized in 1973 also as an autonomous institution. Its main goal is to provide adequate financing to agricultural and agribusiness development programs. The Bank directs a subsidized loan program for small farmers and cooperatives.

Commercial banks represent the single largest source of domestic finance in the country. Out of a total of 59 banks with a general license, 55 are engaged in commercial banking and 4 are primarily mortgage banks. In addition to their local activities, commercial banks are very involved in international trade financing both through the Colon Free Trade Zone and among third parties, as well as other overseas transactions and ventures.

5. Investment Incentives

To be a beneficiary of Panama incentives, the investor makes a contract with the Government whereby he undertakes to carry out a given investment project within a certain timetable and is awarded certain tax or other benefits as provided in the law.

The law for export incentives covers not only the sale of goods outside the national territory, but also the sale, within the domestic market, of goods, containers, and packaging materials manufactured locally, if they are sold to corporations that export not less than 90% of their production to foreign markets. The incentive for exports is total exemption from taxes for the duration of the contract: income tax, import duties on goods to be used in the manufacturing process, taxes on exports, on sales, or on capital or assets of the corporation. License fees and property taxes are excepted, and a charge for the administration of the incentives is made, equivalent to 3% of all the taxes and fiscal charges exempted.

Incentives for manufacturing consist of import duty exemptions on goods required for the production process. Also, profits are exempted from income tax if reinvested for the expansion of production capacity. The exemption refers to amounts re-invested in excess of 20% of net taxable income in a particular fiscal year.

Complementary to the above are accounting procedures that allow to carry over losses as deductible from taxable income, and that allow favorable depreciation schedules for investments.

For manufacturing enterprises operating in specific regions of the country there is available a total exemption from taxes on profits during the first five years of operation and of 50% for the next three years. Assembly industries are awarded total exemption on all taxes or duties.

F. Dominican Republic

1. Economic Structure

During the decade of the 1970's, the Dominican Republic experienced a fast rate of growth. In 1981 growth was lower at 3.4%, but still high compared to other countries.

The country's economic structure can be seen from the Table below:

Table IV-11. Dominican Republic: Gross National Product by Sector Origin (Percentage)

Economic Sector	Participation
Agriculture	21.5%
Agriculture	14.1
Livestock	6.4
Other	.6
Mining	4.4
Manufacture and Construction	22.0
Services	52.5
Total Gross National Product	100.0

Source: Ministry of Finance. Data is for 1980.

Although the agricultural and manufacturing sectors make important contributions to the total gross national product, the services sector has the largest weight, participating in more than half of the total. This sector, however, has had one of the slowest rates of growth, below rates of the mining and the agricultural investor sector, and specially the livestock sector.

In March 1978 there were 1.4 million hectares under cultivation, an increase of over 100 percent since 1975 when only 668,000 hectares were cultivated. It was projected that agricultural production could double in 1980-81 when the many irrigation projects being carried out on the island start to take effect. Agricultural production is based in six main areas, all of which are liberally fed with streams and rivers from the three high mountain ranges which run horizontally across the island. The valley of Cibao is the largest and most productive of the regions. While the Constanza and Tiero region is the main sugar producing area, the second most important agricultural area is the valley of San Juan. Its agricultural potential will increase five times, and the amount of cultivable land by 49,000 hectares, when a number of internationally financed irrigation and hydroelectric schemes come due.

With the agricultural sector accounting for 50 percent of direct employment and its exports generating 75% of total foreign exchange earnings, improvement in the farm sector's infrastructure and allied services is a high priority. Sugar is the principal farm product and main export commodity, with coffee, cocoa, and tobacco followin in importance.

Local production of food crops has increased considerably in recent years, and has contributed to the comparatively low level of inflation experienced in the Dominican Republic. Rice harvests have grown the most, but there have been increases in beans, sweet potatoes, maize, plantains and onion production. The demand for chicken meat has grown with production, and chicken is now a prohibited export.

Mining has become increasingly important, and the country is now the largest gold producer in the Western Hemisphere. Also, silver production is important, and the production of bauxite, nickel,and, to a lesser extent, iron, is growing.

The manufacturing sector's share of national product is accounted almost 50% by sugar refining. For other manufacturing products there is a domestic market bias, with heavy protection by tariff barriers.

2. Membership in Associations

The Dominican Republic is not associated to any of the regional economic associations. It is, however, a beneficiary of the U.S. Generalized System of Preferences, and is a signatory of the General Agreement on Tariffs and Trade (GATT).

3. Main Imports and Exports

The country's balance of payments, like that of most energy importing, primary products exporting countries, has deteriorated in recent years. The United States is the country's main buyer, taking about 50 percent of exports, while it supplies 80 percent of imports. The major imports are petroleum, machinery, automobiles, iron and steel products, and food items.

In Table IV-12 below we can see a breakdown of the value of the main exports, total imports, and the resulting trade balance of the Dominican Republic. As we can see, sugar is by far the main export, followed by dore and ferronickel. The period 1968-74 was one of rapid expansion in exports and substantial inflow of foreign capital resulting in a gradual build up of foreign reserves. Since then, however, large scale capital investment has decreased and the increase of the oil bill has outpaced improvements in exports. There is a strong need for investment capital in the country, specially to take advantage of the new agricultural opportunities.

Table IV-12. Trade Balance and Value of Main Exports, Dominican Republic - 1980, 1981
(US$Millions)

	1980	1981
Exports		
Sugar	309.5	533.9
Ferronickel	101.9	110.6
Coffee	76.8	75.9
Cacao	51.1	50.2
Tobacco	30.9	65.6
Bauxite	18.5	15.7
Dore	259.5	207.8
Other	113.7	128.4
Total	961.9	1,188.0
Imports	1,425.7	1,450.2
Balance	- 463.8	- 262.2

Source: IMF International Financial Statistics

4. Financial System

The Banco Central is responsible for the management of domestic monetary policy, foreign exchange resources and foreign debt. There were 13 commercial banks with assets of $2.6 billions at the end of 1981. Of these, one is Government owned (Banco de Reserva), and one has mixed government and private ownership (Banco de los Trabajadores). Six banks are locally owned: Banco Popular Dominicano, Banco Metropolitano, Banco del Comercio Dominicano, Banco de Santander Dominicano, Banco de Boston Dominicano, and Banco Nacional de Credito. The remaining banks are owned by foreign banks or have substantial foreign participation: Bank of America, Chase Manhattan Bank, Citibank, Royal Bank of Canada, and Bank of Nova Scotia.

The rest of the financial system is formed by several financial institutions in the public and private sector, specializing in development finance. Together with commercial banks, they channel development funds of the Central Bank, FIDE, for the development of agriculture and industry on preferential terms.

The resources for FIDE come from internal sources mostly, but also from international institutions such as the InterAmerican Development Bank, the World Bank, and aid agencies such as U.S. AID and Germany's Kredinstalt Fur Weindereaubrau. The Government Development Institutions (Banco Agricola and CFI) channeled 24% of these development funds in 1980, whereas the private finance institutions channeled 35% and commercial banks 41%.

5. Investment Incentives

Several laws have been passed to encourage new industries. Investments that introduce new products or expand production of existing products receive tax, import duty and other exemptions or reductions up to 8, 10, 15 or 20 years, depending on location and according to their category - "A", "B", or "C". (These do not apply to agricultural or extractive industries unless some processing of the product is involved.)

All export-oriented industries, including assembly operations, are classified as Category "A", and receive 100% exemptions from import duties and consumption taxes,and up to 100% exemption from income, capital, patent, and other taxes. In order to obtain 100% exemption from income taxes, the industry must be located in an area designated as a free zone, such as La Romana. In other areas, the reduction is 75% during the first vive years and 50% for the remainder of the incentive period. Up to 20% of a category "A" company's

output may be sold within the country bout it must then pay 90% of the normal duties on the portion sold in the Dominican Republic.

Category "B" companies, producing items not yet made in the country, receive a 95% exemption from import duties and other taxes on materials and components. Category "C" companies, those producing items already being made but not meeting national demand, and those making new products not considered to be important, enjoy up to 90% reduction of import and other duties. Both "B" and "C" category companies receive income tax exemptions only for reinvested earnings up to 50%. Machinery and parts imported for both categories pay a 5% ad valorem tax. Category "C" companies cover mainly consumer-oriented enterprises.

G. Haiti

1. Economic Structure

Agriculture is the key sector in the economy, accounting for an average 60 percent of export earnings between 1971 and 1977. It is also the principal source of employment for 80 percent of the population, who live in rural areas and cultivate about 620,000 farms covering 2.2 million acres. Of the total arable area, approximately 312,500 acres are suited to irrigation, of which only 112,500 acres are being served by irrigation systems to produce chiefly rice, tobacco and beans for urban consumption. The few large plantations, an estimated 10 percent of the cultivated area, produce coffee, sisal, and sugar, the first being the most important crop in Haiti, followed by sugar and sisal.

Haiti is not self-sufficient in food production, importing over 15 percent of its food needs. Farming techniques are primite and productivity per acre is quite low. Deforestation continues as farmers seek more land for food production.

Agriculture accounted for 31.9 percent of gross domestic product in 1981, whereas manufacturing accounted for only 16.2 percent, although it has grown rapidly in the last few years. Apart from cement production and sugar refining, light manufacturing has been the key to an impressive record. The expqnsion of small industry has been encouraged by the 1969 industrial promotion laws and amendments which grant fiscal and other incentives to new enterprises. Value added during production in Haiti is rising faster than labour costs. The industry is beginning to siden its base of product lines away from textiles and electronics. In 1977 main exports to the U.S. included sporting goods and electrical apparatus.

The main mineral product is bauxite, produced by a subsidiary of Reynolds Metals, and total production is estimated at 579,000 tons in 1980. Exploration for copper and other base metals has been negotiated in recent years with Kennecott Copper and Imetal of France, but no major finds have been reported.

The table below presents the volume of the main agricultural production items:

Table IV-13. Haiti: Volume of Production of Principal Agricultural Commodities

(000 Tons) 1981

Product	Volume
Coffee	33
Sugar (Raw)	57
Cocoa	3
Rice	90
Maize	180

Sources: US Department of Agriculture; OAS Statistics; FAO Production Yearbook.

2. Membership in Associations

Haiti does not belong to any of the regional associations of the Caribbean area. It is a beneficiary of the U.S. Generalized System of Preferences, which provides duty-free entry into the United States for over 2,000 items if more than 35 percent of their value added is Haitian.

3. Main Imports and Exports

Farming exports accounted for 52.7 percent of the total, mining goods for 13 percent, and the rest was made up by industrial and handicraft products. Coffee led the way, accounting for over 35 percent of total export earnings, followed by sisal and essential oils. Bauxite, Haiti's second absolute foreign exchange earner, accounted for 12.5 percent of total exports during 1971-77.

Assembly line industries have now risen to first place among industrial exports.

Haiti's major trading partner is the United States, which is the source of over half of both imports and exports. Other important partners are Canada, France, Belgium and Japan.

In fiscal year 1981 Haiti exported about US$153 million worth of coffee, assembled components, handicraft items, bauxite, cocoa, essential oils and other goods. During the same period about US$286 million worth of food, vehicles, manufactured goods and other products were imported.

4. Financial Institutions

The banking sector has undergone substantial change in 1979 with the creation of a new central bank, and a new state owned commercial bank, Banque Nationale de Credit. Previously one institution fulfilled the two services, central and commercial banking. The commercial banks operate a network of some 35 offices. The Banque Nationale de Credit covers the whole country. Banque de la Union Haitienne has some 1,500 Haitian shareholders in addition to its institutional shareholding by Manufacturers Hanover Trust, and has offices in the provinces. There is one state-owned Institut de Developpement Agricole et Industriel which makes long-term loans to agricultural and industrial activities. There are also six foreign commercial banks operating in Haiti.

5. Fiscal Incentives

The Government has created facilities for new companies established in Haiti to be exempted from taxes and customs duties, provided certain requirements are met. The tax exemptions apply both at the corporate and shareholder levels. Such tax exemptions may apply:

a) To any new commercial undertaking importing parts or materials to be manufactured, assembled or finished in Haiti where the completed article is to be re-exported and sold overseas, or

b) To any new commercial undertaking which produces products for sale within Haiti which are not currently manufactured in Haiti or where local manufacture of such products currently accounts for less than 25% of local consumption, or

c) To any new agricultural or livestock undertaking.

Exemption is granted for 10 years from customs duties on the importation of all machinery and tools, as well as on non-locally-produced raw materials and packing materials, required for the manufacturing or assembly operation.

Complete exemption from Haitian corporation tax is granted for the first 5 years of operation, extended to 8 years when undertaking is located in the Industrial Park. Companies established outside Port au Prince enjoy an additional tax holiday of 10 years, making 15 in total, from Haitian corporation tax.

V. Financial Evaluation and Development Impact

The nature of Latin and Caribbean Investments, Inc. as a unique financial institution is perhaps best reflected in its financial statements. The greatest part of the income generated by LCI will come, not from its lending operations, or even capital gains obtained from its equity sales, but, rather, from its technical and management services. These services show the extent of LCI's involvement in the operations of the enterprises it will form and finance, and this involvement is what differentiates it from other development and financing companies.

In this chapter, the main financial data projected for LCI is presented, together with a discounted cash flow analysis, rate of return calculations, and an evaluation of the development impact of its operation. The assumptions under which the financial analysis was made were of a conservative nature: costs used were on the higher side that historical experience for corporations similar to LCI has shown. Revenues used for the projections were selected on the lower side. These assumptions are pointed out in sections where the income statement is analized. The use of conservative assumptions allows a safety margin in case there are unfavorable costs or revenue fluctuations.

A. Source and Application of Funds

1. Sources of Funds

Resources of LCI are presently formed by its paid-in capital of US$100,000.00. This initial pool will be increased by September of the current year until a total of US$2 Million is subscribed and paid-in by its sponsor stockholders and by other investors from the region.

Although a larger capitalization is not ruled out, in Table V-1, where the Pro-forma Balance Sheet is presented, it is assumed that the total stockholders' equity, from 1983 until 1988, remains at the US$2 Million level. Afterwards, the stockholders' equity is increased annually by an amount equivalent to 50% of the year's net income.

By September of 1983, it is expected that negotiations between LCI and the U.S. Agency for International Development will have been formalized and that a loan totaling US$2.5 Million from AID's Private Enterprise Program will have been committed. Of this total amount, LCI plans to

draw US$1 Million during the remaining months of 1983, and the rest by 1984. Terms for this loan consist of a grace period of five years, during which only interests will be paid, and a ten year amortization period during which annual payments of US$250 Thousand, plus accrued interest, would be made. Costs of these resources were estimated to be 10% per annum over unpaid balances.

Besides the term debt obtained from AID, Table V-1 shows Other Term Debt. These funds can be obtained from institutions such as the International Finance Corporation, from the Ex-Im-Bank, and from the Inter-American Development Bank. Efforts to obtain these resources would be initiated during 1985, after LCI's operations have begun. It was assumed that by 1986 US$1.5 Million of these funds would have been used, and that by 1987, a total amount of US$2 Million would be reached. Conditions for Other Term Debt were assumed to be the same as for AID's: a five year grace period, ten years for equal amortization payments, and 10% per annum interest rate.

Another source of funds for LCI will be borrowings from commercial banks, which would reach a maximum of US$39.8 Million by 1998, so as to complement other funds in the growth of LCI's activities. These borrowings from banks would take the form of revolving lines of credit at an interest rate of 15% per annum. Active use of bank borrowings will be needed, but this dependency should decrease as a more suitable retained earnings base is reached.

Maximum leverage would be attained in 1987 when the debt to equity ratio is slightly more than 3 to 1. It decreases from then on as the company reduces its relative use of debt and accumulates its own funds. From the Pro-forma Balance Sheet we can see the year by year growing importance of accumulated earnings, which will give flexibility to the institution in either augmenting dividends to its stockholders, or increasing its leverage so as to expand operations at an even greater pace. In the projections it was assumed that after 1988 Accumulated Earnings increase only by 25% of Current Net Income. As has been pointed out above, 50% of current net income is capitalized. The remaining 25% is given out to the stockholders in the form of dividends.

2. Use of Resources

The activities of the corporation will require that the funds obtained from the above-mentioned sources be used in the acquisition of essentially three kinds of earning assets:

a) Liquid assets, shown in the Pro-forma Balance Sheet as Cash and Due from Banks and Short Term Investments. These assets will fluctuate around 15% of total earning assets, with Cash and Due from Banks being 1%, and Short Term Investments 14%.

b) Loans will be the most important, volume-wise, of LCI investments, representing 50% of total earning assets.

c) Equity Investments will be 35% of earning assets, second in importance.

The values for these assets can be seen in Table V-1. The reasons behind the selection of this distribution of earning assets was pointed out in Section F of Chapter II. There the investment and lending policies of the corporation are discussed.

The reserve against losses, also appearing on the asset side of the Pro-Forma Balance Sheet, is really a source of funds, and not a use, and it is represented as such in the schedule (Table V-3) of the Projected Statement of Changes in Financial Position. This reserve is taken out of current income from operations, and is formed by an amount equivalent to the sum of 3% of loans and 4% of equity investments. The weighted average reserve is 3.41% of total investments in loans and equity.

Accrued income and receivables consist of one third of current net income. It is supposed, for all of the projected period, that one third of net income is earned but not received during the current year. As can be seen in Table V-3, that third of Net Income is received in the year following each current year, so that only the incremental amount is shown as reducing funds provided.

Finally, on the asset side of the Balance Sheet, we have other assets, which represent a small proportion of the total. These assets would consist of equipment or any other non-earning assets that the company will need to provide its services. In this projection they were assumed to increase slowly, around 10% per annum.

It is important to describe how the different investments will be coordinated by LCI so as to attain its objectives. In Chapter II, we saw that LCI's activities consisted of supplying enterprises, whether new or to be organized, a complete set of services which would include transfer of technological know-how, seed capital, loanable funds, and management services. The mix of these services can be illustrated by a description of what was assumed to be a typical firm being

Table V-1. PRO-FORMA BALANCE SHEET
(In Thousands of U.S. Dollars)

		1983	1984	1985	1986	1987	1988
I.	ASSETS						
1.	Cash and Due from Banks	45	75	105	150	195	270
2.	Short Term Investments	405	675	945	1,350	1,755	2,430
3.	Loan and Equity Investment:						
	a) Loans	1,500	2,500	3,500	5,000	6,500	9,000
	b) Equity Investments	1,050	1,750	2,450	3,500	4,550	6,300
	c) Less-Reserve Against Losses	(87)	(145)	(203)	(290)	(377)	(651)
4.	Accrued Income and Receivables	16	19	51	98	218	546
5.	Other Assets	118	121	142	177	222	234
	TOTAL	3,047	4,995	6,990	9,985	13,063	18,129
II.	LIABILITIES AND CAPITAL						
1.	Liabilities						
	a) Accounts Payable	30	50	70	100	130	180
	b) Other Liabilities	15	25	35	50	65	90
2.	Borrowings						
	a) Loans Payable to Banks	-	362	2,173	3,330	5,209	8,563
	b) Term Debt	1,000	2,500	2,500	2,500	2,500	2,500
	c) Other Term Debt	-	-	-	1,500	2,000	2,000
3.	Capital and Accumulated Earnings						
	a) Stockholders' Equity	2,000	2,000	2,000	2,000	2,000	2,000
	b) Accumulated Earnings	2	58	212	505	1,159	2,796
	TOTAL	3,047	4,995	6,990	9,985	13,063	18,129

PRO-FORMA BALANCE SHEET
(Continued)

		1989	1990	1991	1992	1993	1994
I.	ASSETS						
1.	Cash and Due from Banks	345	420	495	570	720	870
2.	Short Term Investments	3,105	3,780	4,455	5,130	6,480	7,830
3.	Loan and Equity Investments						
	a) Loans	11,500	14,000	16,500	19,000	24,000	29,000
	b) Equity Investments	8,050	9,800	11,550	13,300	16,800	20,300
	c) Less-Reserve Ag.Losses	(854)	(1,057)	(1,331)	(1,605)	(2,127)	(2,620)
4.	Accrued Income & Receivables	640	829	1,159	1,449	2,064	2,460
5.	Other Assets	284	308	392	449	486	523
	TOTAL	23,070	28,088	33,220	38,293	48,423	58,363
II.	LIABILITIES AND CAPITAL						
1.	Liabilities						
	a) Accounts Payable	230	280	330	380	480	580
	b) Other Liabilities	115	140	165	190	240	290
2.	Borrowings						
	a) Loans Payable to Banks	12,237	15,556	18,262	20,449	26,235	30,940
	b) Term Debt	2,250	2,000	1,750	1,500	1,250	1,000
	c) Other Term Debt	2,000	2,000	2,000	1,800	1,600	1,400
3.	Capital & Accum. Earnings						
	a) Stockholders' Equity	2,961	4,205	5,944	8,118	11,214	14,904
	b) Accumulated Earnings	3,277	3,899	4,769	5,856	7,404	9,249
	TOTAL	23,070	28,080	33,220	38,293	48,423	58,363

PRO-FORMA BALANCE SHEET
(Continued)

		1995	1996	1997	1998
I.	ASSETS				
1.	Cash and Due from Banks	1,020	1,170	1,320	1,545
2.	Short Term Investments	9,180	10,530	11,880	13,905
3.	Loan and Equity Investments				
	a) Loans	34,000	39,000	44,000	51,500
	b) Equity Investments	23,800	27,300	30,800	36,350
	c) Less-Reserve Ag. Losses	(3,113)	(3,635)	(4,157)	(5,126)
4.	Accrued Income & Receivables	2,984	3,732	4,479	6,101
5.	Other Assets	550	610	680	773
	TOTAL	68,421	78,707	89,002	105,048
II.	LIABILITIES AND CAPITAL				
1.	Liabilities				
	a) Accounts Payable	680	780	880	1,030
	b) Other Liabilities	340	390	440	515
2.	Borrowings				
	a) Loans Payable to Banks	34,584	36,773	37,291	39,834
	b) Term Debt	750	500	250	-
	c) Other Term Debt	1,200	1,000	800	600
3.	Capital & Accum. Earnings				
	a) Stockholders' Equity	19,380	24,978	31,696	40,848
	b) Accumulated Earnings	11,487	14,286	17,645	22,221
	TOTAL	68,421	78,707	89,002	105,048

organized by LCI. The typical enterprise would finance its investment cost with a proportion of 35% equity capital and 65% debt. Of these funds, LCI would provide the firm with 25% of the equity, and 40% of the loanable funds. The rest of the funds would come from local sources and other international investors.

The investment costs, on the other hand, would consist of a total of 35% working capital, 61.5% fixed assets, and 3.5% organizational costs. These latter would include technical services, designs, feasibility studies, and all the costs related to the structuring of the new enterprise. It is assumed that LCI will receive this 3.5% of total investment costs as payment for the global technical services it will provide in structuring the company.

Taking the above distribution of funds and costs, the initial balance sheet of a typical company structured by LCI can be presented as follows:

Assets		Liability and Capital			
Technical and Organizational Costs	3.5	LCI Loans	(40%)	26.0	
Working Capital	35.0	Other Loans	(60%)	39.0	
Fixed Assets	61.5	Liabilities			65.0
		LCI Equity	(25%)	8.75	
		Other Equity	(75%)	26.25	
		Capital			35.0
Total Assets	100.0	Total Liab.&Capital			100.0

Throughout the projections of LCI's financial statements, it was also assumed that 60% of the financing of enterprises will be as described above, that is, new enterprises that are organized and structured from the beginning. The remaining 40% would consist of the financing of existing enterprises' expansions, where LCI will also contribute in the technical organization of the new investments. LCI will make these investments, both through loans and equity, in proportions that would result in participations analogous to those described earlier for new enterprises.

It is important to keep in mind these assumptions about the mix of LCI services, because they are the basis for the projections of the income derived from its operations, as will be seen in the next section.

B. Income and its Composition

1. Operating Income

The typical enterprise serviced by LCI would receive

a mix of technical, financial, and managerial services. Concrete assumptions have been made concerning the proportions in the funding of total investment costs that LCI will provide, whether in the form of loans or equity capital to new enterprises, or to enterprises undergoing expansions. In Table V-2 the Projected Statement of Income is presented.

We can see there that by far the most important source of income is that obtained from management services. This income is derived annually from the enterprises serviced by LCI. It was assumed that LCI would charge, on the average, an amount equivalent to 2.5% of the total sales of new enterprises, structured and organized by LCI, and 1.5% of total sales when the management contract was a result of investments in the expansion of an existing enterprise. Furthermore, it was assumed that the year the investment was made and first appears in the Pro-forma Balance Sheet is year 0 for the new enterprise (or the investment expansion), and that total sales of the enterprise would equal 1.5 times total assets for year 1, and 3 times total assets for year 2 and the rest of the relevant (for LCI) years of operation.

In 1983, therefore, there is no income from management services because it is year 0 for the enterprises receiving the US$1,050,000 shown in the Pro-forma Balance Sheet under equity investments. In 1984, however, we already have an income equivalent to the fee received for management services to new and expanding enterprises. This income grows from 34% of total operating income in 1984, to slightly more than 50% in the remaining years, as the enterprises serviced by LCI mature and obtain their maximum sales to assets ratio.

As we saw in the earlier section, another source of income for LCI are the technical services it will provide in structuring companies and expansion investments, and that were assumed to be equal to 3.5% of total investment costs, whether of a new enterprise or an expanding one. These services would provide a once-and-for-all fee, and are shown in the schedule for Projected Income under Technical Services. Although important in the first few years of LCI, this source of income drops its participation from 32% in 1984 to around 7% of operating income for the years after 1987.

It was assumed that the technical fee, except for 1983, was also received by LCI in Year 1 of the enterprises it will service. For 1983 it was assumed that a portion (18%) of the technical services would be received that year.

Another important source of income, as we can see from the schedule, is the realized gains on equity sales, analyzed below, together with income from dividends.

TABLE V-2. PROJECTED STATEMENT OF INCOME
(In Thousands of U.S. Dollars)

		1983	1984	1985	1986	1987	1988
I.	OPERATING INCOME						
1.	Income from S.T. Investments	11	46	68	97	131	177
2.	Interest from Loans	80	320	480	680	920	1,240
3.	Dividends	-	-	-	53	140	210
4.	Realized Gains on Equity Sales	-	-	-	-	-	1,050
5.	Commissions	15	10	10	15	15	40
6.	Technical Services	74	348	280	280	420	420
7.	Management Services	-	368	980	1,470	2,083	2,818
	TOTAL	180	1,092	1,818	2,595	3,709	5,955
II.	OPERATING EXPENSES						
1.	Interest on Borrowings	33	304	576	900	1,232	1,735
2.	Administrative Expenses	21	316	400	440	484	690
3.	Technical & Management Serv.Expenses	37	358	630	875	1,252	1,619
	TOTAL	91	978	1,606	2,215	2,968	4,044
III.	INCOME FROM OPERATIONS	89	114	212	380	741	1,911
IV.	PROVISION FOR LOSSES	(87)	(58)	(58)	(87)	(87)	(274)
V.	NET INCOME	2	56	154	293	654	1,637
	(Transferred to Accumulated Earnings)						

PROJECTED STATEMENT OF INCOME
(Continued)

		1989	1990	1991	1992	1993	1994
I.	OPERATING INCOME						
1.	Income from S.T. Investments	234	291	348	405	490	604
2.	Interest from Loans	1,640	2,040	2,440	2,840	3,440	4,240
3.	Dividends	193	228	350	508	648	630
4.	Realized Gains on Equity Sales	700	700	1,050	1,050	2,800	2,450
5.	Commissions	35	35	40	40	90	85
6.	Technical Services	1,120	980	980	1,120	1,120	2,520
7.	Management Services	3,430	4,778	6,003	7,105	8,330	9,555
	TOTAL	7,352	9,052	11,211	13,068	16,918	20,084
II.	OPERATING EXPENSES						
1.	Interest on Borrowings	2,261	2,734	3,100	3,395	4,202	4,862
2.	Administrative Expenses	691	749	867	938	1,277	1,311
3.	Technical & Management Ser.Exp.	2,275	2,87[illegible]	3,492	4,113	4,725	6,038
	TOTAL	5,227	6,362	7,459	8,446	10,204	12,211
III.	INCOME FROM OPERATIONS	2,125	2,690	3,752	4,622	6,714	7,873
IV.	PROVISION FOR LOSSES	(203)	(203)	(274)	(274)	(522)	(493)
V.	NET INCOME	1,922	2,487	3,478	4,348	6,192	7,380

(Transferred to Accumulated Earnings)

PROJECTED STATEMENT OF INCOME
(Continued)

	1995	1996	1997	1998
I. OPERATING INCOME				
1. Income from S.T. Investments	718	832	846	1,089
2. Interest from Loans	5,040	5,840	6,640	7,640
3. Dividends	665	875	1,208	1,523
4. Realized Gains on Equity Sales	2,450	2,800	2,800	6,300
5. Commissions	85	90	90	165
6. Technical Services	2,380	2,380	2,520	2,520
7. Management Services	12,128	14,578	16,905	19,355
TOTAL	23,466	27,395	31,009	38,592
II. OPERATING EXPENSES				
1. Interest on Borrowings	5,363	5,638	5,663	6,055
2. Administrative Expenses	1,405	1,561	1,675	2,326
3. Technical & Management Ser.Exp.	7,254	8,479	9,713	10,938
TOTAL	14,010	15,678	17,051	19,319
III. INCOME FROM OPERATIONS	9,445	11,717	13,958	19,273
IV. PROVISION FOR LOSSES	(493)	(522)	(522)	(969)
V. NET INCOME	8,952	11,195	13,436	18,304
(Transferred to Accumulated Earnings)				

It was assumed throughout the projections that LCI would sell its equity investments after five years of holding them, so as to take a capital gain, and in essence because the enterprise will have matured. It was also assumed that by Y ear 3 of the investment, a 5% dividend would be obtained, and that for Years 4 and 5, the dividend would be 10%. The capital gain, obtained in Year 5 also, was assumed to be, on the average, 100% of the amount invested. In other words, for every US$1 invested in another company, LCI would obtain at the end of five years US$2, one for its initial investment and one as a realized gain.

Therefore, the total flow of funds that LCI would get as a result of an equity investment, taking into consideration dividends as well as realized gains on equity sales, is as follows:

Year:	0	1	2	3	4	5
Flow: (US$)	(100)	0	0	5	10	210

This flow of funds results in a gross internal rate of return of 18% for equity investments made by LCI.

This internal rate of return must be compared with the 16% interest rate obtained from loans, which is the second most important source of income, after management services (realized gains are third in importance and technical services fourth), and are shown in the schedule for Projected Income under the heading interest from loans. The absolute contribution of interest from loans to total operating income increases steadily year by year, although their relative participation drops from 29% and 26% in 1984 and 1985 respectively, to 20% in 1988 and the remaining years.

It was also assumed that a once-and-for-all 1% commission would be charged on all loans, and is shown separately in the schedule. As we can see, they are never an important source of operating income, even though they grow substantially in 1988, and every five years as old loans are repaid and re-loaned together with new loans. (It was assumed that loans were repaid every five years).

Finally, income from short term investments was determined by assuming that funds invested in cash and due from banks would provide a 4% return, and short term investments 8%. The resulting income contribution is not very important in relative terms.

2. Operating Expenses and Net Income

a) Operating Expenses

The operations of LCI will require several kinds of expenses, each more or less directly connected to the most important types of activities that the company will undertake.

Management services being the most important source of operating income, we have that technical and management services expenses are, for the analyzed period, the most important expense. It was assumed that half of all the income generated by technical and management services would be required to pay the expenses necessary to generate that income. These expenses would be composed essentially of payments to the technical personnel contracted for specific periods by LCI to participate in each investment project, and expenditures related to each project. It is for this reason that those expenses vary directly with tehcnical and management services, which are, in turn, directly related to the equity investments made.

The second most important operating expense is the interest paid on borrowings. As we have seen in the section about sources of funds, LCI is expected to pay a 10% interest charge on its term debt, from AID and from other sources, and 15% on its commercial bank borrowings. The interest expense is not directly related to any particular activity, since borrowings, as we can see in the schedule for the Projected Statement of Changes in Financial Position, become one of the most important sources of incremental funds that are used to increase all of LCI's earning assets. In this sense, borrowings vary in a direct relationship to all of the company's operations.

Administrative expenses consist of what we call "fixed expenses" and in the sense that they do not vary as directly as the other two with the growth of LCI's activities. These expenses were assumed to consist of the permanent personnel and related costs of two LCI offices, one in Panama City, Panama, and the other in Nassau, Bahamas. The cost of the first office was assumed to be, for 1985, US$10,000 a month, and for the second, US$15,000 a month. Also included is an expense of US$5,000 for both offices, related to travel and personnel stipends. Finally, an expense equivalent to 10% of all the above costs was budgeted for unforeseen expenses amounting to US$3,000. The annual total was rounded to US$400,000 for 1985, and was assumed to increase at a 10% per annum rate from there on. For the years of 1983 and 1984, administrative expenses were assumed to be a fracion of 1985's since the corporation has not used all its potential, and, therefore, will have smaller expenses.

Also included with the administrative expenses was an imputed cost for the selling of equity investments

once LCI decided to take the capital gains (after five years). This expense was assumed to be equivalent to 15% of the capital gain, and is included in 1988 and the remaining years.

b) Net Income

Some operating expenses increase quite rapidly, as can be seen from the schedule, and as should be expected given the growth in LCI's activities: operating income grows, during the first five years, at rates of 500%, 66%, 43%, and 61%. Operating expenses, on the other hand, grow during the same period by 900%, 73%, 38%, 34% and 36%. There is, therefore, in that period, and increasing difference between operating income and operating expenditures. As a result, income from operations grows at an increasing rate: 28%, 86%, 79%, 95%, and 158%.

As was pointed out in the analysis of the Proforma Balance Sheet, the Provision for Losses is formed by 3% of loans and 4% of equity investments. Its growth is, of course, related directly to LCI's operations, but because of its low absolute value and except for the first few years, its movements do not have a strong impact in the company's results.

Although net income resulting from LCI's first few years of operation is not high in absolute terms (it is US$2,000 and US$56,000 for 1983 and 1984), its rate of growth is impressive, reaching 150% from 1987 to 1988, and producing already a respectable net income of US$1.6 Million in this latter year.

The reason for this pattern of growth of LCI's net income is that, as an important portion of its earning assets are direct investments in other enterprises, and the benefits of these investments are not obtained until the enterprises mature (i.e., gains on equity investments and dividends), the full earning potential of LCI is not realized until then. In a real sense, we can say that LCI's maturity as a company is directly related to the development and maturity of the companies it finances.

After the first five years of operations, the main variables determing LCI's net income grow at more or less stable rates: operating income's rate of growth, for instance, fluctuates between 16% and 29% from 1989 to 1998, a narrow range compared to rate of growth variations in the first few years. Variations in the rate of growth of operating expenses, on the other hand, are somewhat larger, between 9% and 29% for the same period, but concentrated around 20%. Net income, which contains variation in both, operating income and operating expenses, has a much wider

fluctuations rage, between 17% and 42% for the same period of 1989 to 1998. The larger rates of growth are due essentially to increases in realized capital gains. Most of the other components of operating income grow in a smoother way.

To conclude this section, it is important to point out the high value of net income generated by LCI. By 1987 net income represents 33% of stockholders' equity, and 5% of total assets. The next year these ratios go up to 82% and 9% respectively, and by the end of the projections (1998) net income represents 45% of stockholders' equity (which has grown from US$2 Million to US$40.1 Million) and 17% of total assets. These have grown from US$3 Millin to US$105 Million.

The high volume of LCI's income generation is an important factor in the company's growth, since, as will be seen from the next section, it is one of the main sources of funds for increases in operations. They are also important in determining the internal rate of return, as will also be seen in future sections.

C. Flow of Funds Analysis

In Table V-3, the Projected Statement of Changes in the Financial Position of LCI is presented. This Table has three main components: first, those elements that provide funds, second, those that imply a use of funds, and, finally, a resulting increase (or decrease) in the company's liquidity.

For the purposes of the projection it can be said, up to a certain extent, that the accomodating variable in the flow of funds is the amount borrowed from banks (entry I.2 in the schedule). This is so because changes in earning assets (which use funds) is a set target, determined by taking into consideration factors such as a desired growth pattern in LCI's activities, and also because the provision of funds is, with the exception of borrowings from banks, determined by past operations.

Besides being an accommodating variable, borrowings from banks are also, for the next six years of operation after 1984, the most important source of funds for increments in the desired activities of LCI. After 1990, however, net income becomes the most important one, being at least seven times, in 1998, the amount provided by commercial debt.

As we saw when the Pro-Forma Balance Sheet was analyzed, the highest leverage ratio is attained in the early years (1987) of the company's operations. It is due to this early leverage, and the high differential obtained in the overall operations, that LCI is able later on to accumulate its own funds at an accelerating rate.

TABLE V-3. PROJECTED STATEMENT OF CHANGES IN FINANCIAL POSITION
(In Thousands of U.S. Dollars)

		1983	1984	1985	1986	1987	1988
I.	FUNDS PROVIDED						
1.	From Operations						
	a) Net Income	2	56	154	293	654	1,637
	b) Provision for Losses	87	58	58	87	87	274
	c) Accrued Income & Receivables	(16)	(3)	(32)	(47)	(120)	(328)
2.	Borrowings from Banks	-	362	1,811	1,157	1,879	3,354
3.	Term Debt	1,000	1,500	-	-	-	-
4.	Other Term Debt	-	-	-	1,500	500	-
5.	Repayments of Loans	-	-	-	-	-	1,500
6.	Disinvestments in Equity	-	-	-	-	-	1,050
7.	Other	2,045	30	30	45	45	75
	TOTAL	3,118	2,003	2,021	3,035	3,045	7,562
II.	FUNDS USED						
1.	Disbursements on Loans	1,500	1,000	1,000	1,500	1,500	4,000
2.	Investments in Equity	1,050	700	700	1,050	1,050	2,800
3.	Repayments on Bank Borrowings	-	-	-	-	-	-
4.	Repayments on Term Debt	-	-	-	-	-	-
5.	Repayments on Other Term Debt	-	-	-	-	-	-
6.	Other	118	3	21	35	45	12
	TOTAL	2,668	1,703	1,721	2,585	2,595	6,812
III.	INCREASE (DECREASE) IN CASH AND LIQUID INVESTMENTS	450	300	300	450	450	750

PROJECTED STATEMENT OF CHANGES IN FINANCIAL POSITION
(Continued)

		1989	1990	1991	1992	1993	1994
I.	FUNDS PROVIDED						
1.	From Operations						
	a) Net Income	1,922	2,487	3,478	4,348	6,192	7,380
	b) Provision for Losses	203	203	274	274	522	493
	c) Accrued Income & Receivables	(94)	(189)	(330)	(290)	(615)	(396)
2.	Borrowings from Banks	3,674	3,319	2,706	2,187	5,786	4,705
3.	Term Debt	-	-	-	-	-	-
4.	Other Term Debt	-	-	-	-	-	-
5.	Repayments of Loans	1,000	1,000	1,500	1,500	4,000	3,500
6.	Disinvestments in Equity	700	700	1,050	1,050	2,800	2,450
7.	Other	(405)	(548)	(796)	(1,012)	(1,398)	(1,695)
	TOTAL	7,000	6,974	7,884	8,057	17,287	16,437
II.	FUNDS USED						
1.	Disbursements on Loans	3,500	3,500	4,000	4,000	9,000	8,500
2.	Investments in Equity	2,450	2,450	2,800	2,800	6,300	5,950
3.	Repayments on Bank Borrowings	-	-	-	-	-	-
4.	Repayments on Term Debt	250	250	250	250	250	250
5.	Repayments on Other Term Debt	-	-	-	200	200	200
6.	Other	50	24	84	57	37	37
	TOTAL	6,250	6,224	7,134	7,307	15,787	14,937
III.	INCREASE (DECREASE) IN CASH AND LIQUID INVESTMENTS	750	750	750	750	1,500	1,500

PROJECTED STATEMENT OF CHANGES IN FINANCIAL POSITION
(Continued)

		1995	1996	1997	1998
I.	FUNDS PROVIDED				
1.	From Operations				
	a) Net Income	8,952	11,195	13,436	18,304
	b) Provision for Losses	493	522	522	969
	c) Accrued Income & Receivables	(524)	(748)	(747)	(1,622)
2.	Borrowings from Banks	3,644	2,189	518	3,543
3.	Term Debt	-	-	-	-
4.	Other Term Debt	-	-	-	-
5.	Repayments of Loans	3,500	4,000	4,000	9,000
6.	Disinvestments in Equity	2,450	2,800	2,800	6,300
7.	Other	(2,088)	(2,650)	(3,209)	(4,351)
	TOTAL	16,427	17,310	17,320	31,143
II.	FUNDS USED				
1.	Disbursements on Loans	8,500	9,000	9,000	16,500
2.	Investments in Equity	5,950	6,300	6,300	11,850
3.	Repayments on Bank Borrowings	-	-	-	-
4.	Repayments on Term Debt	250	250	250	250
5.	Repayments on Other Term Debt	200	200	200	200
6.	Other	27	60	70	93
	TOTAL	14,927	15,810	15,820	28,893
III.	INCREASE (DECREASE) IN CASH AND LIQUID INVESTMENTS	1,500	1,500	1,500	1,250

1. Funds Provided

For 1983, the initial year of operations, the main sources of funds are U.S. AID's portion of the total approved loan, and the funds provided by the stockholders, shown in Table V-3 under heading "7. Other Funds Provided". The US$45 Thousand included also under that heading, correspond to the increase, shown in the balance sheet, for accounts payable and other liabilities. Equity movements are not shown again under that heading until 1989, where the amount in parenthesis represents the 25% portion of net income paid out as dividends (a negative amount, since it reduces the funds provided by net income), and accounts payable and other liabilities, which are always small in absolute and relative terms.

The resources provided by U.S. AID are even more important in 1984, when they amount to 75% of total funds provided.

In a real sense, then, AID's contribution to LCI's development, because it is done during its starting period, because it is so important in absolute and relative terms, and because of its re-payment conditions, can be considered as seed capital, thanks to which the company can make its operations grow at the fast pace that we have seen when the Projected Statement of Income was analyzed.

During the next six years borrowings from banks finance for the most part increments in the company's operation. For 1985, for instance, they provide 90% of funds, a proportion that will decrease continuously as funds provided by net income become more important: whereas borrowings in 1990 provide 48% of funds, and net income 36%, by the next year of operation that situation is reversed, the first one providing now 34%, and the latter 44%. By 1998, net income provides 59%, and borrowings from banks 8%.

Under the heading "Accrued Income & Receivables", the incremental amount of net income earned but not received is included. It was assumed that one third of net income was not received until the following year. There is, therefore, a positive flow as this third is recovered, but there is also a negative flow (of funds, not of cash), equivalent to one third of the then current income. Since this latter has always a positive growth trend, then, one third of the current year's net income is always larger than one third of last year's, leading to a net absorption of funds, shown as a negative amount in the schedule.

After 1989 repayments of loans and disinvestments in equity become an important source of funds. It was assumed

that loans repaid and equity disinvested were loaned out and invested in the same period, together with new loans and equity investments. The net increase, therefore, if seen as the difference from one position in the balance sheet to the other, is the desired absolute trend of increase in this type of investments.

The provision for losses, although it appears in the balance sheet as a negative amount, appears here as a positive flow. This is because this account, although it reduces income from operations, it does so without requiring a use of funds, since it is merely a provision. There would be a use of funds if a loss were actually experienced. Finally, its value is not important as a source of funds as we can see from Table V-3.

2. Funds Used and Changes in Liquidity

As was pointed out earlier, the use of funds are essentially a target in the projection of changes in financial position. Disbursements on loans, as well as investments in equity, increase in amounts that result in a rapid growth of total assets, but that do not make full use of the leverage capacity of the company. For most of the years after 1987, the relation of debt to total capital account fluctuates around 1. A potential for an even faster rate of growth of LCI's operations is possible through a higher debt to equity ratio. An institution such as the International Finance Corporation, with many activities similar to LCI's, has as a condition to receive loans from the World Bank, that its debt does not exceed four times its capital. This ratio for LCI would leave ample room for a more accelerated growth if so desired.

It was assumed that repayments on bank borrowings were immediately replaced by new borrowings from banks. For analytical purposes, neither the repayments, nor the new borrowings that replace them were shown in the schedule, only net increases. In this sense, then, commercial bank loans are supposed to behave like "evergreens".

The repayment of the two kinds of term debt is made without stunting LCI's operations, as the company's generation of funds already permit this use of resources.

Finally, increases in cash and liquid investments are also targeted. They increase in such a way as to make the liquidity position 15% of total earning assets. From the schedule we can see that their increments are 15% of the sum of the increments in total earning assets.

D. Discounted Cash Flow and Internal Rate of Return

In Table V-4 the Projected Cash Flow of the company is presented. This schedule is formed by three components: Cash Generated by the Firm, Investment Outlays, Net Cash Flow.

The table was prepared for the following objectives:

1. To evaluate the company's capacity to generate cash flows that increase the value of the company's assets, given required investment outlays and a discount rate.

2. To determine the highest discount rate at which the company's generated cash flows can be equated to the required investment outlays.

The first evaluation will give us the net present value of the cash flows used and generated by the company in its fifteen-year life, whereas the second will determine the internal rate of return. Both are generally accepted ways of ranking investment opportunities.

In the next few paragraphs the methodology used to prepare the Projected Cash Flow is discussed. After this discussion, the results of the mathematical determination of the net present value and of the internal rate of return are presented.

1. Cash Generated by the Firm

Within this category, the net income as it appears in the schedule of the Projected Statement of Income is included. To this positive flow, the provision for losses, and interest on borrowings are added. The provision does not require a cash outflow, and since it was subtracted from the income from operations to determine net income, it is now added back so as to reflect true cash flow generation by the firm. Interest on borrowings is added so as not to penalize the firm twice with interest payments, once with this expense, and again with the discounting. Finally, the net change in accrued income and receivables is added (algebraically) to the rest of the entries. This account reflects income generated by the firm, but not yet received in cash, therefore, increases in this account in the Pro-Forma Balance Sheet imply a smaller cash generation than net income would imply.

2. Investment Outlays

Under this heading are included all the cash resources not generated by the firm and needed by it to initiate its operations and maintain the growth rate reflected in the Pro-Forma Balance Sheet.

These investment outlays are compensated by increases in borrowings from banks, term debt, other term debt, stockholders equity, and accounts payable and other liabilities. The last year of the projection, 1998, the outlay is a positive account, as it is assumed that the firm is dissolved and the amount shown is the recovery value of assets financed through these investment outlays.

3. Net Cash Flow

The net cash flow, as shown in the Table, is the difference between cash generated by the firm and the invement outlays.

In the first six years of operations, the net cash flow is negative, as the firm increases operations in amounts greater than the cash it generates. However, since the rate at which the firm generates its own cash is much greater than the rate at which operations are increased, in the rest of the years, even though investment outlays are continually being made, there is a positive net cash flow. It should be noted that Year 0 for the firm is 1983, when only four months are operated. In those four months a small quantity of cash is generated.

4. Net Present Value

The net present value was calculated using a discount rate of fifteen percent per annum. This rate is equivalent to the cost of commercially borrowed funds, and is assumed to represent the opportunity cost of total funds for the firm. The net present value obtained with this discount rate was US$15,052,699.57. This amount is what all the actualized cash flows generated by the firm are worth given the required investment outlays, and, as we can see, represent a substantial amount.

Another way of evaluating the projected cash flows is to determine the ratio of the present value of the cash generated by the firm over the present value of the investment outlays. The first was calculated at US$28,814,660. and the second as US$13,761,960. The ratio, then, is 2.09, showing the firm's high capacity to generate cash flows.

5. Internal Rate of Return

The projected net cash flow shown in the schedule has an internal rate of return of 28.13%. At this rate, the firm's generated cash flow equals the required investment outlays. This is a high internal rate of return, showing the profitability of the project, and its high return on capital.

TABLE V-4.

PROJECTED CASH FLOW
(In Thousands of U.S. Dollars)

	1983	1984	1985	1986	1987	1988
I. CASH GENERATED BY FIRM						
1. Net Income	2	56	154	293	654	1,637
2. Provision for Losses	87	58	58	87	87	274
3. Interest on Borrowings	33	304	576	900	1,232	1,735
4. Change in Accrued Income and Receivables	(16)	(3)	(32)	(47)	(120)	(328)
TOTAL	106	415	756	1,233	1,853	3,318
II. INVESTMENT OUTLAYS	(3,045)	(1,892)	(1,841)	(2,702)	(2,424)	(3,429)
III. NET CASH FLOW	(2,939)	(1,477)	(1,085)	(1,469)	(571)	(111)

TABLE V-4.

PROJECTED CASH FLOW
(In Thousands of U.S. Dollars)

	1989	1990	1991	1992	1993	1994
I. CASH GENERATED BY FIRM						
1. Net Income	1,922	2,487	3,478	4,348	6,192	7,380
2. Provision for Losses	203	203	274	274	522	493
3. Interest on Borrowings	2,261	2,734	3,100	3,395	4,202	4,862
4. Change in Accrued Income and Receivables	(94)	(189)	(330)	(290)	(615)	(396)
TOTAL	4,292	5,235	6,522	7,727	10,301	12,339
II. INVESTMENT OUTLAYS	(3,749)	(3,394)	(2,781)	(2,262)	(5,936)	(4,855)
III. NET CASH FLOW	543	1,841	3,741	5,465	4,365	7,484

TABLE V-4.

PROJECTED CASH FLOW
(In Thousands of U.S. Dollars)

	1995	1996	1997	1998
I. CASH GENERATED BY FIRM				
1. Net Income	8,952	11,195	13,436	18,304
2. Provision for Losses	493	522	522	969
3. Interest on Borrowings	5,363	5,368	5,663	6,055
4. Change in Accrued Income and Receivables	(524)	(748)	(747)	(1,622)
TOTAL	14,284	16,337	18,874	23,706
II. INVESTMENT OUTLAYS	3,794)	(2,339)	(668)	43,379
III. NET CASH FLOW	0,490	13,998	18,206	67,085

6. Debt Coverage

As we can see from the schedule, after year 5 of operations (1988, with 1983 as year 0), and given the desired pattern of growth, the firm can begin the amortization of its term debt, which was assumed to be US$250 Thousand annually for ten years, beginning 1989, for AID's resources, and US$200 Thousand annually for the other term debt, beginning in 1992.

7. Conclusions

Given all the assumptions under which the statement of income was projected, and using conventional ways of financial evaluation of projects, which show that:

a) The net present value of the cash flow is US$15 Million at a discount rate of 15% and with an initial outlay of US$3 Million.

b) The ratio of the present value of the firm's generated cash to the investment outlays is 2.09,

c) The rate of return of the firm's projected cash flow is 28.13%.

d) The firm can meet its debt obligations, under the conditions that have been applied for, and given the growth pattern that has been established,

we can conclude that this particular project is not only feasible, but attractive in terms of its rate of return.

E. Development Impact

Since the main activity that Latin & Caribbean Investments, Inc. will have is that of organizing and structuring enterprises, its development impact will be directly related to that of those enterprises. In fact, if we assume that those enterprises would not be formed without the technological transfer, seed capital, complementary financing, management services, and other services that LCI can and will provide, then we can say that the development impact of all of LCI's activities will be equivalent to the sum of the development impact of each and every one of those enterprises. This impact is particularly evident in the transfer of technology and the development of entrepreneurial skills, which are analyzed in the section below.

1. Technology and Entrepreneurial Skills

Two of the most important resources in short supply in the developing countries are technological knowledge and entrepreneurial skills.

Because of these countries' low expenditures in research and development, a natural consequence of their condition, their generation of new techniques is limited, and often advances that lower substantially costs of production, or furthermore, that make particular ventures feasible, are not known. In this sense, the transfer of technology from the countries that develop it is crucial for the advancement of the less developed countries.

The simple transfer of technology, however, is not enough to assure the success of an investment; it is necessary that the technology be suitable to the resource endowment of each economy. Very often a technology that may be successful in a developed, labor-scarce economy, will be profitable in a developing country only if protected through high tariffs and other subsidy mechanisms. In this sense, care should be taken to ensure that the technology being transferred to a developing country will be successful thanks to real cost savings given the resource endowment of its economy and not to artificial factors, such as subsidies, that can usually be given only in good times.

The best test to see if a technology will be adequate is to evaluate its cost efficiency, without subsidies, in a free market, i.e., the world market. If an investment project using a particular technology can eventually compete in the world market, then, it can be said, it is taking advantage of the resource endowment of a particular country.

As far as LCI is concerned, one of its comparative advantages is the capacity it has to market goods, produced in the area where it will invest, in the U.S., one of the most competitive markets in the world.

Therefore, for LCI to use fully all the services it can provide, the technological transfer it will provide in the region will reflect real cost savings.

Another benefit that LCI's activities will bring to the region, besides the transfer of technology, is the development of entrepreneurial skills.

As has been pointed out in the financial evaluation of the project, one of the main sources of income of the company will come from its management services. These services will serve two functions, a direct one and an indirect one: in the first place, a scarce resource, entrepreneurial skills, will be immediately supplied. Without it, production would not be feasible. It was assumed in the financial evaluation that the management services would be provided for five years by LCI to the companies it will deal with. After that period, the company would be on its own, as far as that

service is concerned, being assumed that indigenous managerial skills have developed, this being the indirect effect.

The development impact of LCI will thus be related to how the transfer of all the resources it can provide to the enterprises it organizes, and deals with, result in concrete benefits to the area of operations.

Although we have seen that LCI itself as a project is financially feasible, it is possible for a project, particularly in the less developed countries, to show positive financial results, whereas at the same time the impact in the whole of the economy may not necessarily be significant.

However, even if a proper quantification of LCI's development impact would require the quantification and addition of the impact of the enterprises it organizes, it is possible to present qualitative considerations as to why that impact, given the principal elements involved in its quantification, will be positive and significant for the area. These considerations are presented in the next sections.

2. Economic Evaluation of the Project

The recognized and standard way to measure the development impact of a project is through an economic cost-benefit analysis, which consists essentially of the process of identifying correctly the economic, as opposed to the financial, flow of costs and benefits that the project will have during its life, and the obtaining of indicators such as the present value of the net benefits, and the rate of return of the funds invested. It is essentially through these two indicators that projects are rankes, in economic terms, and the development impact measured.

There are two important steps involved in the economic analysis of a project. First is the conversion of financial income and expenses into economic costs and benefits: what may be an expense to a particular firm may be a benefit to the country in question as a whole, a classic example being, for instance, the construction of living quarters for the workers of a large agroindustrial enterprise in an underdeveloped region. A second step is that of converting the market prices of certain inputs into (shadow or accounting) prices that reflect their true scarcity for the country as a whole. These inputs are basically labor and foreign exchange.

Once these two basic steps have been taken, a national rate of discount has to be determined (or used, if one has been previously calculated) so as to obtain the present value of the net benefits flow. Alternatively, or complementary, the internal rate of return is calculated.

In the sections below we will review qualitative aspects concerning two of the main parameters required for the evaluation of projects in the areas where LCI will operate, specifying how they will relate to its activities. These parameters are the accounting price of foreign exchange and the accounting price of labor.

3. The Accounting Price of Foreign Exchange

The countries of the region, as most developing countries, have economies where market prices are often not very accurate indicators of the real value of goods and services because of the distortions in the markets where those products are commercialized. This fact is specially true of foreign exchange, whoe market price is characteristically fixed at a level lower than its real value to the economy in terms of scarcity. The lower price is fixed through government intervention in the fixing of the exchange rates, through import controls, and through taxes on trade operations.

As a result, distortions are built in the market prices of all goods intervening directly in foreign trade, and in all goods produced in the country which require imported inputs.

Because of the foreign exchange rate undervaluation, there will be a tendency for projects using proportionately more inputs, and producing for the internal market of these countries, to show large discrepancies between their financial evaluation and their economic evaluation, the former showing more positive results. Conversely, for projects using proportionately more domestic inputs, and producing for export, the discrepancies between the financial and the economic evaluations will have a tendency in the opposite direction: the latter will show more positive results than the former.

Since LCI will be investing primarily in the agricultural, animal, and agroindustrial sectors, which require extensive use of the region's natural resources, we can say that LCI will use proportionately more domestic inputs so as to fully utilize the region's competitive advantage. Also, given that one of the principal benefits LCI can provide to its enterprises are its marketing connections in the U.S.A., there will be a tendency for the structuring of projects that can fully utilize these benefits, in other words, projects oriented toward the export market, and therefore, that produce foreign exchange.

If the conditions described above uphold for LCI's activities, we can conclude that projects which show a positive financial feasibility will have also a positive economic feasibility, and thus, a positive development impact. Also,

the greater the proportion of these types of projects in LCI's total activities, the greater the over-all development impact it will have in the region.

4. The Accounting Price of Labor

Wages paid to labor are another important example of market prices not reflecting real values in the developing countries. Due to factors such as labor legislation and syndicates pressures, the wage structure does not reflect accurately the cost of labor to the whole country's economy.

Again, we have the same perverse effects that were described for the case of the foreign exchange rate: labor will be used below optimum levels in general because of its overvaluated price, and for projects utilizing a large proportion of labor there will be a tendency for more positive economic evaluation than the financial results, which does not, of course, imply that the financial results have to be negative or even unattractive.

As has been pointed out earlier, LCI's projects will use the region's comparative advantage, one of which is its relatively greater endowment of labor as a factor of production. Consequently, positive financial results for its projects will imply a positive (and very likely, greater) economic impact.

5. Conclusions

The financial results of LCI's operations are positive and attractive, as has been pointed out in the conclusions for Section D of this chapter. Those positive financial results depend directly on the financial results of the enterprises it will organize and in which it will invest.

On the other hand, because of the transfer of resources, particularly of adequate technology and of entrepreneurial skills, without which the organization of those enterprises in the region would not be possible, LCI's development impact will be directly related to that of the individual enterprises.

A necessary condition for the positive development impact of a project is that it make an efficient use, in economic terms, of the region's resources, two of the most important ones being foreign exchange and labor. Since LCI's benefits will be fully obtained only when use is made of the region's competitive advantage, it can be concluded that positive financial results of the projects will imply efficient use of resources, and therefore, a positive economic impact in the region.

A calculation of the resources that could be mobilized by LCI can be obtained through the use of average ratios. Thus, we can get an idea of the investment generated by LCI through its activities in the different countries, of the foreign exchange that will be obtained and of the employment to be provided.

We can see, for instance, that in its tenth year of operation (1993) LCI would have equity investments in its portfolio amounting to US$16.8 Million, having already divested US$7.4 Million. Thus, a total US$24.8 Million seed capital would have been provided, which, following the assumptions presented earlier about the structure of typical LCI enterprises, represents 8.75% of total investment costs (see Page 79). Total investment generated would thus amount to US$283.4 Million, an impressive figure, specially within the context of the countries where LCI will operate.

If we assume that an average US$25,000 would be required to obtain one man-year of labor, LCI's employment generation would be equal to 11,336 man-years. Also, under the assumption that sales are 3 times total assets, and that 30% of sales are exports (a conservative proportion, given LCI's advantage when investing in export industries) then, every year gross foreign exchange generated by firms organized by LCI would be US$255.1 Million.

The figures for the fifteenth year of operations are still more impressive, being US$691.4 Millions of investment funds mobilized, 27,657 man-years of labor provided, and US$622.3 Millions of gross foreign exchange generated.

These calculations can provide an idea of the benefits, in terms of investment, employment, and foreign exchange that LCI's activities in the region will have.

VI. Final Considerations

In this chapter we present considerations related to the legal and political environment where LCI will have its activities, a description of the functions of the different parts of its administrative structure, and a time-frame for the initiation of its activities.

A. Legal Requirements

1. Legal Organization

The legal organization of LCI as a corporation has been reviewed in Chapter II, whereas its administrative structure is presented in Section C below. Here we will discuss the legal organization of the enterprises structured by LCI.

Although the optimal legal organization of the enterprises that LCI structures will vary according to several factors, among them the country where the investment will be made, the type of investment, and the need for control, we can say that the corporation should prefer the establishment of joint venture with local entrepreneurs.

The establishment of joint ventures presents several positive factors to LCI, specifically (a) the access to local governments gained by working with well-known and dynamic local entrepreneurs, (b) the advantages in merchandising and marketing of having a local partner, (c) the more positive attitude of governments toward locally owned and joint venture companies over foreign-owned subsidiaries, (d) the contact with a group of investors capable of acquiring LCI's equity position when and if a decision to divest is made.

There are two ways that joint ventures can be organized in the area, one is the normal corporate form, or Sociedad Anónima, and the other is a limited liability company, Sociedad de Responsabilidad Limitada, more common in Spanish-speaking countries. This latter form has features of the partnership and of the corporation in that it has restricted alienability of ownership interests, with a limitation of personal liability, and often has certain advantages such as no minimum capital requirements, reduced company housekeeping requirements, and financial statements do not have to be published. Nevertheless, the corporate form is the usually preferred form for important joint venture entities.

It should be emphasized, however, that the term "corporate form" may involve important subtle differences from country to country, and a detailed analysis should be made of the law in each country, as well as of the elements that should be included in the articles of incorporation and by-laws of the enterprises being organized.

Lately, certain countries have specified measures to protect rights of minority shareholders, and the statutory rights should be analyzed. It is important to look, for instance, what percentage of capital is required to elect directors and officers, to call a general assembly and to adjourn a meeting of shareholders, to amend the social contract and to liquidate or dissolve a company. Other characteristics of local corporate laws that should be analysed are if preemptive rights can be waived by contract; the limitations on the number of shares one shareholder may vote; whether contractual voting arrangements, such as agreements to vote for a director or manager, are possible; statutory rights of appraisal and cumulative or proportional voting; requirements for supervisory auditors and the role of the Superintendent of Corporations in protecting minority shareholders.

It may be quite useful to prepare a joint venture agreement when forming a corporation with a local group of entrepreneurs. Such an agreement is not only useful in establishing "rules of the games" necessary for a smooth understanding once the optimism stage is over; it is also necessary to include provisions that may not be acceptable by local agencies if placed in the charter, and may give minority rights otherwise not available. For LCI a joint venture agreement should be of particular importance in determining service agreements, management contracts, selection of management and Board of Directors, dividend policy, participation of joint ventures in loans to company, restrictions on transfer of shares, rights of first refusal, buy-sell agreements, penalties for breach of the agreement, provisions for settlement of disputes, events terminating the joint venture.

Frequently LCI will take a minority position as a joint venture partner. It is therefore important to take cognizance of each country's corporate law; how corporations function; how powers are distributed within the corporate structure; what prorights are accorded to shareholders generally and minority shareholders particularly; and what legal recourse against abuses by the majority shareholder group is available.

2. Incentives, Tax Legislation, and Foreign Exchange Restrictions

Just about all the countries where LCI will operate offer some kind of incentive to investors, these usually being in the form of exemptions from import and export duties, and from income taxes. These incentives have been analysed in Chapter IV for seven countries of the region and are representative of incentives provided by the other countries.

For each country, however, just as was the case with corporate law above, a thorough investigation must be made to see how the different incentives, tax legislation, and foreign ex-

change restrictions will apply to each particular investment. Conditions may vary even within the same country depending on the type of goods or service to be supplied.

One of the first questions to be answered is if the proposed investment is allowed, and what is the attitude of the government toward it. Other relevant information is the degree of local capital participation required, if any, whether it is a majority or local control-in-fact; knowledge of restrictions on remittance of earnings, repatriation of capital, and of capital gains in hard currency is important for LCI.

As far as foreign exchange controls are concerned, there should be awareness of the fact that foreign exchange scarcity in these countries is widespread, and that even if there are no controls at the moment an investment is made, there can be at the moment that dividends, capital, or capital gains repatriation has to be effected. Therefore, all the necessary steps, such as registration of the investment with the Central Bank, have to be followed with care. These steps will be necessary when foreign exchange is rationed, and, ultimately if the government cannot fulfill its obligations, for the collection of insurance. This latter sort of protection is discussed in Section B.

3. Investment Approvals

Even if incentives and restrictions in each country are known, the specific approval of the investment by the country's government may be required, or desirable.

Very often the country will not have a comprehensive investment incentive law, with incentives set forth in many difficult to locate sources. Often they will be provided on a case by case basis.

The approval of an investment with all the incentives, restrictions, and other "rules of the game" that are better spelled out from the beginning, will require a process of negotiations with the local government.

Many governments in the region like to screen all agreements involving new foreign investment, expansion of existing investments, and contracts involving the transfer of technology. All of these agreements must be registered with the competent authority, and the law usually provides lists of prohibited provisions. Failure to register may result in an unenforceable agreement, or denial of permission to remit foreign exchange.

In addition to negotiating with quasi-governmental corporations, the joint venture partner, the lawyer of the client's goods or services, or the licensee in a know-how license, it is also necessary to negotiate or renegotiate in many countries

with one or more government agencies in virtually all large transactions, including agreements involving the transfer of intangible technology.

A negotiation team varies with the kind of transaction to be undertaken, but usually should include, in addition to a marketing person, a lawyer knowledgeable of the country's relevant legislation, a financial person, and, where appropriate the engineering or other technical person responsible. The team should be kept as small as possible so as to lower costs and so as not to be unnecessarily intimidating. It is important that everyone of the negotiation team be responsive to a single "Chief of Delegation", and some time should be spent together before leaving the home office to discuss strategies, fall-back positions, and roles or responsibilities. Finally, records of the meetings should be kept.

It is important to be aware that negotiations for a particular investment occur in a larger context of past experiences, the country's economic development goals, and the investor's long-term planning. It is important, therefore, to understand where the project in question fits in the country's development plans.

Finally, it is important to keep in mind, so as to give its proper perspective to the completion of detailed negotiations, that there are investment life cycles and technology life cycles wherein their respective values diminish over time from the initial high level. It is to be expected that the initial courting of a foreign company may turn into indifference and even a decreasing favorable position, ultimately disappearing, as the country's government obtains what it wanted, namely the technology and capital resources. As the project evolves and the foreign company is more deeply committed, the political and social ramifications of an investment become more important and the bargaining advantage shifts to the government.

B. Risks of the Project

As we have seen in earlier sections, LCI's Articles of Incorporation allow it to invest and provide services in any geographical area, and in any economic activity. However, as has also been pointed out, its initial operations will be concentrated in the Caribbean region, and, therefore, a great deal of LCI's risks will be related to the characteristics of that region.

1. Diversity of the Region of Operations

The Caribbean area was described and analysed in Chapter III, and eight individual countries, of particular importance to LCI, were reviewed in detail in Chapter IV, these eight countries being representative of the region. From these two

chapters we can see that diversity is one of the main characteristics of the Caribbean nations: diversity in terms of development as measured by income per capita and economic structure, and diversity in terms of market size as measured by total gross national product.

There is also a third element of diversity which was not discussed in Chapters III and IV, and that is the political climate, a term that, for our purposes in this section, includes several elements.

One of the main components of the political climate in a country is the government's attitude toward private enterprise in general, and, for LCI, foreign investment in particular. It is practically impossible for a positive political climate to prevail in a country where all current evils are blamed upon private enterprise, even if that is just part of governmental rhetorics, and with the other hand all sorts of incentives are offered to private investors.

It can be said, however, that sometimes negative rhetorics are not a necessary condition for a negative political climate to exist. It may be sufficient that the government views its role in the economy as being a predominant one, and intervenes even against fundamental economic rationality, leading to all kinds of distortionary actions in the form of subsidies, price controls, unreasonable tax burdens, disproportionate budget deficits, and foreign exchange controls. In the end, the political climate depends, not on the poverty or richness of a nation, but on how well its leading groups, government and private enterprise, confront their economic realities and look for long-term solutions. Recent history has shown how when these two groups ignore economic fundamentals, even if they are experiencing a bonanza, as was the case of some of the petroleum exporting countries, sooner or later (very often sooner) the mistakes have to be paid in the form of stern economic and political restrictions. This ignorance of economic realities applies to governmental groups that offer subsidies through different mechanisms, so as to gain popularity, as well as to private sector groups strong enough to obtain artificial incentives for inefficient investments, so as to gain profits.

The different components of the political climate are present in varying proportions in each of the Caribbean nations. In some, the mix of components leads to an excellent political climate; in others, the mix leads to a dubious and uncertain climate. But even if a careful country analysis results in positive conclusions as far as a decision to invest in it is concerned, there should be an awareness of the changing nature of things, and adequate measures should be taken so as to reduce potential and existing risk factors, political and otherwise.

2. Risk Factors and Risk Coverage

The risks that LCI will encounter in its operations can be classified under three headings:

a) Normal operating risks involved in each of the enterprises that LCI structures, and in which it invests.

b) Variations in conditions affecting the region as a whole.

c) Actions taken by individual countries where LCI holds investments.

The normal operating risks involved in the different enterprises that LCI will structure and in which it will invest, both loans and equity, can be reasonably foreseen and evaluated. These risks have to do with factors affecting the demand for the product or service provided by a particular enterprise, and factors affecting its supply for that product or service. One of these operating risks, for instance, could be a severe fluctuation in the sale price of a product. These fluctuations are typical of agricultural products, and in the past have soured many investments whose income and expenditure projections were made based on the upper cycle price. Other price fluctuations have to do with inputs necessary for the production of a good (therefore affedting supply). An example would be the electricity required for the irrigation of agricultural products, which experienced a substantial price hike as the petroleum crisis evolved, thus making unprofitable many techniques that formerly were so.

As said above, many of the operating risks of particular investments can be reasonably foreseen and, therefore, can be covered against. A careful investigation of the potential risks of a product, even of the area of production (historical rainfall patterns, for instance, are important for agricultural locations) can help a great deal in reducing the risk of a project. Evaluation of past performance of prices can help determine a realistic medium-term average price with which to project more accurate income and profitability, or can even help detect undesirable long-term trends that would render the project unacceptable.

Other operating risks are more difficult to foresee, such as the cost increases due to the rise in petroleum prices, and have a more across-the-board impact affecting all investments. The only way to cover against such a cost variation is by investing only in projects that allow for profitability even after a sensitivity analysis where costs are increased by a safe margin.

Nevertheless, price fluctuations, as well as cost fluctuations, can at times be violent, beyond the range of a sensitivity analysis. The price of oil, for instance, went up 300% in one year in 1973, and the price of sugar fell 500% after rising 700%, also in the seventies. Movements in sugar prices are actually cyclical fluctuations (although these may be within an overall downward trend due to corn syrup substitution), and thus past price average can reduce uncertainty. Increases in the price of oil, however, represent a definite structural change in cost conditions, and many technologies that were energy intensive are now obsolete. As a conclusion, it can be said that a great deal of normal operating risk can be accounted for if initial precautions are taken when structuring an investment, and that the precautions to take will be related to past risk behavior.

A second kind of risks that LCI will encounter have to do with variations in conditions affecting the Caribbean area as a whole.

Because of the geographical proximity between the Caribbean countries, it would seem that variations in economic, social, and political conditions would have a general effect in all of them. In fact, as we saw in Chapter III, despite the geographic proximity, the Caribbean nations are not a homogeneous unit and some of them are influenced more by conditions in extra-regional countries than by near-by neighbors.

In particular, the above is true of economic and social conditions: economic integration with extra regional countries subjects the nations of the area more to those countries' economic trends than to a particular regional trend; social conditions, as the wide disparities in income per capita indicate, are not, either, subjected to common trends. Political uncertainty, on the other hand, may be a trend that does become more common to all countries as investors in general tend to identify the region as a unit.

Coverage against risks brought about by general economic trends can be obtained (or at least minimized) by a careful study of market fluctuations. Social conditions would have to be analyzed individually for each country, and would be related to labor's attitude toward private and foreign investment. In general, though, we can say that labor's attitude will be a result of the government's attitude toward private and foreign investment and therefore, that it should be analyzed under the third grouping

of risks that has been made, i.e., actions taken by individual countries where LCI holds investments.

Political conditions can result in two different kinds of risks, that of an economic recession as a result of the uncertainty brought about by expected changes, in which case it would have to be analyzed as an economic risk, and that of specific political actions taken by countries against investments. In this latter case, the analysis and coverage of the risk would also go under the third grouping of risks. Coverage against this type of risk is analyzed below.

3. Institutional Risk Coverage

Political risk is created by unforeseen governmental actions that cause a financial loss to business. All corporations conducting operations in countries other than their own can become targets for expropriation, take-over, or financial restrictions. As with any business venture, foreign investments should not be contingent upon insurance. The risk factors present, be they political or environmental, should be identified and treated as any other exposures of the operation.

The process of an organization's internal control of political risk exposures has been pointed out by Marsh & McLennon, insurance brokers for this kind of risk, and is viewed by them as involving several activities within the context of corporate policy, procedures and a master plan.

Some of these activities are:

_____ On-going analysis of information on the country involved, on both short and long-term bases;

_____ A coordinating mechanism to regularly provide management with timely recommendations;

_____ Financial structuring of the investment in a manner that can diminish adverse effects of changing local situations while still meeting overall corporate financial objectives;

_____ Mandating a corporate profile and local involvement in a manner that authorities will approve of;

_____ Utilizing aspects of physical protection which can minimize the extent of loss;

_____ A contingency plan to respond to disruption of production, addressing all necessary physical, financial, contractual and legal steps to be taken to minimize loss.

Reliance on country assessment by third parties, internal analysis, and various control procedures, are essential parts of a loss reduction activity; however, these may not be enough. The purchase of insurance, as the culminating step of the risk management process, can transfer a significant portion of this risk to a third party. The investor considering a project in Latin America must recognize that he faces certain risks not to be found in a country like, for instance, the U.S. Broadly speaking these encompass the arbitrary acts a host government could take against foreign investors: expropriations, currency blockades, forced divestments, deprivations of assets, or contract repudiations.

Various guaranty and insurance programs exist which can assist the foreign businessman in coping with these risks, and in reducing his potential loss. These programs have been analyzed by Robert E. Svensk and Ronald K. Shelp in their article "Investment and Contract Guarantees", published in the Reference Manual on Doing Business in Latin America, and are reviewed here as far as their applicability to LCI is concerned.

The most widely known program in the United States for political risk insurance is provided by the Overseas Private Investment Corporation (OPIC) and its predecessor agencies within the U.S. Government.

In addition to OPIC, a private insurance market for political risk insurance has developed over the past decade. Given the limitations of the OPIC program in Latin America, discussed below, the private insurance market is of increasing importance to the businessman interested in this region. The U.S. Export-Import Bank (Eximbank) and its underwriting agency, the Foreign Credit Insurance Association (FCIA),also offer several political risk coverages for foreign businessmen. We shall discuss one of those programs - the Contractors' Guarantee Program, which up until October 1978 was administered by OPIC and subsequently transferred to Eximbank.

The U.S. Government has been offering political risk insurance to U.S. firms since 1948. The purpose in providing this coverage has always been to mobilize private resources to contribute to U.S. public policy, from the reconstruction of war-torn Europe to the development of Third World countries. In the 1960s this program became an important tool in the Alliance for Progress.

OPIC offers U.S. businessmen insurance against the political risks of (1) inconvertibility of currency earned

as dividends, interest or fees or initial capital, and principal investments; (2) expropriation of an investment by a host government; and (3) physical damage to an investment caused by war, revolution, or insurrection. In addition to covering conventional debt and equity investments, OPIC insurance can be tailored to cover contractual forms of investment typical in many energy and natural resource projects. Coverage is available for a term of up to 20 years and at reasonably fixed rates. In 1978, OPIC introduced more flexibility into its rating structure and rates can now vary depending on the project and form of investment. Coverage against the arbitrary calling of bank guarantees has also been recently introduced.

Over the past 30 years, the program has undergone several evolutions, the most recent one being the result of an extended, but revised, charter granted by the U.S. Congress to OPIC in 1978. This followed an effort in the mid-1970s to transfer the program to the private sector. The recent Congressional extension came only after a vigorous attempt by the AFL-CIO and other critics to abolish the agency failed.

The new legislation has refocused the agency's activities on three areas:

- Geographically, on the "least developed countries" (defined as those with per capita GNPs of less than $1000);
- Industrially, on projects in the natural resource sector and away from projects in labor-sensitive industries; and
- On smaller U.S. businesses (roughly defined as those firms with annual revenues of less than $100 million).

It should also be noted that under OPIC's 1978 legislation, the mandate to cede a major portion of the program to the private insurance industry was deleted, although OPIC retained, as a policy objective, the encouragement and development of a private market for political risk insurance.

The following table summarizes the availability of the OPIC programs in the Caribbean as well as the availability of the Eximbank Contractors' Guarantee Program and the private market politican risk insurance. The status of each of these programs in any particular country is subject to change and potential investors or contractors should check with OPIC, Eximbank, or their insurance broker to verify availability of coverage in any particular country.

Table VI-1. Political Risk Insurance in the Caribbean (Program Availability)

Country	OPIC	Eximbank*	Private Market
Antigua	+	+	+
Bahamas	x	x	+
Barbados	0	+	+
Belize	+	+	+
Costa Rica	0	+	+
Cuba	x	x	0
Dominica	+	+	+
Dominican Republic	+	+	+
El Salvador	+	+	+
Grenada	+	+	+
Guadeloupe	0	0	+
Guatemala	0	0	+
Guyana	+	+	+
Haiti	+	+	+
Honduras	+	+	+
Jamaica	0	+	0
Martinique	0	0	+
Nicaragua	0	0	0
Panama	0	+	+
St. Kitts-Nevis	+	+	+
St. Lucia	+	+	+
St. Vincent	+	+	+
Trinidad and Tobago	0	+	+

Code:

+ programs generally available

0 programs subject to some limitations

x programs generally not available

* Contractors' Guarantee Program only.

The Contractors' Guarantee Program provides protection to U.S. contractors (broadly defined) doing business with public and private foreign entities against losses arising from:

1. Inability to convert local currency into U.S. dollars (inconvertibility);
2. Confiscation of tangible property and bank accounts maintained in the project country (confiscation);
3. Damage to tangible property because of war, revolution, or insurrection (war risks), and
4. The project owner's failure to honor an arbitration award or comply with the dispute-resolving mechanism set forth in the construction contract when such failure is not due to the fault of the contractor (disputes).

In determining whether to issue a guarantee, Eximbank considers (1) the adequacy of the project's financing (preferably from the World Bank, AID, or Inter-American Development Bank), (2) the contract terms (especially as to the arbitration mechanism), and (3) whether the project has a "substantial U.S. interest". As noted from the table above, the private market for political risk insurance is generally available in all Latin American countries, except where it is illegal (e.g., Cuba for U.S. insurers) or where a crisis is well underway (e.g., Jamaica or Nicaragua in 1979). This fact reflects the commercial approach underlying the private insurance market as compared to the public policy approach of OPIC and Eximbank.

Until 1978, the private political risk insurance market was dominated by Lloyds of London, which had been writing confiscation insurance for over 30 years. In 1971, the Lloyds market expanded dramatically, largely because of the reinsurance support it provided OPIC. In 1978, the first meaningful U.S. political risk insurance program was launched by the National Union Fire Insurance Company, a subsidiary of the American International Group. It is expected that other insurance companies will enter this market in the future. At present, the London insurance market cán typically underwrite up to $30 million. Country limits for each market vary.

The approach taken by the private market differs significantly from that of the public market. Private companies are not constrained in devising coverage to meet client needs by anything other than normal underwriting practices and risk considerations. A private insurance company operates without any of the political constraints faced by OPIC and can compete with OPIC because it can insure risks in places that OPIC cannot - not only in industrial countries but in LDCs having a high per capita income. It can insure risks that have little or no development benefits - and risks in any industry. There need be no bilateral agreement between the

host country and the U.S. Government (although private insurers find this desirable). The impact of the insurer's activities on U.S. domestic employment, technology, exports, and balance of payments are also irrelevant underwriting consideration.

The private companies' approach to this insurance can also place them at a competitive disadvantage to OPIC. First, unlike OPIC, it is impossible for them to make such insurance available for a period of up to 20 years.. Second, it is difficult for private insurers to offer political risk insurance in a highly sensitive country, such as Jamaica today or Chile yesterday, if at the same time the insurer cannot balance his portfolio by providing political insurance on the same clients' exposures in less sensitive countries. Third, rating is more variable. For example, retrospective rating is often applied. Under this approach, at the end of an insurance period, say three years, the experience of the client is evaluated. If there have been losses, he is retroactively surcharged for such losses; if loss experience has been favorable, he benefits by receiving a refund in premium or a reduced rate in the renewal of his political risk insurance. A brief comparison of the private and public markets is presented below.

Feature	Private Market	Public Market
Availability	Most countries, limited by risk considerations only.	Selective countries, limited by legislative, diplomatic, and public policy considerations.
Rates	Variable by project and country.	Reasonably fixed.
Eligibility	New and existing investment. Any nationality.	New investment only.
Term	Up to 3 years	Up to 20 years.
Placement	Through brokers	Direct
Capacity	U.S. market - Up to $20 million per project. London market-up to $30 million per project.	Upwards to $100 million per project
Coverage	See Table below	See Table below.

Broadly speaking, the private market offers coverage against the same risks as the public market with the general exception of being unable to underwrite physical damage to

land-based property caused by war, revolution, or insurrection. The table below summarizes and compares the coverages offered by the various markets:

Table VI-2. Insurance Facilities Available to U.S. Corporations *

Foreign Investments

Causes of Loss	Insurance Facilities				
	OPIC	EXIMBANK	FICA	LLOYD'S	AIG
Confiscation, Expropriation, Nationalization	XX	X	X	XX	XX
"Creeping" Expropriation	XX	X	X	XX	XX
Inconvertibility-Earnings, Debt Service, Fees	XX	X	X	0	XX
War Damage	XX	X	X	X	X
On-Demand Bank Guarantees or Forfeiture Bonds	XX	X	X	XX	0
Contract Repudiation-Public Buyers	X	XX	X	XX	XX
Payment Default-Private Buyers	X	XX	XX	X	XX
Confiscation, Deprivation-Mobile Equipment	X	XX	X	XX	XX
Contract Termination-Force Majeure	X	X	X	XX	0
Exchange Transfer	X	XX	XX	XX	XX
War Contingencies	X	XX	XX	XX	XX
Employee's Personal Property	X	X	X	XX	XX

X Insurance generally not available

0 Insurance may be negotiated

XX Insurance normally available.

Source: Alexander & Alexander, Inc., 1185 Avenue of the Americas, New York, N.Y. 10036.

Expropriation generally refers to a takeover of a foreign investor's assets or enterprise by a host country without prompt, adequate, or effective compensation. Underwriters recognize the right of a sovereign to nationalize property. It is the failure to compensate which causes loss under the political risk policies. "Creeping" expropriation generally refers to

a series of acts taken by a host government which have the cumulative effect of being expropriatory. Definitions of expropriation vary among the different policies available. OPIC's definition tends to be very explicit whereas AIG's and Lloyds' definitions are more general.

It should be noted that AIG and Lloyds do cover expropriations following war, revolution, or insurrection (e.g., Nigeria, Chile) and only exclude physical damage loss. For contract repudiation losses, the private insurers exclude losses only from war between the insured's country and the host country, or involving the Five Great Powers. It is reasonable to assume that as the private market develops, coverage for land-based war damage is likely to become available.

Inconvertibility insurance is not exchange rate fluctuation insurance. Inconvertibility coverage guarantees an investor's right to transfer local currency earned as dividends, interest, or fees into foreign currency according to the prevailing regulations and within normal waiting periods in force at the beginning of the policy period. Conversions are made at the exchange rate prevailing on the date of loss. Repatriation of original capital or principal investments are also covered. The OPIC and AIG inconvertibility policies are very similar.

With respect to contract repudiation coverage, one difference between the Eximbank Contractors' Guarantee Program and coverage offered by the private market should be noted. Eximbank covers the contractor against failure of a public buyer to arbitrate or failure to pay following a favorable arbitral award. The coverage offered by Lloyds and AIG typically insures a contractor against termination or material default by a public buyer where he has no right or cause to do so under the terms of the contract. Several force majeure situations can also be covered by the private market.

An investor or contractor considering a project in Latin America, such as LCI, should evaluate all available markets for political risk insurance to determine the best coverage, terms, and price for his particular project as the programs do vary and each has its strengths and weaknesses. Insurance brokers can often be helpful in this evaluation.

Because of the particular relevance to LCI's activities, a detailed description is presented below of AIG Political Risk, Inc.'s coverage for financial institutions and for overseas investors.

Financial Institutions

AIG Political Risk, Inc. offers a variety of insurance coverage

designed to protect financial institutions against risks encountered abroad. International lending, trade finance and foreign investment are areas in which AIG PRI can identify and minimize potential for loss in addition, coverage may be tailored to meet the unique requirements of individual insureds. Of particular interest to international financial institutions are the following coverages:

Contract Repudiation Insurance for Sovereign Loan Agreements protects the lender against default or non-payment of interest and principal repayments by the sovereign borrower. Insurable loans include single bank or syndicated loans, coverage may be tailored to protect a variety of repayment schedules.

Trade Finance Protection whereby the financial institution may be named as insured or as beneficiary under the following coverages:

- Contract Repudiation Insurance, for sales to public buyers, indemnifies for such risks as material default, inconvertibility of currency and embargo.

- Political Risk Insurance on Import/Export Transactions indemnifies for frustration of contracts with private entities due to political events and excludes the credit risk.

- Wrongful Calling of Guarantee Insurance indemnifies for arbitrary and capricious calling of letters of credit or on demand bonds which may be opened in favor of a sovereign entity as bid, advance payment, or performance guarantee.

- Comprehensive Export Credit Insurance, similar to the governmental programs embodied in FCIA, Hermes, EDC, ECDG, et al., indemnifies for both the political and commercial risks encountered in contracts with private entities.

Expropriation Insurance protects the financial institution against deprivation of:

- Securities investments made as a custodian on behalf of mutual or pension funds.

- Assets of collateral, where such collateral itself is the principal security in a finance transaction (typically assets such as planes, oil rigs, ships, rail cars, etc.)

- Fixed portfolio investments in overseas branches and subsidiaries. Transfer Risk Insurance may be sought in conjunction with this.

Subject always to underwriting considerations, AIG Political Risk, Inc. has the flexibility to diminish the potential for loss experienced by international financial institutions.

Features of these coverages:

TERM OF POLICY. The policy period is concurrent with the insured transaction, up to a maximum of three years. If

the underlying transaction exceeds three years, the coverage may be extended as of each anniversary date, conditional upon underwriting approval.

COST OF COVERAGE: The premium charged for these coverages is determined by the country involved, the term and nature of the insured transaction, and the underwriters' assessment of the risks involved. Rates may be calculated annually or, as in the case of a loan, a flt rate for the duration of the contract may be applied.

INSURED's PARTICIPATION: The policies typically require the insured to absorb 10% of any loss.

WAITING PERIOD: Established to differentiate between normal administrative delays and serious political or economic problems, a designated period of time must elapse from the date of loss for a claim to mature. The policies require the insured, with the assistance of AIG PRI if necessary, to pursue resolutions of disputes during this waiting period.

CANCELLATION: The policies are non-cancellable, except by the insurer in the event of non-payment of premium by the insured.

EXCLUSIONS: Losses caused by the following events are not covered:

- Insolvency, fraudulency or non-performance by the insured
- Currency fluctuations or devaluations
- War between two of the five superpowers
- Nuclear or thermonuclear war
- Physical damage due to war

(See enclosed policy for complete listing of exclusions).

When Should Coverage Be Sought?

Coverage should be sought prior to final consummation of the financial transaction so as to minimize the possibility of uninsured exposure to risk. Coverage may be offered on transactions already in force, though new contracts typically receive more favorable rate considerations. In order to provide a quotation of terms and conditions AIG PRI requires a copy of the underlying agreement or contract and a completed application form. The application provides AIG PRI with underwriting information regarding the obligor, the nature of the financing, the terms of payment and the amount of insurance requested.

Overseas Investors

For the investor who has, or is considering, an overseas venture, the AIG PRI offers two basic coverages - Expropriation and Inconvertibility insurance.

Expropriation Insurance

AIG PRI defines an expropriatory act as an act of the government of the host country which directly results in preventing insured - in whole or in part - from exercising their rights with respect to the investment for a continuous period of one year. AIG PRI can look at an overseas investor's exposure in one of two ways - on a "financial interest" basis or an "asset" basis. If an insured has an overseas venture which is incorporated in a host country and operates as an individual entity, AIG PRI looks at the insured's financial interest in the venture to determine the insurable interest. This typically includes the value of the insured's equity in the venture plus any loans made by the insured to the venture. It can also include non-local obligations of the venture guaranteed by the insured, such as bank loans.

For investors whose overseas exposure are principally inventories, cash, or other moveable assets, AIG PRI will underwrite coverage for the value of the assets. AIG PRI gears their expropriation coverage to the question of "How much would I have to charge off my domestic income statement were I to lose this investment because of an expropriatory act?"

Inconvertibility Insurance

Also of concern to foreign investors is the possibility that a host government or its exchange authority will prevent them from converting local currency - earned as dividends, interest, or fees or representing principal or capital - into investor's domestic currency.

The inconvertibility coverage offered through AIG PRI protects insureds from loss resulting from this blockage, assuming that an authorized mechanism exists for converting local currency at the time the insurance policy commences. Two types of situations are covered:

1. Where because of the direct operation of a law, decree or regulation of the host country, investors are prevented for a period of six days beyond the normal transfer period from converting local currency into their domestic currency; or

2. Where because of a failure on the part of the exchange authority of a host government to act on a proper application for converting local currency for a period of at least ninety days, investors are unable to convert local currency within the normal transfer period.

Under the terms of the policy, investors transfer their local currency to AIG PRI which then converts it into domestic currency at the exchange rate prevailing on the day the period of inconvertibility began. This coverage protects investors against deterioration in the terms of transfer in force at the time the policy period began.

Importantly, it does not protect investors against fluctuations in the value of the local currency.

What Are the Features of These Coverages?

TERM OF POLICY. The AIG Companies will issue policies for periods up to three years. As a matter of policy, in most cases, coverage on new investments will be written for longer than coverage on existing investments. Inconvertibility policies have a minimum term of one year. Expropriation policies can be written for less than one year but are subject to minimum premiums depending on the limit of liability or value of the equipment insured.

In reviewing a risk, AIG PRI takes the long-term acceptability of the risk into consideration.

COST OF COVERAGE. The premium charged for these coverages is determined by the country involved, the nature of the investment and project insured, and the underwriter's assessment of the risks. Premium rates can range from as little as 0.10 percent to 5.0 percent per annum or more of the insured value.

There is no fee for stand-by coverage since the limit of liability reflects only the investor's actual exposure during the policy period. While it is not always possible, it is our objective to quote rates which reflect our view of the longer term risk considerations of a particular project and country.

HOST GOVERNMENT APPROVALS. AIG PRI does not require investors to obtain special approvals from the host government for this insurance and, in fact, treats the existence of such coverage on a confidential basis.

INSURED'S PARTICIPATIONS. AIG PRI typically requires an insured to absorb up to ten percent of each and every loss.

WAITING PERIOD. A period of one year must elapse from the date of loss for an expropriation claim to mature. This period allows investors to initiate negotiations with the host government for resolution of the dispute or for compensation. The waiting period for inconvertibility coverage varies with the specific situation. We will reimburse insured investors thirty days after the waiting period and receipt by AIG PRI of a satisfactory proof of loss.

It is the philosophy of AIG PRI that a "going concern" is of more value to an investor than a liquidated venture. For this reason, we require the investor - and will assit where possible - to pursue all possible remedies in an investment dispute.

AIG PRI is willing to provide special policies to meet the special needs of investors. Politican Risk coverages can also be included as part of brader insurance packages offered to overseas investors by AIG Companies.

What Is Not Covered?

The political risk policies written by the AIG Companies are not designed to cover:

- Losses arising from wrongful or dishonest acts;
- Losses due to investors' failure to comply with the local laws of the host country or their home country;
- Losses due to investors' or their foreign enterprises' financial insolvency;
- Losses caused by currency fluctuations or devaluations;
- Physical damage losses.

(See enclosed policy for complete listing of exclusions).

When Should Coverage Be Sought?

The ideal time to seek a quotation for coverage is prior to making investment. Coverage can, however, be written for existing investments although new investments typically receive more favorable underwriting consideration. Also, once a situation in a country has deteriorated, it is difficult to make coverage available on attractive terms.

4. General Constraints to Success

In the section above we have seen how diversity is what characterizes the area where LCI will operate. This diversity is an important factor in reducing the overall possibilities for negative results in LCI activities.

We have seen, for instance, that because of different patterns in economic relations, the countries in the Caribbean are affected by economic conditions in different areas of the world, and that it is unlikely that an economic trend would affect all countries at the same time. For that to occur, a more general, worldwide economic trend would have to occur.

As far as negative political developments are concerned, it is difficult also for them to happen in the area in a generalized way.

Although at present host countries in the Caribbean area are experiencing economic difficulties, these are the result of a worldwide general economic slowdown in economic activity that is affecting other less developed countries, as well as the industrialized countries. It is a worldwide scenario that can constraint success in investments not only in the Caribbean, but everywhere else. As past history shows, these slowdowns in economic activities occur cyclically, and, if properly taken into account when projecting returns on investments, should be seen as a normal part of doing business.

As a conclusion we can say that, if LCI undertakes a careful evaluation of the di ferent investment opportunities that will be found in its area of operation, and if a careful structuring is done of those investments so as to minimize potential risks, there should be no reason for it to find constraints to success in its activities.

C. Management and Implementation Plan

1. Administrative Structure

According to its By-Laws, Latin & Caribbean Investments has a Board of Directors, a President of the Board who is at the same time the Chief Executive Officer of the corporation, an Executive Vice President, and other officers. It will also have an International Board of Advisors and an Executive Committee, this latter to help undertake day-to-day operations. A description of the functions of each office is given below, together with the names of the persons that actually occupy them.

a). Board of Directors

A list of the names of the ten directors of LCI has been given in Section C of Chapter II. Their powers and duties are as follows:

(i) Management of Corporate Affairs. To conduct, manage and control the business and affairs of the corporation and to make rules and regulations therefor consistent with the Articles of Incorporation and the By-Laws.

(ii) Selection and Removal of Officers, Agents and Employees. Subject only to the limitations and requirements of any personal employment contract entered into, the Board of Directors may select and remove at its pleasure, either with or without cause, any and all of the elective officers of the corporation, and except to the extent such powers or duties may be delegated elsewhere, all of the other officers, agents and employees of the corporation, and subject to the same restrictions as to employment contract or delegation, to prescribe for them duties consistent with the Articles of Incorporation, the By-Laws, and the laws of the Republic of Panama and fix their compensation.

(iii) General Powers.

Generally to exercise such powers and duties as are usually vested in directors of corporations or authorized by the laws of the Republic of Panama and the Articles of Incorporation.

b) Officers of the Corporation.

The President of LCI, Mr. Francisco E. Blanco, is a Director and the Chief Executive Officer of the corporation and, subject to the control of the Board of Directors, has and exercises

all the powers granted by the By-Laws and such general powers and active duties of management as are vested in the Chief Executive Officer of a corporation. He presides at all meetings of stockholders and of the Board of Directors, and he is responsible for the administration of the day-to-day operations of the business and affairs of the corporation. In case of his absence or disability, the Executive Vice President shall take his place and perform his duties. In case of absence or disability of the President and the Executive Vice President, the remaining officers, in the order directed by the Board of Directors, shall take the place of the President and Executive Vice President and perform their duties.

The Executive Vice President of LCI, Mr. Francisco J. Hernandez, is a director and assists the President in all the administrative functions that are delegated to the President by the Board of Directors. In the absence or disability of the President, he substitutes the President at all meetings of stockholders and of the Board of Directors and is responsible for the administration of the day-to-day operation of the business and affairs of the corporation, and has such other powers and duties as are prescribed by the Board of Directors or by the By-Laws.

The Treasurer of LCI, Mr. Donald E. Young, is an officer of the corporation and is responsible for all the money funds and valuable belonging to the corporation. Subject to the control of the Board of Directors and to the general supervision of the Chief Executive Officer and the Executive Vice President, the Treasurer has authority to manage the operations of the corporation and to supervise the work of his subordinate officers and employees. He has such authority in such amounts and limits as are prescribed by the Board of Directors to sign checks, drafts, certificates of deposit and receipts for money delivered, to endorse notes, bills, checks, drafts and acceptances.

The Secretary, Mr. John F. Watts, is an officer of the corporation subject to the control of the Board of Directors and to the general supervision of the Chief Executive Officer and the Executive Vice President. The Secretary keeps full and complete minutes of each meeting of the Board of Directors and of the stockholders, and gives notice as required of all such meetings, keeps such other records of the corporation as are required by the Board of Directors, and generally performs all duties which pertain to his office and are required by the Board of Directors or by the Chief Executive Vice President.

Two types of bodies that may be created, the first by the Board of Directors, and the second by the President, are the

International Board of Advisors and the Appointed Committees. A brief description is presented below:

International Board of Advisors.

The Board of Directors may create an International Board of Advisors of no less than nine (9) nor more than fifteen (15) members which will be elected by the President of the corporation, with the approval of the Board of Directors, and shall meet at least once every year at the time and place designated by the President. Any qualified citizen of any country may be elected to be a member of the International Board of Advisors of the corporation. Members of said Board shall not be statutory directors and shall serve without statutory liability.

Appointed Committees.

The President, with the approval of the Board of Directors may create Appointed Committees with such duties and responsibilities he may deem appropriate, which shall be of a temporary nature or functions. One of these committees may be an Executive Committee whose nature and functions as well as the number of members may be determined by the President.

2. Existing Know-How.

In Section C of Chapter II a description of the activities of the main stockholder corporations was presented.

There it was pointed out that the initial stockholder corporations consist of five financial institutions, two agro-industrial enterprises, one marketing company, and one construction company. All these companies contain a pool of know-how directly relevant to LCI's activities, and from which it will draw for its operations.

3. Implementation Plan.

After this feasibility study is presented to U.S. AID, during the beginning of June, so as to formally apply for the funds necessary to start operations, the enterprise will complete its capitalization process by going from the actual stockholders' equity of US$100,000 to the full authorized capital of US$2 Million by September of 1983. By that date also, it is expected that U.S. AID's funds will have been approved.

From June to September of 1983, LCI's activities will be concentrated in selecting and completing information on possible investment projects so as to have a potential portfolio ready. After September, operations would be initiated as described in Chapter II, with expected costs and revenues presented in Chapter V.

VII. General Conclusions

We have demonstrated in this study, the feasibility of Latin & Caribbean Investments, Inc. (LCI). It was shown that the financial results, measured by generally accepted indicators, will be positive and significant. The development impact of the corporation's activities was analyzed in the context of the region's needs and resource endowment, and the nature of LCI's services was described, showing why they are unique and complementary to those of other financial intermediaries. The Caribbean was analyzed in light of the potential demand for the corporation's services, and the various markets to which countries in the region have access were described in detail. Coverage for political risk was discussed, and the administrative structure and implementation plan were presented.

Three characteristics of the corporation stand out as differentiating it from other financial intermediaries:

1. The wide range of complementary services that it will be able to provide.

2. The pool of know-how from which it will be able to draw, formed by its administrative structure and by its stockholders.

3. The leading role it will have in providing services.

Because the ultimate objective of the corporation's activities is the organization and structuring of viable enterprises, an important gap will be filled in the developing countries where it will operate. Even though financial funds in the Caribbean are not lacking, and though profitable investment opportunities exist, the organizational process of new enterprises has not advanced with the desirable speed to fulfill the growing needs of the region's population, and with the necessary dynamism to take advantage of the opportunities. LCI will derive its main source of income from technical services provided during the structuring of new enterprises, and from management services supplied during their initial years of operation.

If we take into account the fact that equity capital and loanable funds will also be supplied to the newly structured enterprises, we can see the degree of LCI's commitment to their success: not only will the corporation identify investment opportunities, evaluate them, and structure them as enterprises, it will also provide management during the crucial

initial period, and complementary services such as marketing of goods produced, and supply of necessary inputs.

Besides the wide range of services that LCI will provide to the enterprises that it organizes and structures, it will also provide services to other investors in the area: country analysis, feasibility studies, and underwriting activities, among others. In this sense, LCI will be an important vehicle for the channeling of resources from the developed to the less developed countries.

Because its investments in the different countries will be undertaken as joint ventures with the local groups of entrepreneurs, LCI will operate in an integrated, and not isolated manner. This fact is of particular importance when the technological transfer and the development of local entrepreneurial skills is taken into consideration. The management of its investments is viewed as temporary by LCI, since once it has been considered successful, a process of divestment would ensue, so as to obtain capital gains, and to invest funds in other new enterprises. Therefore, the ability of local entrepreneurs to handle the enterprise, when LCI divests its equity, will be of interest to LCI, thus assuring the development of local entrepreneurial skills.

The transfer of technology provides another instance where the interests of LCI coincide with the long-term interests of the developing countries in which it will undertake its operations. The pool of know-how that back LCI is concentrated in agroindustry. One of the most important services that LCI can provide - the international marketing of goods - will require that the technology used be the most efficient and competitive.

We can conclude that for LCI to obtain maximum financial benefits, its activities will have to be beneficial, from an economic point of view, to the countries in which it will invest. Even if LCI will profit from the different incentive schemes that countries in the area offer to new investments, they will not be determinant for its success. Rather, it will be more desirable that no additional distortions be imposed in the different markets where it will operate, especially for foreign exchange, once a particular investment has been structured.

If conditions in a particular country do vary, however, LCI will be protected against undue financial losses through two mechanisms:

1. The spread of the risk factor over several countries that represent a wide diversity of markets and conditions.

2. The use of insurance, through institutional coverage, so as to diminish specific types of risk in individual countries.

A company investing in some of the Caribbean countries will have a maximum of five markets for which to produce (the world, U.S., European, regional, and/or domestic markets and a minimum of three (world, U.S., and/or domestic markets), since all the countries are beneficiaries of the U.S. Generalized System of Preferences.

Also, by making simultaneous investments in several Caribbean countries, because of their income per capita diversity and in other socio-political factors, the overall political risk of the investment portfolio is reduced.

LCI, besides being a profitable venture, will also be an important vehicle for the channeling of resources. Taking into consideration the mobilization of technical and financial resources that LCI will be able to undertake, we can say that this corporation can effectively assure the success of its investments.