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DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT
Washington, D.C. 20523

CAPITAL ASSISTANCE PAPER

Proposal and Recommendations
For the Review of the
Development Loan Committee

PARAGUAY - COMPANIA PARAGUAYA de DESARROLLO, S.A. - II

(COMDESA)

524-L-025

AID-DLC/P-1087

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DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D.C. 20523

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AID-DLC/P-1087

May 24, 1973

MEMORANDUM FOR THE DEVELOPMENT LOAN COMMITTEE

SUBJECT: Paraguay - Compania Paraguaya de Desarrollo, S.A. - II (COMDESA)

Attached for your review are the recommendations for authorization of a loan in an amount not to exceed $3,000,000 to the Compania Paraguaya de Desarrollo, S.A. (COMDESA) to expand its capabilities as a private development bank by providing U.S. dollars and local currency for technical assistance and loans and equity investment by COMDESA for private industrial and agricultural enterprises and for technical assistance to the Bank.

Please advise us as early as possible but in no event later than close of business on Tuesday, June 5, 1973, if you have a basic policy issue arising out of this proposal.

Development Loan Committee
Office of Development
Program Review

Attachments:
- Summary and Recommendations
- Project
- ANNEXES I - IX

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May 24, 1973

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PARAGUAY - COMPAÑIA PARAGUAYA DE DESARROLLO S.A.

SUMMARY AND RECOMMENDATIONS

1. BORROWER: Compañia Paraguaya de Desarrollo S.A. (COMDESA), a private development bank.

2. AMOUNT OF LOAN: $3,000,000 including up to $100,000 authorized for technical assistance for COMDESA.

   Term : 20 years to repay including 5 year grace period
   Interest: 3% during grace period and 4% thereafter

3. PURPOSE: The principal purposes of the Loan and the Project are to: (a) consolidate COMDESA as a sound financial institution which will be able to absorb additional financing at non-concessionary terms; (b) support the evolution of COMDESA as a development bank; (c) mobilize the savings of the Paraguayan private sector in the form of COMDESA shares and debt instruments; (d) direct these and other COMDESA resources to generally accepted priority activities in the private sector; and (e) assist in meeting the medium and long term development credit needs of a growing economy.

4. DESCRIPTION OF THE PROJECT: The project consists of providing COMDESA with the additional resources it requires to continue its lending and financing activities and to sustain an expanded development banking role. The loan will finance projects in the private sector in the fields of manufacture, agribusiness, transportation, mining, and other services which will improve efficiency in the production and distribution of goods and services. It will also finance a limited amount of technical assistance required by COMDESA. It will also include a special fund to meet the technical assistance needs of COMDESA's sub-borrowers.

   The additional resources will allow COMDESA to: (a) maintain its level of lending operations and expand its investments activities; (b) build up its portfolio so as to produce adequate income levels; and (c) develop adequate reserves, earnings and dividend payment capability.

5. BACKGROUND: The first AID loan for $2.6 million (526-L-019) was authorized on June 16, 1969 and the Loan Agreement was signed on August 28, 1970. The conditions precedent were met on January 18, 1971 (Implementation Letter No. 6). Since then COMDESA has built a sound portfolio in financing 127 operations amounting to $3,722,608 as of December 31, 1972. AID loan funds amounting to $1,764,608 were used together with COMDESA's own funds. The first loan is expected to be fully committed by June 30, 1973.

Of the total operations $1,452,600 was sub-loaned to the agricultural and agri-business sectors, producing mainly for export; $1,715,600 was used to finance projects in the industrial sector; $554,400 for tourism, transportation and services.

A detailed analysis of COMDESA's performance is found in Section pages 6 through 18.

6. FINANCIAL PLAN: The financial plan presented below is based on an extension of all funds which will be available to COMDESA for sub-loan disbursements during a period of 4 years (CY 1973 to CY 1976).

(In million of U.S. dollars)

Source	Amount
Balance of First AID Loan	.5
AID Second Loan	3
New Equity	.5
Estimated Rollover 4 years	3
Lines of Credit (up to $1 million per year)	4
Total:.......	11

With these resources, COMDESA will be able to maintain a level of lending in the range of $2.4 million per year. Based on a review of projects being presently considered by COMDESA and additional projects which have not yet reached the formal application stage, the Loan Committee believes that such level of financing is realistic.

The following table reflects the estimated utilization of funds during the disbursement period:

(In million of U.S. dollars)

	1973	1974	1975	1976
Loans	3,065	2,013	2,573	2,467
Equity Investment	300	50	50	50
Total:.....	3,365	2,063	2,623	2,517

The Loan Committee analyzed the Cash Flow submitted by COMDESA and concluded that under the terms recommended for the second loan the projected volume of operation would enable COMDESA to achieve its objectives and rely, in the future, on non-concessionary sources of financing.

7. PROFITABILITY: Starting with CY 1974 COMDESA's earning capacity is expected to provide dividends of 6.7% in 1973, 9.6% in 1974 and 10% thereafter to shareholders. This rate is considered adequate to attract new equity. AID's proposed interest ratesof 3%-grace period-and 4% thereafter is the maximum commensurate with COMDESA's earning capabilities over the next four year period. After that, its portfolio should be expanded sufficiently to borrow long term money at competitive world money market rates without further need for concessionary assistance.

8. OTHER SOURCES OF FINANCING: The EximBank, the IBRD and the IDB indicated in their letters of 12/15/72; 12/21/72 and 1/11/73 that they were not interested in financing the project. Commercial lines of credit while helpful in meeting short term needs are of limited use and not appropriate to meet the current needs of COMDESA for medium and long term financing.

9. STATUTORY CRITERIA: All Statutory Criteria have been met. (See ANNEX I).

10. VIEWS OF THE COUNTRY TEAM: The Country Team fully endorses this project in view of its effects in directing private sector savings and investment towards development projects. The availability of these funds will help create new activities and expand existing ones with the resulting increase of demand for skilled and unskilled labor and the creation of a more stable market for Paraguayan raw materials.

11. ISSUES: Several issues, including the degree to which COMDESA acts as a development bank; the total local currency component; the use of appraisal banking practices; the debt/equity ratio; the desirability of a Government guaranty; the exchange risk; livestock financing; and substitution financing were analyzed and resolved during the Intensive Review. Details of each issue are presented in various parts of the Loan Paper, with a summary of the analysis and resolution of each in Section VI, pages 52-62.

12. RECOMMENDATIONS: On the basis of the conclusions of the Capital Assistance Committee that the project is technically, economically and financially sound, it is recommended that a loan to the "Compañia Paraguaya de Desarrollo S.A." for an amount not to exceed $3,000,000 be authorized subject to the following conditions:

a. Interest and Terms of Repayment. Borrower shall repay the loan to AID within twenty (20) years from the first disbursement under the loan, including a grace period of not to exceed five (5) years. Borrower shall pay to AID in United States dollars on the disbursed balance of the loan interest of three percent (3%) per annum during the grace period and four percent (4%) per annum thereafter.

b. Prior to signing of the loan agreement, Borrower will submit evidence that the General Assembly of Stockholders has approved additional capitalization amounting to a minimum of the equivalent of $500,000.

c. PPrior to Initial Disbursement. The Loan Agreement will include the standard conditions and require (a) evidence satisfactory to AID that the Borrower has taken appropriate measures to raise its paid-in capital to the equivalent of $1.5 million; (b) evidence of full commitment of funds from Loan 526-L-019; (c) the establishment of a separate reserve for maintenance of value commensurate to Borrower's outstanding long term foreign debt in addition to the reserve requirements of the first AID loan and the legal reserve. (See pages 52-53)

Other Terms and Conditions:

a. Goods, services and marine insurance financed under the loan shall have their sources and origin in countries included in Code 941 of the AID Geographic Code Book. Marine Insurance may be financed under the loan only if it is obtained on a competitive basis and any claims thereunder are payable in freely convertible currencies. Ocean shipping financed under the loan shall be procured in any country included in Code 941 of the AID Geographic Code Book.

b. The loan agreement will provide for a pari passu arrangement for payment of the additional capitalization as follows:
a) No more than one million ($1.0 million) of this loan will be released unless COMDESA submits evidence of receipt of additional paid in capital amounting to the equivalent of $166,000.
b) No more than two million $2.0 million of this loan will be released unless COMDESA submits evidence of receipt of additional paid in capital amounting to the equivalent of $500,000.

c. Unless AID otherwise agrees in writing, Borrower may not borrow from other sources any amount of money which would result in a debt equity ratio in excess of five (5) to one (1).

Covenants:

1. Unless AID otherwise agrees in writing, Borrower shall not:

a. Use AID loan funds to make any sub-loan for a term less than one (1) year or more than 10 years.

b. Finance in whole or in part with loan funds any project which includes refinancing of any kind.

c. Use more than an aggregate amount of $300,000 of funds from the loan for equity investments;

d. Provide more than twenty-five percent (25%) of the equity investment for any sub-project;

e. Use more than 25% of AID loan funds for working capital financing.

f. Declare or pay any cash dividends on any shares of any class of stock of the Borrower whether now or hereafter outstanding which would represent a return of more than twelve percent (12%) to the shareholder in any calendar year unless such distribution in excess of twelve percent (12%) is matched by an equal appropriation to earned surplus and also an equal prepayment of the AID loan;

g. Make any sub-loan to any enterprise when such sub-loan would cause the debt-equity ratio of such enterprise to exceed the ratio of 70:30;

h. Sell, transfer, lease or otherwise dispose of all or any substantial portion of its assets (except for sale, in the normal course of business, of equity investments) , or undertake any merger of consolidation;

i. Subordinate AID's status as preferential creditor to the claim of any other credit of Borrower.

2. The Borrower will consult with, and obtain prior written approval from AID, before undertaking any of the following actions:

a. Approve more than three sub-loans to any individual, enterprise or single investor group;

b. Make sub-loans to, or equity investment in, any enterprise if the aggregate amount exceeds the equivalent of one hundred thousand dollars ($100,000);

c. Use AID loan funds to make any sub-loan for working capital only. In the cases of sub-loans where working capital is a component, the financing of such component shall not be for a term of less than 12 months;

d. Materially amend its charter or by-laws on the basic terms, rules, regulations, policies and procedures approved by AID for the implementation of Loan 526-L-019 except when such amendments are required to fulfill new conditions and covenants established in the present loan;

e. Change management of the Borrower.

3. This loan will be subject to such other terms and conditions as AID may deem advisable.

Project Committee:

Loan Officers:	Jean M.E. Artaud, CDO/USAID/P James B. Riley, PED/USAID/P James Shea, LA/DR/AID/W Julio C. Basualdo, CDO/USAID/P
Financial Analyst:	Edward Lijewski, LA/DR/AID/W
Economist:	Robert W. Adler, PO/USAID/P
Controller:	Donald B. Barrigan, CON/USAID/P
Legal Counsel:	Barton Veret, LA/GC

Approved by: John R. Oleson, Mission Director, USAID/P

SECTION I - PROJECT BACKGROUND

A. Origin of the Project.

In August 1970 AID signed Loan Agreement No. 526-L-019 for $2.6 million with the Compañia Paraguaya de Desarrollo S.A. (COMDESA), a private development finance and investment institution. The AID loan provided lending capital and $150,000 for technical assistance. In the light of experience the technical assistance component was increased to $300,000 to meet the needs of COMDESA and its sub-borrowers.

The overall performance of COMDESA during its first two years of assistance is commendable. (For detailed analysis of performance see Section I.C. page 6). With competent technical assistance and dedicated management COMDESA has demonstrated not only that it could place the funds but also that it was carrying out its basic purpose of channelling Paraguayan and external resources to the development of agricultural and industrial projects for which financing at a reasonable cost was not readily available in Paraguay. By December 31, 1972 COMDESA had financed 127 operations amounting to the equivalent of $3,722,608. There remains an uncommitted balance of about $500,000 in AID Loan 526-L-019, which is expected to be fully disbursed by the end of CY 1973.

In the first quarter of CY 1972, anticipating full commitment of the present loan COMDESA requested the USAID to consider a second loan. The USAID suggested that COMDESA seek the additional financing it needed from other international lending institutions. Over the following months COMDESA approached each of the international agencies without success. They all indicated that they were not ready to consider, at this time, an application from COMDESA which has only a short time performance record. This was confirmed later by correspondence. (See ANNEX IIIExhibits 1-3).At this point USAID undertook a preliminary analysis of COMDESA's financial situation with and without additional concessionary financing and concluded that a second loan at concessionary terms was required if COMDESA were to remain viable and active in the development financing field. Subsequently, an IRR was prepared and submitted to AID/Washington on November 2, 1972 and CAEC approval was granted on November 10, 1972. (See ANNEX IV)

B. Borrower.

1. Status.

The Borrower, COMDESA, is a private development finance and investment company created in conformity with Sections 318 and 319 of the Paraguayan Commercial Code, which governs such companies. By

Decree No. 14.425 of August 21, 1970, COMDESA's status as a duly constituted legal entity was confirmed.

2. Organization.

The current organization chart of COMDESA is presented in ANNEX V-Exhibit 1 . COMDESA operates through a General Assembly, a Board of Directors and Management Staff.

a. General Assembly is the supreme authority of COMDESA and consists of all shareholders. By law the General Assembly is required to convene once a year, within four months after the close of the Fiscal Year. Extraordinary sessions may be called at any time by the Board of Directors on its own initiative or at the request of stockholders.

   The responsibilities of the General Assembly include the following:

   (1) review and approve the operating budget;
   (2) review the financial statements;
   (3) determine the distribution of dividends;
   (4) agree upon the creation of reserves;
   (5) elect the Directors and Alternates, and determine the number of same;
   (6) elect the external auditor;
   (7) fix the remuneration of the Directors and the External Auditor;
   (8) determine policy concerning issue of new shares; and
   (9) agree to modifications of its By-Laws.

b. Board of Directors. The Board of Directors is in charge of the direction, administration and supervision of COMDESA's operations. It consists of 8 Directors and 4 Alternates elected by the General Assembly among the shareholders.

   Once constituted, the Board appoints the Chairman, Vice-Chairman, the Secretary and any other Executive Officer it deems necessary.

   COMDESA's By-Laws require that the Board meet at least once a month in regular session. Extraordinary meetings may be called by the Chairman or at the request of any Director. More than 4 Directors must be present to constitute a quorum and resolutions are decided by a majority of votes of those present except for the approval of loans when a 3/4 majority is required. The Directors are elected for three years and may serve more than one term. Their mandate is deemed to have been extended until the General Assembly appoints a new Board.

The major responsibilities of the Board of Directors are as follows:

(1) carry out the resolutions of the General Assembly or see to it that they are carried out;
(2) organize and direct the operations of COMDESA and approve its budget;
(3) designate the General Manager and/or other Managers and other staff of COMDESA and fix their duties and remuneration;
(4) call meetings of the General Assembly;
(5) establish the rules and regulations of COMDESA and assure that they are implemented by the Chairman of the Board of Directors and by Management;
(6) prepare the annual report, the financial statement, proposal for reserves, dividend distribution which must be presented to the General Assembly;
(7) carry out, with full authority, all activities needed to direct the operations of COMDESA and take all measures necessary to protect COMDESA's interest.

The names of the present Directors and their bio-data are included in ANNEX V Exhibit 2.

3. Ownership.

COMDESA's paid-in capital was contributed by 196 shareholders subdivided into three categories:

Group A	= 185	- 50% of total shares representing the equivalent of $500,000.
Group B	= 10 local banks	- 25% of total shares representing $250,000.
Group C	= ADELA	- 25% of total shares representing $250,000.

The wide distribution of shares among the Groups A and B shareholders was designed to prevent any dominating influence by any individual or firm in COMDESA. An exception was made in the case of ADELA which was the main promotor of the institution. (See Annex V, Exhibit 1A, for full description of Group A, B, C stock).

The Loan Committee believes that COMDESA has benefited from the experience of the 4 local bank representatives who serve on its Board of Directors. Representation of the local banks in COMDESA is expected to help in the package lending system which will be used during disbursement of the second loan. According to that system all maturities of less than one year will be offered to local commercial banks. (For description of "package financing," see page 20).

With respect to the additional equity that COMDESA will raise, as a condition for the second loan, COMDESA's management indicated that it intends to place the equivalent of $200,000 with new subscribers. The balance will be offered to the local banks and ADELA. The General Assembly of COMDESA's stockholders, scheduled for the month of May 1973, will decide on the management plan to issue new shares.

4. COMDESA's Staff.

In addition to the Manager and the recently recruited Assistant Manager, COMDESA has a staff of 10 employees.

During 1972 under the guidance of the Banking Consultant and the leadership of the General Manager, COMDESA has strengthened its staff by recruiting the services of two experienced local professionals to occupy key posts in the organization. One comes to COMDESA after 10 years of work in banking and financing. He is the Assistant General Manager. The other, with training and experience in accounting and auditing, is the new Chief Accountant. In addition, the internal audit functions have been assigned to a new recruit with high qualifications and excellent experience in accounting controls. In discussions with COMDESA's management, the Loan Committee learned that the personnel plan of COMDESA contemplates the direct hiring of a competent financial budget specialist, versed in capital market operations. The Loan Committee encouraged COMDESA in taking such action but recognized the difficulty of finding promptly among the local talent someone to fill the position. It will require not only knowledge of financing and banking in Paraguay but also fluency in English in order to be able to communicate easily with the main sources of funds for loans and investments. COMDESA's management promised to take action soon. While it will be possible for COMDESA to hire the services of a part-time Consultant to carry out such functions, the Loan Committee feels that due to the nature of the post and the continuous need for such services, COMDESA should create a high level permanent position in its organization. The cash flow projections for administrative expenses include provision for such contemplated action in 1973.

5. Economic Accomplishments.

By legal requirement and internal policy decision COMDESA operates by financing those productive activities which are likely to have a direct beneficial influence on Paraguayan economic development. The lending priorities of COMDESA were established in consultation with AID. COMDESA's first priority is profit maximization and its primary concern is to establish itself as a viable institution capable of providing an adequate return to its owners. The purpose of this Section is to analyze the extent to which COMDESA's profit oriented operations are consistent with the development priorities of the Paraguayan economy.

From its inception COMDESA has concentrated its efforts towards the agri-business sector and supported through financing and technical assistance the development of productive activities in this sector. It has stimulated the use of raw materials of Paraguayan origin and contributed to an increase in the market for agricultural and forestry products used by its industrial borrowers. It has also on a timely basis filled a gap by providing medium and long term financing to the livestock industry which is considered the most important sector of the Paraguayan economy.

It is estimated that new employment in the projects assisted by COMDESA loans is in the range of 500 jobs.

During the first two years of its existence, COMDESA has placed $3.7 million in 127 operations which have stimulated investments in excess of $10 million. While it cannot be asserted that without COMDESA most of the operations would not have been financed, it is nevertheless certain that COMDESA has promoted 27 new ventures in Paraguay. Over $1.0 million of loan funds were placed in new projects which generated an additional investment estimated at $3.0 million.

Through its project identification and promotion program, COMDESA has prepared the ground for the development of projects on the basis of sound technical analysis. In doing this COMDESA has set the pace and given the example which will lead to development financing predicated on appraisal banking.

COMDESA's portfolio is well diversified. Its financing has reached all the sectors identified as priorities in the Development Plan of the Government of Paraguay.

The Loan Committee is convinced that COMDESA has made a positive contribution to the development of the Paraguayan private sector.

The list of operations financed by COMDESA is found in ANNEX V Exhibit 3.

C. Performance Evaluation.

The Loan Committee determined that its evaluation of COMDESA must perforce include (1) consideration of the expectations for COMDESA as set forth in the ADELA Feasibility Study and CAP presentation; (2) the performance of COMDESA respecting the objectives, conditions and covenants established by the Loan Agreement and (3) COMDESA's performance as an operating entity.

Our evaluation, obviously, took cognizance of the points concerning COMDESA's performance which were included in the cables subsequent to the IRR meeting and the preliminary visit of the TDY members of the Loan Committee.

It was decided also that COMDESA should be evaluated in terms of the criteria for development which were utilized by the GAO in its report entitled "Development Performance of Aid-Assisted Development Banks in Latin America". Those criteria, it should be recalled, were derived from the criteria established in the M.O.'s and AID's 1969 Spring Review of its development bank program.

The task was facilitated by the availability of audited, year-end financial statements through December 31, 1972, three AID audits of the project which included a pre-authorization critique and the operations of COMDESA from its inception to November 30, 1972 and an AID evaluation report of COMDESA in 1971. Subsequent to the study of these documents, the Committee's evaluation consisted of a review and analysis of COMDESA's portfolio, a tracing of COMDESA's and the Mission's procedural and documentary/reporting systems from the receipt of an application to repayment of a sub-loan and, in conjunction with various members of the Mission staff, contact, either directly or through authorized representatives, the principal suppliers of credit in Paraguay. Presented below are the conclusions reached by the Committee in respect to the five general areas of review. We have placed greater emphasis on the more recent concerns, particularly the development orientation of COMDESA and the issue of substitution financing, primarily in view of the importance attached to these matters and the fact that the AID audit reports and AID review of the project in 1971 quite adequately treated the questions of consistency of the ADELA study and CAP presentation with the performance of COMDESA.

1. The ADELA Feasibility Study and CAP Presentation.

The Loan Committee believes the overall project design and objectives as proposed in the ADELA study and CAP to have been compatible with the necessary requirements for such an institution in Paraguay. The only significant deviations from the project as presented in the CAP as implemented involve (a) the proportion of working capital loans which now account for 38% (US$ one million) of the usage for AID loan funds rather than the small unspecified percentage of funds projected in the CAP, (b) the amount provided for technical assistance was underestimated and subsequently was doubled to $300,000 and (c) the projected ratio between dollars and guaranies was unbalanced in the light of local conditions.

As regards working capital, the fundamental factors which created differences were the underestimation of working capital needs for periods greater than the commercial banks would permit and the absence of working capital for cattle improvement, retention and fattening to complement the major IBRD loan which assisted the ranchers in making capital improvements to their ranches. The ranchers found themselves with substantially improved capital plants but without working capital to expand their operations to take maximum advantage of the invested capital. Forty eight of COMDESA's sixty nine loans in 1970 and 71 were directed to ranchers to relieve their working capital shortage.

COMDESA's additional requirement for technical assistance funds has resulted from COMDESA's increasing insistance on a higher quality of planning and analysis of projects. COMDESA has also shifted its emphasis from the rather simple to the more complex type project.

The dollar/guarani ratio was predicated on a series of projects and generally accepted FEX/LC ratios derived from experience outside of Paraguay. However, two unforeseen situations unbalanced the projected ratio, namely: the above noted working capital shortage and the development of COMDESA as a primary supplier of construction funds. COMDESA in the latter role was the catalyst for many projects and virtually the sole source of funds. After one year of operations AID/W approved an amendment to the Loan Agreement, allowing COMDESA to use up to 60% of the loan funds for local cost. One of the issues treated concerns this point. (See Section VI, page 52).

2. The Loan Agreement.

COMDESA's performance has been satisfactory in that it has, with minor exceptions, made "loans and investments in private industrial and agricultural enterprises which lacked alternate sources of credit at adequate terms" within the priority areas described in the Loan Agreement. Several of the problem areas concerning procedures and approvals which the Committee noted have been or are being resolved currently. Before addressing these items it should be noted that some difficulty was experienced in the timely payment of equity by the project subscribers. This matter was satisfactorily resolved and the Committee believes the proposal for equity contribution contained in this CAP should preclude a repeat of the situation.

Initially there was a series of implementation problems related to COMDESA's strict adherence to those covenants concerning the need for adequate security of sub-loans, the submission of satisfactory project execution plans,

and the execution of two short term (60 and 65 days) loans amounting to $40,000. These situations have been thoroughly reviewed and no repetition is expected. In view of COMDESA's maturation and performance, it is proposed that COMDESA's unilateral approval limits be increased. The proposed terms and conditions presented in this paper reflect the suggested changes.

Two current problem situations are the adequacy of COMDESA's reporting and the submission to AID for prior approval of five substantial modifications by COMDESA of its operating policies. A series of forms have been developed by the Mission which will rectify the reporting deficiencies. These forms have been discussed with COMDESA and COMDESA's operational manager states he can comply readily. The essential problem has been presentation rather than a lack of information within COMDESA.

3. COMDESA's Performance.

The Loan Committee is satisfied with COMDESA's overall development and orientation. As AID previously approved the various organizational documents, we restricted our study to how COMDESA operates. On the basis of our review we have urged and COMDESA has agreed to retain the TDY services of its Chilean advisor for 1973, COMDESA has suggested an increased emphasis on pre-investment analysis, and the Committee has suggested the hiring of two part-time individuals for internal audit purposes and project inspection. The Committee was satisfied as to the reasonableness of COMDESA's collateral requirements and to its remedial action procedures in two cases of default.

The Committee was disturbed by COMDESA's extensions of thirty or more days for rather shallow reasons to seven borrowers. Because the Committee was highly sensitive to the collection problems being experienced by another lending institution and the tightness of COMDESA's position as reflected in the cash flow, the issue of collection was of singular concern at several meetings. A recommendation has been made by the Chilean advisor that while slippages of up to 15 days might be permissible, if, for instance, flooding conditions prevented the transportation of products to market, any additional extension must carry a heavy financial penalty. The Committee has recommended that COMDESA incorporate a delay penalty in its sub-loan agreements sufficient to minimize the request for a stretch out of payments. The suggestion was well received. (See Annex V, Exhibit 3A for description of sub-loans rescheduled.)

4. The GAO Report.

The GAO Report cited ten development goals utilized in measuring the developmental performance of AID assisted development banks in Latin America. These goals are those expressed in the AID M.O. on development banks and as expressed during AID's 1969 Spring Review of its development bank assistance. These ten goals are as follows:

1. Provide medium- and long-term loans.
2. Strengthen the private sector.
3. Attract non-AID foreign sources of funds.
4. Finance small and medium-sized enterprises.
5. Provide moderate-sized loans.
6. Stimulate investment.
7. Promote capital markets.
8. Provide technical assistance to borrowers.
9. Promote new investment opportunities.
10. Stimulate high priority investment.

It can be stated realistically that COMDESA was not in a position to promote a capital markets nor could COMDESA successfully attract non-AID foreign sources of funds subsequent to its incorporation. COMDESA did contribute to the strengthening of the private sector albeit its role and impact in financial terms was modest as COMDESA's total resources base was equal to less than 3% of the total credits available from all sources to the private sector in any year between 1970 and 1972. COMDESA's lending however did contribute significantly toward achievement of the remaining seven development goals.

a. Medium- and Long-Term Lending.

As can be seen from Table 1 below, 76% of COMDESA's loans to date, accounting for 86% of the value of its portfolio, were directed to medium- and long-term loans. One interesting facet of the lending pattern not shown in the summary table is that COMDESA made only four long-term loans, re in excess of 5 years, through 1971 but in 1972 COMDESA executed 18 long term loans. During the same period, the number of short-term transactions was essentially similar while the number of medium term loans was down from 50 to 24 resulting from a combination of the increase in long term lending and the execution of only 58 loans during 1972 compared to 69 in the previous period.

TABLE 1

LOAN MATURITIES

Period	No.Borrowers	% Loans	Amount $	% Portfolio
Short - less than 3 years	37	24	537,384	14
Medium - 3-5 years	74	59	2,013,600	55
Long - more than 5 years	22	17	1,142,081	31
Total:	127	100	3,693,065	100

b. Financing of Small and Medium Sized Industry.

To categorize the size of firms receiving COMDESA loans, the Committee selected in consultation with COMDESA and commercial banks, a measurement scale, predicated on total assets, considered appropriate in the context of Paraguay. Analysis or the pattern of lending shows a sharp reduction in the number of loans to firms classified as very large, from 22 loans through 1971 to 12 in 1972. A decrease in the number of loans to large firms was also experienced. Through 1971 there were 19 loans to large firms and only 8 in 1972. Loans to small and medium sized industry increased slightly. It is evident from the summary table below that the amount of funds flowing to the small and very large firms was somewhat disproportionate to the number of loans received. This is not an unusual situation and as can be seen the deviation is not overwhelming.

TABLE 2

SIZE OF BORROWERS MEASURED BY TOTAL ASSETS (US$)

	Small (to $24,000)	Medium ($24,001 to $200,000)	Large ($200,001 to $400,000)	Very Large ($400,000 +)
Number of Loans	17	49	27	34
% of Loans Made	13%	39%	21%	27%
Value of Loans Made	221,584	1,292,573	738,613	1,440,295
% of Portfolio	6%	35%	20%	39%

c. Size of Loans.

To permit a direct comparison with the GAO analysis, the Committee used the GAO loan size classification. The only significant deviation in the lending pattern between 1970 - 71 and 1972 was a decrease from four to one in the number of loans made in excess of $100,000. This decrease was partially offset by an increase of three loans in the $50,000 - $99,000 range in 1972. The number of small loans was increased by one and the $20,001 - $49,000 range was down eleven loans reflecting the fewer loans made in 1972.

TABLE 3

SIZE OF LOANS

Amount	No. of Loans	% Total Loans	Value of Loans	% Total Portfolio
To $20,000	63	50	613,540	17
$20,001 to $49,999	52	41	1,812,474	49
$50,000 to $99,999	7	5	536,497	14
$100,000 and above	5	4	730,554	20
Total:	127	100	3,693,065	100

Of the 5 loans in excess of $100,000, three (for $464,640) were made to firms classified as very large and two (for $265,915) to firms classified as medium. Both loans to medium sized firms and one of the loans to a very large firm were for new projects. Four of the seven loans in the $50,000 - $99,000 range were to very large firms for two new projects and two expansions. These firms received $315,151. Two loans, for $157,648, were to large firms for one new and one expansion project. The seventh loan was to a medium sized firm for a new project.

d. Stimulation of Investment.

The Committee believes COMDESA has performed uniquely in either stimulating new investment or permitting the full realization of previous investments. Of the 127 loans, 27 were new ventures. 19 of these new projects were financed in 1972 reflecting COMDESA's increased attention to stimulation of new productive enterprises. In terms of amount, thirty percent of COMDESA's total loan funds was placed in new projects, all of which required varying degree of construction financing which was only available, within Paraguay, from COMDESA. The unique role COMDESA was able to play in meeting the medium and long term working capital requirement of the cattle industry to make better use of heavy capital improvements financed by the World Bank has been noted. Approximately

40% of COMDESA's 1970-71 loans were for rancher medium and long-term working capital requirements. Overall COMDESA has placed almost 30% of its funds in such activities. It is estimated that the value of investments made by borrowers directly as a result of COMDESA's loans was no less than twice the amount loaned to the sub-borrowers by COMDESA. This estimate is based on gross tabulations of COMDESA's percentage share of the financing of cattle, tourist and industrial projects.

About eight percent of COMDESA's portfolio, exclusive of projects cited above, were predicated on the import of machinery and supplies from the U.S.

Of the balance of the portfolio, the Committee could find less than 5% of the portfolio which might represent financing which could otherwise have been obtained. The balance of the portfolio's projects represented expansion projects which to a high degree depended on construction financing or the purchase of land and working capital financing. The latter two types of financing are ineligible items under the available international lines of development credit available through GOP development institutions.

e. Provision of Technical Assistance.

A full discussion of COMDESA's past performance and the plan which COMDESA proposes to follow is contained in Section V.C.page 47. The Committee believes COMDESA has exceeded AID's initial expectations in the application of technical assistance both for its own direct benefit and for the benefit of its clients.

f. Promotion of Projects.

This question is fully treated in ANNEX V-Exhibit 4 . During the formative years of COMDESA, the Committee believes COMDESA should rely more on the institutions and individual entrepreneurs to develop projects for presentation to COMDESA. To do otherwise, the Committee believes, would result in a serious duplication of effort which Paraguay can ill afford. COMDESA's essential role should be to assist in the finalization of the technical, economic and financial soundness aspect of projects and then to act as leader in securing project financing and in providing the technical experties required to execute the project.

8. Stimulate High Priority Investment.

The GOP has not yet been able to create a mechanism for setting real development priorities on an operating level as distinct from the general indicative level embodied in the National Development Plan for 1971-75. However, there is general agreement among the World Bank, BID, CIAP and AID that the areas for priority investment are in agriculture, agro-industry, and export production.

An amplification of the factors supporting the selection of priority areas for investment is presented in Section II page 19.

COMDESA's lending portfolio has clearly been directed at the areas of maximum priority as is shown in Table 4.

TABLE 4

PERCENTAGE DISTRIBUTION OF COMDESA's PORTFOLIO BY PRIORITY AREAS 1970-72 (% of Portfolio)

Agro-industry	32.6
Manufacturing	15.2
Cattle and Agriculture	38.2
Transportation	1.7
Tourism	12.3
	100

The concerns expressed in the two cables relative to the development orientation of COMDESA and the question of substitution financing have been discussed in depth with COMDESA and with commercial bank representatives.

COMDESA has committed 86 percent of its loan portfolio to medium- and long-term loans (See Table 1) which is generally referred to as the classic field of development finance. The Committee believes COMDESA's record is highly commendable particularly in view of the stockholder pressures to have COMDESA operate in the black much earlier than AID or ADELA thought possible. To enhance its development orientation further, COMDESA has agreed that all first maturities for projects will be offered to the commercial banks and that working capital loans will only be permitted for expansion or new raw material purchases. In other words, if a new product is to be produced working capital loans will be permitted or if there is a substantial expansion, the expansion's requirements will be met. However, this working capital financing will be subject to the first maturities offering principle. This concept, is discussed in greater detail in Section VI.B.1.g. page 56.

The issue of substitution financing does not create a problem of as great a magnitude as AID/W originally feared. This is true partially because COMDESA represents virtually the sole formal source of construction financing in Paraguay for agricultural, agro-industrial, industrial and tourism facilities. Prior to COMDESA's formation all construction was financed through external credits on a project basis or from personal resources. The second factor which reduced the magnitude of the "problem" is that all commercial banks in Paraguay are foreign owned and, as such, operate by custom, not regulation, on a strictly short term basis. Given the first maturities agreement with COMDESA there should be no question of substitution financing with respect to the commercial banks. The one area of possible conflict concerns the foreign development credits and loans administered by the Banco Nacional de Fomento (BNF), the Fondo Ganadero and the Banco Central del Paraguay.

COMDESA has been operating under an informal understanding with the Fondo Ganadero as to their respective areas of operation in the financing of cattle activities. The Fondo Ganadero stressed the purchase of cattle locally and COMDESA financed the importation of pure bred stock for the clients of the Fondo Ganadero. In addition, COMDESA also financed the medium and long-term working capital needs of the borrowers which the Fondo Ganadero could not do. Essentially, the two were complimentary. The Fondo Ganadero has only US$5 million a year it can lend and the amount is considerably below what the Fondo Ganadero states it could use each year.

The credits available from international institutions do not allow the financing of working capital and construction. It should also be noted that the general interest rate from these other development credits is 9% with repayment terms, grace and time, equal to COMDESA. To preclude COMDESA from direct competition on interest, the Committee has agreed to COMDESA's lending at interest rate to 12 and 14% respectively on US dollar denominated loans and local currency loans. While the Committee would agree that no project in Paraguay should be calculated so precariously as to permit the interest spread differential to cause success or failure, the Committee does believe that we have moved COMDESA to a somewhat unique position if interest rate, working capital and construction financing are considered in an investment package.

It is also significant to note that we have been advised that BID is now considering additional agro-industrial or industrial loans to Paraguay for CY 1974-1975. At this time the balances shown in ANNEX VI, Exhibit 2 for BID loans 97-SF-PR and 211-SF-PR, are fully committed.

COMDESA's portfolio is really only in direct competition with the Argentine Government/Kreditanstalt credits (The Exim credits are being utilized for irrigation systems and tractor procurement) which amount to something in the order of $2.4 million. The Argentine Government and Kreditanstalt credits are available only for the importation of commodities. Therefore, it becomes evident that the degree of substitution, if any really exists, is within the 50% area of the loan which is earmarked for importation.

The Committee does not believe that to ensure non-substitution financing that COMDESA should offer projects to the BNF for rejection, similar to the first maturities concept. This would place COMDESA in a position of a bank of last resort which the Committee does not consider appropriate for a private development bank. This position is not based entirely on profitability of the organization to whom AID must look for repayment of its investment, rather this view is couched in terms of the role COMDESA plays in the financing of a project's maturation to the point of being bankable. It is inconceivable to the Committee that AID would encourage a private financial institution to undertake the financing of the total feasibility studies, much akin to a productivity center, and then require the institution to forego the financing of its creation.

5. Areas of Concern and Measures Suggested.

a. Repeat Loans.

While it is not yet well delineated, since COMDESA has been operating only for two years, there is an apparent desire to foster a permanent banker-client relationship. This is a direct result of the collateral requirement, which gives COMDESA mostly first mortgages on the capital assets of the clients. However, a strict rule which would preclude repeat loans is undesirable because there are situations where smaller repeat loans are justified. Consequently, the Loan Committee recommends that AID approval be obtained for more than three loans to any one enterprise. Approval would be automatic if (a) the sub-project clearly involves a new venture; (b) avoidance of a major hardship is involved; (c) the sub-loan is the next step in a previously planned financial development of the project. This step is deemed necessary to assure less concentrated allocation of COMDESA's resources and to discourage COMDESA from establishing a permanent banker relationship with its clients who would become entirely dependent on the institution.

b. Lending to Officers of COMDESA, Members of its Staff and Shareholders

(1) Loans to Officers of COMDESA and Members of their Families.

Elimination of all officers of COMDESA, and their families would reduce considerably the number of potential clients. The first Loan Agreement recognized the difficulty and allowed such financing when the interested Director or Officer did not participate in the voting, which required majority of the full Board of Directors. COMDESA has followed the rule. The Loan Committee recommends that a provision similar to the covenant incorporated in the first Loan Agreement be included in the second Loan Agreement.

If for practical reasons a formal clause cannot be incorporated in the second Loan Agreement, the Loan Committee suggests that a separate understanding be reached with COMDESA to the same end.

(2) Financing Operations in which Former Members of Management Have Acquired an Interest.

There are one or two cases and those have been discussed with COMDESA. The self serving feature is not easy to prevent particularly when the interest in the enterprise was acquired long after the interested party had ceased to serve COMDESA. COMDESA is considering steps which could be effective in preventing those types of cases, one of them is the requirement of full disclosure by the borrowing enterprise and sanction for non-disclosure. USAID/Paraguay is discussing with COMDESA's management the desirability to obtain a pledge from COMDESA's employees that they will not for a reasonable time accept employment from any of COMDESA's sub-borrowers on whose applications they had approved.

(3) Financing Operations in which Major Stockholders Have an Interest.

In order to avoid concentrated control of COMDESA into the hands of a few, the charter of COMDESA limits the number of shares to be held by individuals or firms. This spreading of ownership is healthy in the sense of assuring greater participation in ownership of COMDESA. At the same time it relieves COMDESA of concentrated pressure of strong groups to obtain financing. This principle applies to all stockholders except ADELA.

Thus, a delicate situation is created when a private international lending firm such as ADELA holds substantial stock (25%) in COMDESA and other industries and enterprises in Paraguay. Those industries and enterprises are also potential clients of COMDESA. In all those cases a general restriction could prevent COMDESA from doing a substantial amount of development financing. The Loan Committee suggests that COMDESA insist upon and receive a specific guaranty from ADELA for the repayment of debts of any of COMDESA's sub-borrowers controlled by ADELA. This feature would, to a large extent, protect COMDESA against pressure from its major stockholders and from irreparable losses in case ADELA would sell, transfer, or in any way lose control of the enterprise. As a substantial stockholder of COMDESA, ADELA should have no difficulty in giving such guaranty.

6. Audit Results.

COMDESA has been audited twice by the Office of the Area Auditor General Latin America (South).

The first audit report issued in December 1971 contained 12 recommendations which were all cleared by the Mission. Most of the recommendations related to matters of procedures, lending techniques, criteria as to working capital, collateral requirements and reporting requirements.

The second audit report issued in February 1973 contains 7 recommendations which are under study. Most of the recommendations are constructive and were already incorporated in this loan paper. There are, however, two issues raised in last audit report which deserve specific treatment in this paper:

(a) The matter of exchange risk. The audit report seems to criticize COMDESA for passing the exchange risk on the sub-borrower. Short of a government maintenance of value guaranty, a foreign exchange reserve is generally used.

The same audit report discards also the establishment of such a reserve and does not make specific recommendation. The Loan Committee has treated the maintenance of value in Section VI - Issues, page52.

(b) Financing of Contraband Imports. The Audit Report seems to recommend that COMDESA, a private sector institution, undertake the control of contraband imports or take measures to discourage such imports, when the Government of Paraguay itself has not yet found the means of discouraging or controlling such activities. The recommendation is that the Mission investigate the feasibility of establishing such controls. The Loan Committee has analyzed this point with COMDESA's management, and reached the conclusion that there is nothing that COMDESA can do to control contraband which affects COMDESA's operations not so much from the angle seen by the auditors but from the practical financial feasibility of industrial projects which could prove to be sound if the amount and degree of competition from contraband import could be measured. Many import-substitution projects are rejected by COMDESA for that reason alone.

It must be noted that on direct imports COMDESA can exercize a certain control because the documentation required for payment includes the custom receipt. In the case of off-the-shelf items the Loan Committee does not see how COMDESA can exercize any control over contraband.

SECTION II - PROJECT DESCRIPTION

A. Purpose.

The principal purposes of the Loan and the Project are to: (a) consolidate COMDESA as a sound financial institution which will be able to absorb additional financing at non-concessionary terms; (b) support the evolution of COMDESA as a development bank; (c) mobilize the savings of the Paraguayan private sector in the form of COMDESA shares and debt instruments; (d) direct these and other COMDESA resources to generally accepted priority activities in the private sector; and (e) assist in meeting the medium and long term development credit needs of a growing economy.

1. Financial Viability.

A second injection of seed capital is required to help COMDESA sustain a satisfactory level of operations and establish itself on a sound financial basis. The need for a second concessionary loan in the third year of COMDESA's existence was clearly established at the time the first loan was authorized and recent analysis confirms it. This analysis shows that COMDESA would not only cease to grow but would probably not survive in its present form without additional concessional financing. The concentration of long and medium term lending yields a slow flow of repayment which makes it difficult for COMDESA to generate a reasonable annual level of new income earning.

2. New Activities.

During intensive review the Loan Committee stressed with COMDESA's management the need for a more development-oriented type of activities in priority areas. Following the measures adopted by AID in the cases of COFISA (Costa Rica) and FIASA (Guatemala), the Loan Committee has reached an agreement with COMDESA's management that its loans and investments should be directed to activities that: (a) increase production for export, (b) process Paraguayan agricultural, mineral and forest products, (c) increase the processing, marketing and distribution of foodstuffs, (d) foster income distribution and generate employment.

In addition, an understanding was reached concerning the financing of enterprises which produce consumer goods as import substitution. COMDESA will undertake such financing provided that such activities are not made viable and profitable only by heavy tariff protection or exclusive import privileges.

With respect to method of operations COMDESA will emphasize package financing on the basis of feasibility studies. Whenever the package contains a short term (less than 12 months) working capital component COMDESA will offer such component to a local commercial bank which will finance it either as a direct loan or take over the first maturities if the financing is done through a single operation with COMDESA. There are many cases where a borrower wishes to concentrate its primary debt in one institution.

This is a new and unique role of COMDESA in the financial sector. It promotes, selects, arranges for the financing from other sources, organizes the accounting, and follows up all the phases of its new operations. In some cases it may take equity in payment for such services and, in others, it may guaranty payment to foreign suppliers whose equipment could not be financed with AID loan funds, as in the COMDESA-promoted marble factory project which requires specialized equipment produced only in Italy.

COMDESA is breaking new ground by adopting policies which aim at providing a broader range of services than those rendered by other lending institutions in Paraguay. COMDESA prepares and fosters the development of projects within priority fields and provide not only financing but also management assistance to selected entrepreneurs. The selection of such entrepreneurs is not made on the basis of his name or the amount of collateral he can offer but because his project is sound, well prepared and will contribute to the economic development of Paraguay.

COMDESA itends to increase, within reasonable limits, its equity investments to stimulate new development enterprises. It will also make loans with option to convert into equity. Neither the commercial banks nor the Banco Nacional de Fomento can undertake such operations. Up to now, COMDESA's management has adopted a conservative approach in its equity investments. It is expected that in the next three years COMDESA with its experience will feel on firmer ground; will revise and adjust its standards for equity investments; and will increase its activities in this field. Loan-funded technical assistance will be made available to COMDESA to help it refine its policies in equity investment.

After careful study COMDESA is taking positive steps to promote small enterprises not only in Asuncion but also in other areas of Paraguay. It has already established contacts with institutions through which it can channel funds to finance the small entrepreneurs. This is a risky field of activity which has been dominated by market-side loan sharks. Financial and technical assistance by COMDESA will reach a substantial number of artesans who will improve their production, their accounting system and the marketing of their products. COMDESA is the only private sector institution willing to enter into this type of lending. It will coordinate those operations with the technical assistance planned by the public sector with the help of the UNDP and the IDB.

B. Projected Use of Funds from the Second Loan.

During intensive review the following tentative distribution of loan funds in terms of field of activities were discussed with COMDESA:

		US Dollars	Local Cy.	Total	%
I.	Technical Assistance to:				
	a) COMDESA	$100,000	-	$ 100,000	3
	b) Special Fund	150,000	150,000	300,000	10
II.	Agri-business*	900,000	900,000	1,800,000*	60
III.	Manufacturing*	250,000	450,000	700,000*	24
IV.	Service Industries	100,000	-	100,000	3
	Totals:	$1,500,000	$1,500,000	$3,000,000	100

* COMDESA will use up to $200,000 from these two items to finance small enterprises projects through selected channels approved by AID.

The proposed use of the funds for technical assistance is described in Section V, page 47.

The present demand for development financing of agri-business enterprises is expected to absorb the total amount of $1,800,000.At present agri-business projects under consideration by COMDESA reach a total of $1,840,000 including approximately $900,000 in estimated foreign exchange cost.

The manufacturing industries are expected to absorb $700,000. Eight projects under study by COMDESA's management could use a total of $1,350,000 including approximately $610,000 in estimated foreign exchange cost.

COMDESA is not expected to have any difficulty in placing loan funds in long term development financing of priority activities. At present, the demand for medium and long term financing in this field greatly exceeds the availability of funds.

The amount of $100,000 for service industries, particularly transportation equipment is provided to cover the foreign exchange cost of such activities. Present applications under consideration by COMDESA will absorb the whole amount between 1973 and 1975.

The Loan Committee believes that COMDESA's priority development investments in the above activities will be beneficial to the Paraguayan private sector.

C. Terms of Lending.

COMDESA will be allowed to charge a maximum interest of 12% per annum on the loans financed with AID loan funds. A limit of 14% is suggested for loans made by COMDESA with non-AID funds. This may require approval of the Central Bank of Paraguay if the new banking law is approved by Congress.

With respect to the terms of the sub-loans made by COMDESA with AID loan funds, the Loan Committee recommends the following:

a) no short term loans (less than 12 months);
b) no term over 10 years without prior approval of AID;
c) no grace period for more than 12 months without prior approval of AID.

Throughout the negotiations which lead to COMDESA's acceptance of the new guidelines which would orient COMDESA towards move development type activities, i.e. longer terms, less collateral, appraisal banking, package lending, environmental soundness criteria, COMDESA's management insisted upon a quid pro quo in the form of more independence of action in the use of its own funds, and authorization to charge a higher interest rate on the AID loan funds. The Loan Committee yielded on the question of increase in maximum interest rate and reached agreement with COMDESA's management on the new restriction on grace period mentioned above and on all the conditions and covenants listed under Section V.E., page 49.

SECTION III - PROJECT JUSTIFICATION

A. Economic.

1. The Domestic Economy.

The Paraguayan economy is one of the smaller economies in Latin America with an annual Gross National Product (GNP) of approximately $650 million (1971) and a population (July 1972) of $2.4 million. More importantly, the size of domestic market and proximity of countries producing advanced industrial goods appears to rule out rapid industrial growth through import substitution of industrial capital goods. The relative diversity of Paraguay's exports, favorable man-land ratio, trends in world demand for beef products, and prospects for development of hydro-electric energy resources on the Parana River (with Brazil and with Argentina) are, however, favorable factors for future economic development.

Paraguay's GNP grew at an average annual rates of 4.3 percent during the nine-year period 1963-1971 and of 5.0 percent during the five-year period 1967-1971. (See Table 1). Growth of consumption investment, and national savings follow the general trend in national income, albeit with substantial year-to-year variation.

We estimate growth of GNP for 1972 in the range 5-6 percent (final data on GNP after adjustment for changes in Paraguay's terms of trade with the rest of the world are not yet available).

Paraguay's registered exports for 1972 are estimated to have been US$87.5 million of which $31.7 million were beef products (canned beef, frozen beef and beef extract). Apart from beef exports, Paraguay exports a broad array of products including lumber, cotton, soybeans, sugar, tobacco, vegetable oil, essential oil, tung oil, coffee, palm hearts, and cement. There are substantial year-to-year variations in Paraguay's export earnings, agricultural production, and industrial production arising, in part, from weather (and crop conditions) and, in part, from world market conditions. In 1972 favorable world price conditions for beef and good domestic grop performance combined to produce a $20 + million increase in Paraguay's exports and a $14.0 million increase in her net international reserve position. In the years 1968-1971 it was more precarious with year-end net reserves between $-5.9 million and $+2.9 million.

Available data indicate that Paraguay's external debt at the end of 1972 was $192.5 million on the basis of credits disbursed to that date and $306.5 million including authorized credits not yet disbursed. About one-third of outstanding external debt (on disbursed basis) is repayable in Guaranies, and the term-structure of Paraguay's debt is relatively favorable. In 1972 Paraguay's debt service ($14.4 million) was 22.2 percent of commodity export earnings (including debt service in Guaranies). The burden of debt service for future years will depend significantly upon the trend in export earnings and upon changes in the term structure of external debt. Past experience indicate a relatively low rate of utilization of large loans in infrastructure projects, which has tended to reduce the demand for foreign exchange for debt service.

2. The Agriculture Sector.

The Paraguayan economy is highly dependent upon its agricultural sector which accounts for nearly one-third of Gross Domestic Product (GDP). (See Table 2). It is estimated that the agricultural sector provides 57 percent of total employment, and the industrial sector provides 15 percent of total employment. Much of agricultural crop production is within the small-farm-subsistence sector. A substantial volume of agricultural crop and livestock production is consumed in Paraguay. The Mission estimates that approximately 15 percent of crop production and no more than 30 percent of livestock production is exported. Nevertheless the bulk of Paraguay's commodity exports are originated from the agricultural sector and undergo varying degrees of industrial processing.

3. The Industrial Sector.

Industry and agriculture constitutes the bulk of the basic productive sector of the Paraguayan economy--approximately 52 percent of GDP. The value-added by industrial production in 1971 was $103 million. According to standard industrial classification, food products contributed 41.4 percent of total value-added in 1971 (see Table 3). This sector and beverages, tobacco products, textiles, wood products, and leather products--all closely related to the processing of agricultural commodities--contributed 62.5 percent of total value-added. Possibly as much as two-thirds of industrial production relies on domestic raw materials as basic inputs. Capital goods categories, i.e. metal products, machinery, electrical apparatus, and transportation equipment accounted for only 6.8 percent of industrial value-added.

Despite the reliance of industrial production upon domestic raw materials and lack of a substantial capital goods sector, industrial value-added increased at an average annual rate of 5.9 percent in the five-year period 1967-1971. Food products, beverages, wood products, furniture, chemicals, and non-metallic minerals (mainly cement) grew at annual rates in excess of 5 percent. In recent years new firms have entered the beef products industry--to export frozen beef--and the wood products industry--to produce lumber. Paraguay's industrial growth and export earnings are enhanced by this shift to export products with greater industrial value-added. In the future, the small size of domestic market will probably continue to impair development of capital goods sectors of industry. However, the relative isolation of Paraguay and high transport costs to world markets will probably give continued impulse toward the development of greater industrial processing of her agricultural and forest products.

TABLE 1

NATIONAL ACCOUNTS: SELECTED ITEMS: ANNUAL INCREASE (IN PERCENT)

A. Annual Increase (In Percent).

	Average Annual 1963-71	Average Annual 1967-71	1969	1970	1971
Gross National Product	4.3	5.0	3.9	5.7	5.0
Consumption	4.0	5.1	3.7	4.5	5.8
Gross Investment	6.8	4.5	6.0	0.4	4.8
National Savings	6.9	4.2	5.3	15.4	- 0.9

B. Data in Millions of Dollars (Current Prices). a/

	1969	1970	1971
Gross National Product	544	580	652
Consumption	493	514	585
Gross Investment	89	88	97
National Savings	51	66	67

a/ Conversion of data in current Guarani prices to current U.S. dollar prices at ₲s.126 to one U.S. dollar.

Source: Central Bank of Paraguay

TABLE 2

GROSS DOMESTIC PRODUCT BY SECTOR OF ORIGIN

	Percent of GDP (1969-1971)	Growth in Percent (Annual Average) 1967-1971	1969	1970	1971
Agriculture	32.6	3.3	3.0	4.0	3.8
a. Crops	(18.2)	(4.1)	(2.7)	(4.5)	(4.7)
b. Livestock	(10.1)	(2.1)	(1.7)	(2.1)	(2.9)
c. Forestry and Other	(4.3)	(2.7)	(7.6)	(6.5)	(2.2)
Manufacturing	16.4	6.0	5.2	7.4	3.3
Construction 1/	3.0	5.8	10.4	25.8	15.0
Basic Service Sectors 2/	5.1	6.9	7.7	7.0	8.1
Other Service Sectors 3/	37.9	5.9	3.7	5.7	5.0
Government	5.1	9.8	7.9	15.0	0.8
TOTAL = Gross Domestic Product	100.0	5.3	4.3	6.1	4.6

1/ Includes mining.

2/ Includes electricity, water, sanitary services, transportation and communications.

3/ Includes commerce, finance, housing, and all other n.i.e.

SOURCE: Central Bank of Paraguay

TABLE 3

VALUE ADDED BY MANUFACTURING INDUSTRY

	Growth: 1971/1966 (In Percent)	Composition of Value Added in 1971 (In Percent)	U.S.Dollar Equivalent Of 1971 Value-Added (Millions $)
Food Products	28.0	41.4	42.6
Beverages	58.4	5.9	6.1
Tobacco Products	3.1	3.8	4.0
Textiles	15.7	5.7	5.9
Clothing	16.7	4.0	4.1
Wood Products	48.8	5.8	6.0
Furniture	48.4	1.2	1.2
Paper Products and Printing	47.7	2.2	2.3
Leather	10.3	4.6	4.7
Chemicals 1/	32.9	8.3	8.5
Petroleum Derivatives	343.9	5.6	5.8
Non-Metallic Minerals	61.6	3.8	3.9
Primary Metals and Metal Products	46.0	1.5	1.5
Machinery	10.7	1.4	1.5
Electrical Machinery	25.8	1.2	1.2
Transportation Equipment	20.0	2.8	2.9
Other	31.8	0.7	0.8
Total:	33.4	100.0	102.9

1/ Includes Rubber Products

SOURCE: Central Bank of Paraguay

B. Relationship to Country Program.

1. AID Program.

This project was specifically included in the Field Budget Submission for FY 1974 and the Country Program Submission for FY 1974. It aims at assisting the Paraguayan private sector in its efforts toward the development of sound projects in the agricultural and industrial fields particularly agro-industrial which are the most important sectors of the Paraguayan economy and crucial to Paraguay's export efforts.

This project fits also within the priorities set by the Government of Paraguay. COMDESA's financing fosters activities which stimulate exports, increase employment and use of Paraguayan raw materials.

2. CIAP, IBRD Reports and National Development Plan.

The Government's Economic and Social Development Program for 1971-1975 was revised by the Planning Secretariat in 1972 and discussed with multilateral agencies. The revision consisted in new projections covering the period 1972-1977 reflecting an adequate balance between investments in basic infrastructure and those which would support the activities of the commodity producing sector.

While the CIAP recommendations have not made any direct reference to the role of the Paraguayan private sector, they have stressed the need to increase exports and a better use of Paraguayan resources. This is exactly what COMDESA is achieving in its operations.

The World Bank Report on the "Current Economic Position and Prospects of Paraguay" published in August 1972, stressed the need for a concentration of resources in commodity producing activities rather than infrastructure projects.

There seems to be unanimity among the multinational agencies on two basic points: Paraguay must make additional efforts to improve its fiscal performance and Paraguay must direct more investments in commodity producing activities which generate foreign exchange.

Through its activities COMDESA is helping in the achievement of the second goal.

SECTION IV - FINANCIAL ANALYSIS

A. Initial Capitalization.

1. Terms of First AID Loan.

The first AID Loan was made to COMDESA in 1970 for $2.6 million. Terms of the loan were:

a.	Amortization	: 20 years from date of first disbursement
b.	Grace Period	: 5 years
c.	Interest Rate	: 2% during grace period; 3% thereafter
d.	Currency Repayment	: U.S. dollars
e.	Procurement	: 50% U.S. Dollars; 50% Local Currency-amended in 1972 to 40% U.S. Dollars and 60% Local Currency

The Loan Agreement required, as Conditions Precedent to Disbursement:

a. An executed loan agreement with the Government of Paraguay for $400,000 in local currency for investment in sub-projects; and
b. That COMDESA's subscribed capital of $1.0 million be paid in within two years of the date of the loan agreement.

Additionally, the Loan Agreement required that the rate of interest on sub-loans financed in whole or in part with AID dollars would not exceed 10%; and that the rate of interest on other sub-loans would not exceed 12%.

The Loan Agreement also required the establishment and maintenance of a Bad Debt and Maintenance of Value Reserve of 2% per annum on the Borrower's entire loan and investment portfolio. By law COMDESA is required to set aside a reserve of 2% of yearly net earnings. New banking legislation presently under consideration by the Government of Paraguay proposes to raise this reserve requirement to 10% of yearly net earnings.

2. The financial plan for COMDESA at the time of the first AID loan was as follows:

COMDESA - FINANCIAL PLAN (US$000)

	Source	Local Currency	U.S.$	Total
Equity:	Local Banks and ADELA	500		500
	Private Investors	500		500
	Total Equity	1,000		1,000
Debt:	AID for Sub-lending	600	1,850	2,450
	AID for Technical Assistance		150	150
	GOP for Sub-lending	400		400
	Total Debt	1,000	2,000	3,000

Subsequently, AID approved COMDESA's requests for an increase in the local currency component of the first AID loan from $600,000 to $1.0 million, and for an increase in the amount allowed for technical assistance from $150,000 to $300,000. The present structure of COMDESA's long-term debt is therefore:

		Local Currency	U.S.$	Total
Debt:	AID for Sub-lending	1,000	1,300	2,300
	AID for Technical Assistance		300	300
	GOP for Sub-lending	400		400
	Total Debt	1,400	1,600	3,000

With this change, the procurement ratio became approximately:

60% US$: 40% Local Currency

As of March 31, 1973, approximately $500,000 in U.S. dollars remained to be committed to financing of sub-projects by COMDESA. COMDESA will commit this entire amount before June 30, 1973, through equity investments or loans to projects which COMDESA has had under study and evaluation for some months, and which are now ready to be approved and implemented. (See ANNEX VI-Exhibit 2).

B. Financial Situation (*)

COMDESA officially initiated its operations on March 8, 1971. It has completed two fiscal year exercises, the first being one of ten months duration. COMDESA's financial performance during its short history has been commendable and compares favorably with the performance projected in the ADELATEC feasibility study, which served as the basis for the formation of the company. The table below compares COMDESA's actual performance with that projected by ADELATEC for the first two years of operation.

COMDESA's FINANCIAL PERFORMANCE - FISCAL YEARS 1 and 2

	Projections		Actual	
	Year I	Year II	1971(10 mos)	1972
1. STATEMENT OF INCOME				
Total Income	83,000	258,500	126,478	329,473
Total Expenses	160,025	242,200	119,207	258,658
Earnings before Tax	(77,025)	16,300	7,271	70,815
Net Profit	(77,025)	11,002	1,532	51,720
Earnings as % of Share Capital	-	1.1%	.002%	5.2%
2. BALANCE SHEET				
Assets				
Cash, Banks	143,000	97,000	369,585	169,638
Loans, Investments	1,600,000	3,400,000	1,560,553	2,744,875
Fixed	22,000	19,000	51,485	70,776
Other (organiz.)	24,000	18,000	109,661	104,609
Total	1,789,000	3,534,000	2,091,284	3,089,898
Liabilities and Net Worth				
Loans (AID) and Banks)	1,250,000	2,550,000	1,245,172	1,940,868
Other	16,000	50,000	21,485	92,617
Total	1,266,000	2,600,000	1,266,657	2,033,485

(*) Complete, audited financial reports (Balance Sheets - Statement of Income and Expenses; Comparative Balance - 1971-1972; Pro-forma Balance Sheet, Statement of Income and Expenses and Cash Flow projections, with comments) are included in ANNEX VII, Ex. 1 and 2.

	Projections		Actual	
	Year I	Year II	1971(10 mos)	1972
Stockholders Equity				
- Capital Stock	600,000	1,000,000	818,413	1,000,000
- Retained Earnings	(77,000)	(66,000)	6,194	56,412
Total Net Worth	523,000	934,000	824,608	1,056,412
Total Liabilities and Net Worth	1,789,000	3,534,000	2,091,284	3,089,898

Two important factors apparent from this comparison, have strong implications for COMDESA's future operations. First, COMDESA's portfolio of loans and investments reached the level projected for the first year of operation - $1.6 million projected versus $1.56 million actual - although it was somewhat lower than projected for the second year - $3.4 million projected versus $2.74 million actual. COMDESA's 1972 annual report to its stockholders indicates that, while the company achieved significant increases in all facets of its operations, it did not achieve the level of loan activity its management and Directors had set for it during 1972. The 1972 program contemplated committing $2.4 million ($1.0 in dollars; $1.4 in Guaranies). COMDESA ascribes as reasons for the shortfall the difficulty it experienced in placing and moving dollar denominated sub-loans, and the temporary halt by the USAID in disbursing Guaranies funds from the AID loan until the last remaining installments of COMDESA's capital stock subscription were paid in. (AID, in Implementation Letter No. 14, approved COMDESA's request for a $400,000 increase in the local currency portion of the loan funds. As a condition to the approval, AID stipulated that no more than $200,000 of the increase would be made available until all of COMDESA's subscribed capital contributions were paid. As of October, 1972, approximately $60,000 remained outstanding. The last outstanding payment was received by COMDESA in December, 1972).

The second important factor in the financial comparisons is COMDESA's income during the periods 1971 and 1972. While total expenses were close to those projected - $160,025 projected versus $119,207 realized in 1971 (a "short" year of only 10 months for COMDESA), and $242,000 projected versus $258,658 realized in 1972 - COMDESA experienced significant increases in income over the projections - $83,000 projected for 1971 versus $126,478 recorded, and $258,000 projected for 1972 versus $329,473 recorded. While COMDESA was expected to record a net loss for its first year of operations, it actually recorded a small net profit of $1,532. In 1972, COMDESA's operations achieved a net profit of $51,720, equivalent to a profitability ratio of 5.2% on shareholders capital.

The 160% increase in operating income achieved by COMDESA in 1972 was partly the result of the growth of loan and investment activities, which increased by 70% over 1971. More importantly for COMDESA, operational commissions rose 162% over the 1971 level. This increase was due to the adoption and usage by COMDESA of the system of commissions called CENIC (Comisión - Negociación - Cierre). By applying this commission, COMDESA has accelerated the recording of revenues by recording commissions of up to 5% when the sub-loans are approved, with a corresponding reduction of interest that would be recorded at a later date when due. The net effect on income due and recorded over the long term is zero, but the immediate effect in the short term is one of improving net income. COMDESA believes the application of the CENIC commission is indispensable to its being able to operate successfully as a private development bank in view of the expenses COMDESA incurs in building and maintaining an institutional capability to function efficiently in the full range of development banking activities. COMDESA also believes the CENIC approach is necessary in light of the contractual obligation with AID (Section 5.02(f)) to establish and maintain the M.O.V.-Bad Debt reserve of 2% on its entire sub-loan and investment portfolio. The Loan Committee did not object to the practice since it intends to request that COMDESA establish a separate reserve for maintenance of value.

It is possible that COMDESA's income for 1972 would have been slightly higher than it was, if AID local currency loan funds had not been temporarily halted as mentioned previously. In order to meet its commitments to sub-borrowers during the period when the AID loan local currency was temporarily not available, COMDESA obtained two short term local currency loans of $80,000 each from two banks in Asuncion. The interest paid by COMDESA on these loans during 1971 slightly reduced COMDESA's potential net profit for the year.

As a final note, increasing financial leverage is evidenced over the first two years of COMDESA's operations, resulting from: increasing utilization of low-cost AID loan funds (full commitment of first AID loan funds expected before June 30, 1973); the continuing in-effect of the grace period of the AID loan; and, reasonable control over operating expenses in line with COMDESA's income and the quality of operations.

COMDESA's current financial situation is fully elaborated in the audited Balance Sheet and Statement of Income and Expenses for 1972, included in ANNEX VII-1. On the basis of those figures, and assuming the availability of the proposed financing, a sound and healthy growth can be forecast.

C. Financial Plan - Second Loan.

1. Capital Structure.

The projected capital structure of COMDESA at the end of the disbursement period of the second loan will be as follows:

PROJECTED CAPITAL STRUCTURE
(4 year period - CY 1973 - CY 1976)
(in million of U.S.$)

Source:

Debt:	1st AID Loan	$2.6
	2nd AID Loan	3.0
	GOP Loan	.40
	Lines of Credit*	1.0
	Total Debt	7 million
Equity -	Initial	1.
	Increase	.5
	Total Equity	1.5

* COMDESA plans to use lines of credit totalling up to $1.0 million starting in 1973 and continuing at least through the disbursement period of the second AID loan.

COMDESA's management has agreed to the need and desirability of selling additional equity participations in the company. The firm's management will request shareholder approval to raise the authorized capital limitation from the present $1.0 million to $2.0 million. The Loan Committee began negotiations with COMDESA by indicating at least $500,000 of new equity from COMDESA would be required under a second AID loan. COMDESA's management accepted this and proposed to request stockholder authority to go beyond that level to reach $1.0 million in new participations by 1978. For the purposes of examining this loan proposal, the Loan Committee and COMDESA agreed to plan on, as a minimum, an additional $500,000 in new equity payments over the disbursement period of the loan.

COMDESA's debt to equity ratio under the first AID loan was 3 to 1. Without the lines of credit, mentioned above, the debt to equity ratio will become 4 to 1, after the second AID loan, a ratio which compares favorably with other AID-financed private development banks and which will provide COMDESA with the financial leverage it requires to reach a self-sustaining level of operations. However, the Loan Committee recommends a maximum debt equity of 5 to 1 in order to allow the use of the lines of credit indicated on the table above.

2. Loan Amount and Terms.

Two major considerations were taken into account in setting the amount and terms of the loan. The first was the amount of funds required for eligible procurement with U.S. dollars. USAID's and COMDESA's experience with utilization of the dollar component of the first AID loan was analyzed and evaluated. The Loan Committee concluded that, except in the instances of COMDESA investing (loan or shares) in large projects in Paraguay, the requirement for, or possible utilization, of dollars in sub-project financing was not large. Additionally, there do exist in Paraguay other sources of financing - lines of credit - which can provide for importation of capital equipment.

On the other hand, the Loan Committee found substantial evidence to support including a large local currency component in the proposed loan. It is this component which is most scarce, on developmental lending terms such as only COMDESA can offer, in Paraguay.

COMDESA had given USAID a list of projects it was proposing to consider financing in 1973-74 and indicated that COMDESA could utilize a second loan from AID of $3,175 million. At the time, some doubt existed about the likelihood of some of the proposed projects coming to the realization stage, and the IRR and subsequent USAID-COMDESA negotiations presumed an amount of $2.1 million. The Loan Committee determined that COMDESA's project list is reasonable. It also learned that other projects, not on COMDESA's list which would require COMDESA's unique type of financing in the near future are in final stages of study by the Centro de Desarrollo y Productividad. (See ANNEX VI Exhibit 2).

Therefore, the Loan Committee believes that there is an effective demand for COMDESA's lending resources that will fully absorb additional funding of $3.0 million from AID.

The second major consideration in determining the loan amount and terms was the need for COMDESA to achieve a sound financial base while maintaining a reasonable level of development lending operations. In the first financial analysis made to evaluate the necessity for a second loan, $2.5 million was proposed as the loan amount, and COMDESA was requested to plan on opening lines of credit reaching $1.5 million by 1978. The Cash Flow prepared on those assumptions indicated that COMDESA would need additional concessionary financing at the end of the five year period. The projections showed that COMDESA's operations in the fourth and fifth year of the period would produce cash deficits of $87,000 and $306,000 respectively. Thus, the company would, at that time, have to open additional lines of credit (to at least $2.0 million and likely higher), or request additional financing from AID or financing on similar terms and conditions from other sources, in order to reach a maintainable level of operations. The Loan Committee and COMDESA agreed that a liberal policy of expanding lines of credit would not alone be sufficient to help COMDESA maintain a satisfactory level of operations. Such credits would cost 7-9%, and the Loan Committee was concerned that COMDESA avoid, if possible, excessive reliance on shorter term debt in view of the dangers and risks inherent in such a policy.

The amount of the proposed AID loan was then increased to $3.0 million, the bank and other lines of credit were reduced to an annual level of about $1.0 million through 1978, and new Cash Flow projections were prepared. (See ANNEX VII-Ex. 2). Under the terms stated below, the additional funds would allow COMDESA to generate the profit levels necessary for a private sector operation and provide reasonable assurance that the loan objectives would be achieved.

Thus, a second AID loan of $3.0 million is recommended under the following terms:

a. Amortization	: 20 years from date of first disbursement
b. Grace Period	: 5 years
c. Interest Rates	: 3% during grace period and 4% thereafter
d. Currency of Repayment	: U.S. Dollars
e. Procurement	: 50% U.S. Dollars and 50% Local Currency

COMDESA will be allowed to charge a maximum interest of 12% per annum on the loans financed with AID loan funds. A limit of 14% is suggested for loans made by COMDESA with non-AID funds. This may require approval of the Central Bank of Paraguay if the new banking law is approved by Congress. With respect to the terms of the sub-loans made by COMDESA with AID loan funds, the Loan Committee recommends the following:

a) no short term loans (less than 12 months)
b) no term over 10 years without prior approval of AID
c) no grace period for more than 12 months without prior approval of AID.

Throughout the negotiations which lead to COMDESA's acceptance of the new guidelines which would orient COMDESA towards more development type activities, i.e. longer terms, less collateral, appraisal banking, package lending, environmental soundness criteria, COMDESA's management insisted upon a quid pro quo in the form of more independence of action in the use of its own funds, and authorization to charge a higher interest rate on the AID loan funds. The Loan Committee yielded on the question of increase in maximum interest rate and reached agreement with COMDESA's management on the new restriction on grace period mentioned above and on all the conditions and covenants listed under Section V.E., page 49.

3. Projected Results of Sub-Lending Operations 1973-1979.

The IRR for the proposed loan noted that COMDESA's management estimates that it must place a minimum of $200,000 per month during the life of the project in order to meet its goals of continuing to assist in the development of the private sector in Paraguay, make a profit which will yield reasonable dividends to stockholders, and evidence a satisfactory return compared to net worth. Following thorough analyses of COMDESA's financial projections (see ANNEX VII-2), the Loan Committee became convinced that without an additional loan of the size proposed and without concessionary terms, COMDESA's operations would not generate sufficient funds to maintain the minimum monthly lending average required of $200.000. The Cash Flow projections show COMDESA's yearly disbursements for sub-loans varying between a peak of $3,065 million in 1973 and a minimum of $1,965 million in 1977. Over the six year period of the projections, the average annual amount available for sub-lending is $2.37 million, or approximately $200,000 per month. The sub-loan portfolio would be developed according to the priorities for developmental lending agreed upon by COMDESA and the Loan Committee and described in an earlier section. According to the projections, this level of sub-lending will enable COMDESA to generate adequate estimated net returns on operations, taking into account the amortization of organization costs, operating expenses, debt service costs, and the amounts required for reserves and provision for income tax.

COMDESA's projections (pro-forma Statement of Income and Expenses) show that before-tax earnings will rise at a rapid rate in 1973 and 1974, and continue to rise, but at a lesser rate, until a peak is reached in 1977. A slight reduction in earnings would occur in 1978. The figures are as follows:

In $000

	1972	1973	1974	1975	1976	1977	1978
Earnings Before Tax	70.8	134.4	220.8	328.5	374.8	425.3	412.9

These earnings will allow COMDESA to declare dividends, from operating profits carried as free reserves (retained earnings), corresponding to fiscal years 73-78.

	1973	1974	1975	1976	1977	1978
Dividends	6.7%	9.6%	10.0%	10.0%	10.0%	10.0%
Retained Earnings from each cycle ($000)			44.0	56.1	69.4	43.6

One measure, or profit indicator, to determine the ultimate return to COMDESA stockholders is the return on net worth of the company. (There may be some question as to whether such a measure is appropriate for an institution such as this - a private company ultimately responsible to its stockholders but dedicated to development financing). Projected returns on net worth for the period 1973-1978 are listed below. As noted above, no dividend payments larger than 10% are contemplated. The Loan Committee believes the short-term returns for the project, particularly in the context of Paraguay where such rates of return on net worth are common, are reasonable.

	1973	1974	1975	1976	1977	1978
Rate of Return on Net Worth	.06	.09	.13	.17	.17	.15

While projections beyond 6 years were not made for this analysis, on the basis of AID's experience with other development banks applying for second loans with similar debt-capital structure and expenses, it is estimated that the average figure for returns on net worth to COMDESA's shareholders over the next ten years should be 12-13%. Overall profitability of the project is deemed satisfactory.

The projections indicate that by 1978 COMDESA will have a capital base totalling $9,246,000. With paid-in capital $2.0 million, earnings, and reserves amounting to $2,481,400 projected, collectively these items represent 26.8% of its capital base. Lending operations, including equity investments, are projected at $2.2 million by 1978. With this volume of operations and the capital base indicated, COMDESA should not experience difficulty in repaying the AID loan nor require future concessionary financing.

The additional investor equity proposed for the project requires further explanation. As noted earlier, COMDESA plans to seek $1.0 million in new equity. The Loan Committee, in negotiations with COMDESA's management, requested COMDESA to plan on selling at least $500,000 of new equity. The Loan Committee felt that while this could be achieved, it would not be without difficulty, since COMDESA has not yet paid a dividend, and may not for at least one more year. To attract new capital and interest existing shareholders in purchasing additional equity, COMDESA would like to begin paying dividends as soon as possible (the AID Loan Agreement allows a dividend payment of up to 12% annually of paid-in capital). COMDESA's management has agreed to the Loan Committee's suggestion that only stock dividends be declared until after COMDESA completes its operations for 1973. It also agreed to recommend stock, instead of cash dividends. This policy may not be approved by the General Assembly. In such a case the cash dividend would be about 5%. Even such low dividend is a better incentive and may attract the new shareholders for COMDESA's next issue.

The absence of a ready market for shares in Paraguay, and the fact that COMDESA is the first private stock company in Paraguay with broad small investor participation and with an unrecognized public record, also would appear to make the sale of additional equity more difficult than might be the case in other countries.

However, some existing shareholders, such as ADELA and the local banks, may not be too reticent to subscribe to additional capital shares before they receive cash returns from their initial investment. COMDESA's management asserted to the Loan Committee that a preliminary poll of the shareholders revealed that many would consider some new equity purchases; that many would accept stock instead of cash dividends; and that the maximum amount of new stock which would have to be sold to new shareholders would represent about one-third of the planned amount. COMDESA would, of course, attempt to interest new investors in buying as much of the additional authorization as possible. On this basis COMDESA's management felt it was realistic to request present shareholder approval to increase the authorized capital level to $2.0 million, to be paid-in by 1976.

4. "Two-Step" Arrangement.

The AID/W cable on minutes of the CAEC meeting for the COMDESA II IRR suggested consideration be given to offering the two-step feature to the Government of Paraguay in regard to this loan. In negotiations with COMDESA's management, the Loan Committee explained the objectives and mode of operation of the two-step option. COMDESA's comments on the proposed idea were consistent and forceful in that COMDESA believes the two-step arrangement could expose COMDESA to potential governmental attempts to influence its policy or operations. Since this is not the situation at present, COMDESA argued that AID should not take any action which could affect COMDESA's independence of operations. The Loan Committee noted the concerns of COMDESA, and in view of the fact that the Government of Paraguay has, to date, not accepted the two-step feature offered in conjunction with other loans, a decision was made not to consider the issue further.

5. Government Guarantee.

The Loan Committee considered the desirability AID's requiring a Government guarantee for the proposed loan along with consideration of the two-step offer. For the same reason as indicated in the preceding paragraph, the Loan Committee believes it inadvisable to seek such a guarantee. However, COMDESA will obtain from the Banco Central del Paraguay an indication of any objections it might have to the proposed loan. A response of "no objection" would serve as assurance that the Government would make available required amounts of foreign exchange to enable COMDESA to service its debt to AID.

SECTION V - LOAN ADMINISTRATION AND IMPLEMENTATION PLAN

A. Project Execution.

1. Through Meeting of Conditions Precedent.

Drafting, negotiation and signing of the Loan Agreement and of the basic Implementation Letter could be completed within 90 days after the letter of advice. No official ratification of the GOP will be required.

There will be four conditions precedent to initial disbursement:

a) Legal Opinion, b) evidence of full commitment of funds from Loan 526-L-019, c) arrangements for additional equity capital equivalent to $500,000; d) establishment of a separate reserve for maintenance of value commensurate to Borrower's outstanding long-term foreign debt in addition to the reserve requirements of the first AID loan and the legal reserve.

Compliance with those conditions can be expected 90 days after signing of the Loan Agreement. Disbursement of loan funds could start by December 1973.

2. Review and Approval of Sub-Projects by COMDESA.

COMDESA's project identification and promotion system as well as its procedures related to application, review and approval of sub-loans are described in detail in ANNEX V Exhibit 4 . In brief, applications received in the formats shows in ANNEX VIII-Ex.1 are submitted to the Board for a policy level decision as to the application's basic eligibility; if favorable, the staff conducts a close examination of the proposed operation and prepares a detailed analysis to support its recommendations; the Board approves or rejects the proposal or may give a conditional approval; the staff then negotiates an agreement; the Manager and the customer sign a contract.

COMDESA has acquired a reputation for prompt response to inquiries and is receptive to any imaginative, feasible proposal. Over 400 inquiries have been received so far, of these about 190 reached the Board and 127 operations have been approved. The talent and experience of the Board and of the Management Consultant have been an important factor in the promotion and appraisal of loans and investments. The role of the Management Consultant was expected to diminish as COMDESA increased gradually its permanent staff and upgraded its skills over the next three years.

3. Review and Approval of Sub-Projects by USAID.

Such AID reviews and approvals of sub-loans as may be required will be conducted by the USAID/Paraguay Loan Implementation Committee. The Capital Development Officer and the USAID Controller will have permanent representation on the Committee which will count also on any other assistance as may be appropriate. The Loan Implementation Committee shall review the monthly progress report to ascertain that none of the reported operations is in conflict with the Loan Agreement and recommend action when necessary. The Loan Committee recommends that the project description of the second Loan Agreement should provide specific development lending criteria which will simplify the processing of sub-loans requiring AID approval. Among the features recommended are: a) limitation of lending for development projects in agreed upon priority areas, b) no working capital loans for a term of less than 12 months, c) AID approval is required for loans in excess of $100,000 or its equivalent, d) AID approval is required for equity investment by COMDESA, e) AID approval is required when total exposure of COMDESA with any sub-borrower is in excess of $300,000 or its equivalent, f) AID approval is required for any direct loan to an officer of COMDESA or one of its principal stockholders or to a firm in which they have a substantial interest, g) AID approval is required when, irrespective of amount, the applicant has already received more than 3 sub-loans from COMDESA.

The Loan Committee believes that with specific guidelines clearly defined in Implementation Letters and a streamlining of the internal processing procedure of the Mission, the decision on any loan application requiring AID approval could be reached and communicated to COMDESA within 10 days after receipt of an application supported by complete and valid documentation.

A new "Loan Summary" has already been designed and discussed with COMDESA's management. An agreement was reached to start using the form for all new sub-loans under the present AID loan. (See ANNEX VIII-Exhibit 2). Adjustments will be made as required so that at the time the new loan funds will become available, the new form will have already been tested for more than 6 months. COMDESA has also revised the checklist used by its staff. The new checklist will be put in use before July 1973.

4. Supervision and Loan Administration by COMDESA's Staff.

COMDESA's management has designed and is using a follow-up plan for the administration and supervision of the operations of its sub-borrowers by COMDESA's own staff. This plan includes the control of the use of the funds and the evaluation of the goods and services financed with COMDESA's sub-loans. In-service training is thus intensified which upgrades the skills of the present staff to the benefit of both COMDESA and its customers.

B. Progress Review.

1. Reporting.

The loan agreement will require that COMDESA prepare and submit reports on its total portfolio.

(a) Monthly Progress Report, giving a brief summary of financing activity during the month. (See ANNEX VIII-Exhibits 3).

(b) Monthly and Annual Financial Statements including Income Statements, Balance Sheets and comparison with previous periods.

(c) Quarterly Progress Reports giving a detailed analysis of its activities (loans, investments, guaranties) during the Quarter, with sources and use of funds, sub-loan terms, etc.

In addition, the Quartely Progress Report shall provide a description and evaluation of the technical assistance received and given by COMDESA.

(d) Report of the Annual Audit performed by a firm acceptable to AID, and

(e) Annual Report, summarizing the year, prepared for stockholder and public distribution.

2. Evaluation.

Evaluation of COMDESA's utilization of the loan funds as well as its performance as a development lending institution will begin with these reports. Joint reviews will be held twice a year to coincide with COMDESA's program and budget reviews.

The Loan Committee suggests that prior to the commitment by COMDESA of more than one half of the loan funds and prior to the disbursement or issuance of commitment documents for the second half, USAID/Paraguay make a formal evaluation of the extent to which COMDESA's operations performance has matched its stated goals and lending priorities.

3. Framework for Evaluation.

a. COMDESA's performance will be evaluated by measuring it against the following goals generally accepted for a development bank:

(i) Provide Medium and Long Term Loans:

a) Has COMDESA made other than medium and long term loans? Loans under 12 months?

b) Package financing by COMDESA.

c) Have all maturities of 12 months or less been taken up by commercial banks?

(ii) Strengthen the Private Sector:

a) Technical assistance in management, budgeting, marketing, etc.

b) Promotion of operations for package lending which require financing of short maturities by commercial banks.

c) Providing funds for developmental lending not otherwise available for such purpose from other sources.

(iii) Attract non-AID Foreign Sources of Funds:

a) Equity investment in COMDESA.

b) Lines of Credit to COMDESA.

c) Equity investment in COMDESA promoted projects.

d) Consortium financing.

(iv) Finance Small and Medium Size Enterprises:

a) COMDESA's use of up to $200,000 to finance small enterprises through existing or new channels.

b) Review of portfolio.

(v) Provide Moderate-Sized Loans:

COMDESA's balanced lending. Its total portfolio will not show more than 30% of outstanding loans in amounts exceeding $300,000.

(vi) Stimulate Investment:

a) Promotion of sound projects which require a minimum of 30% investment by entrepreneurs.

b) Financial and technical assistance offered to entrepreneurs.

(vii) Promote Capital Markets:

a) Acquiring and offering for sale equity participation.

b) Placing new additional shares of its own stock.

c) Issuing or underwriting other debt instruments.

(viii) Provide Technical Assistance to Borrower:

a) In preparation of project.

b) In execution of project.

(ix) Promote New Investment Opportunities:

To what extent COMDESA's system of Project identification and promotion is geared to this purpose. What are the results?

(x) Stimulate High Priority Investment:

Has COMDESA adhered to its policy of lending for the development of high priority activities as specified in ANNEX 1 to the Loan Agreement.

b. The evaluation of COMDESA's operations will not be limited to the above goals but will also include an appraisal of the effectiveness of COMDESA in financing priority activities which aim at increasing:

(i) production for export
(ii) processing of Paraguayan agricultural, mineral and forest products
(iii) processing, marketing and distribution of foodstuffs
(iv) employment opportunity and income distribution

In addition the following checklist will be used to make a critical examination of COMDESA as an institution:

(i) Changes in ownership, Board, management, organization and procedure.
(ii) Change in Banking Laws affecting COMDESA.
(iii) Relation of COMDESA with GOP, business sector.
(iv) Changes in availability and terms of resources.
(v) Appropriateness or adequacy of operating policies and any significant deviation therefrom.
(vi) Volume and types of operations, how they compare with forecasts. New trends. Relative importance of various forms of financing undertaken and significance thereof.
(vii) Extent and quality of other activities such as technical assistance, promotion, etc.
(viii) Economic impact of COMDESA's activities.
(ix) Quality of portfolio, extent of protection against risks afforded by reserve funds.
(x) Problems - what action was taken to solve them? Are there outstanding issues and problems? What solutions are proposed?
(xi) Role of COMDESA in the economy. Present. What future new activities are contemplated? How do they fit within the established priorities?

The Loan Committee believes that any joint evaluation should be reflected in a comprehensive report with specific recommendations for action by COMDESA or AID when required. In that report the value of the above framework should be weighed and appropriate recommendations made for adjustments.

C. Technical Assistance.

During the first two years of operations COMDESA has used technical assistance provided by ADELATEC to establish the framework of a sound development institution. In particular, the services of Mr. Sergio Vergara, an experienced banker, who acted as Operations Manager for a period of about two years, helped give COMDESA a good foundation based on clear development banking policies. At the expiration of his contract COMDESA hired Mr. Vergara as a Consultant for the following year. During that same period, the recruiting of the key employees of COMDESA took place; on the basis of justified needs the original amount of $150,000 for technical assistance was raised to $300,000. More than two thirds of such amount will be used by COMDESA itself and the balance will be used to cover the cost of consultant services required by COMDESA's customers.

Compared to other financieras, the cost of technical assistance during and after the organization period of COMDESA could be considered high.

However the types of skill and experience needed for such an institution are scarce in Paraguay and the results obtained so far justify such cost.

The Loan Committee has discussed the need of COMDESA for additional technical assistance under the second loan. An amount not to exceed $100,000 will be disbursed over a period of 4 years. COMDESA intends to use these funds to pay for the services of experienced consultants in capital market operations, long term financial planning, and in-service training of COMDESA's staff.

In view of the demand for pre-investment and technical assistance from COMDESA's customers the Loan Committee recommends that up to $300,000 of the second loan funds be used by COMDESA through a Special Fund Account for sub-lending to cover the cost of (a) pre-feasibility and feasibility studies, (b) technical assistance in planning and administration. It is suggested that COMDESA maintain a separate revolving account of up to $300,000 for the same purposes.

Whenever COMDESA finances a project resulting from such studies, the project loan will include the cost of such study as part of the package and the first repayments of such loan would replenish the Special Fund Account for Technical Assistance to sub-borrowers.

The Loan Committee strongly supports the financing of technical assistance for planning and administration of enterprises which have not acquired the necessary skills in management and financial planning.

D. Procurement and Disbursement.

Procurement will be handled by COMDESA's customers who will utilize the Small Business Notification only when formal biddings are advisable.

Disbursement of Loan funds for Dollar Costs will be effected through the AID Letter of Commitment or other customary AID procedures. In the utilization of the first loan, COMDESA opened several global Letters of Commitment and is very familiar with this procedure.

Disbursement of loan funds for Local Currency Costs will continue to be made by the Mission through the direct reimbursement procedure as already established in the present Loan Agreement and approved by AID/Washington.

COMDESA is familiar with the AID procurement and disbursement procedures.

E. Conditions and Covenants.

1. Prior to signing of the loan agreement, Borrower will submit evidence that the General Assembly of Stockholders has approved additional capitalization amounting to a minimum of the equivalent of $500,000.

2. Prior to Initial Disbursement.

The Loan Agreement will include the standard conditions and require: (a) evidence satisfactory to AID that the Borrower has taken appropriate measures to raise its paid-in capital to the equivalent of $1.5 million; (b) the establishment of a separate reserve for maintenance of value commensurate to Borrower's outstanding long term foreign debt in addition to the reserve requirements of the first AID loan and the legal reserve; (See pages 52-53.); (c) evidence of full commitment of funds from Loan 526-L-019.

3. Other Terms and Conditions.

a. Goods, services and marine insurance financed under the loan shall have their sources and origin in countries included in Code 941 of the AID Geographic Code Book. Marine Insurance may be financed under the loan only if it is obtained on a competitive basis and any claims thereunder are payable in freely convertible currencies. Ocean shipping financed under the loan shall be procured in any country included in Code 941 of the AID Geographic Code Book.

b. The loan agreement will provide for a pari passu arrangement for payment of the additional capitalization as follows:

(i) No more than one million ($1.o million) of this loan will be released unless COMDESA submits evidence of receipt of additional paid-in capital amounting to the equivalent of $166,000.

(ii) No more than two million of this loan will be released unless COMDESA submits evidence of receipt of additional paid in capital amounting to the equivalent of $500,000.

c. Unless AID otherwise agrees in writing, Borrower may not borrow from other sources any amount of money which would result in a debt equity ratio in excess of five (5) to one (1).

4. Covenants.
a. Unless AID otherwise agrees in writing, Borrower shall not:

(i) Use AID loan funds to make any sub-loan for a term of less than one (1) year or more than 10 years.
(ii) Finance in whole or in part with loan funds any project which includes refinancing of any kind.
(iii) Use more than an aggregate amount of $300,000 of funds from the loan for equity investments;

(iv) Provide more than twenty-five percent (25%) of the equity investment for any sub-project;

(v) Use more than 25% of AID loan funds for working capital financing.

(vi) Declare or pay any cash dividends on any shares of any class of stock of the Borrower whether now or hereafter outstanding which would represent a return of more than twelve percent (12%) to the shareholder in any calendar year unless such distribution in excess of twelve percent (12%) is matched by an equal appropriation to earned surplus and also an equal prepayment of the AID loan;

(vii) Make any sub-loan to any enterprise when such sub-loan would cause the debt-equity ratio of such enterprise to exceed the ratio of 70:30;

(viii) Sell, transfer, lease or otherwise dispose of all or any substantial portion of its assets (except for sale, in the normal course of business, of equity investments), or undertake any merger or consolidation;

(ix) Subordinate AID's status as preferential creditor to the claim of any other credit of Borrower.

b. The Borrower will consult with, and obtain prior written approval from AID, before undertaking any of the following actions:

(i) Approve more than three sub-loans to any individual, enterprise or single investor group;

(ii) Make sub-loans to, or equity investment in, any enterprise if the aggregate amount exceeds the equivalent of one hundred thousand dollars ($100,000);

(iii) Use AID loan funds to make any sub-loan for working capital only. In the cases of sub-loans where working capital is a component, the financing of such component shall not be for a term of less than 12 months;

(iv) Materially amend its charter or by-laws or the basic terms, rules, regulations, policies and procedures approved by AID for the implementation of Loan 526-L-019 except when such amendments are required to fulfill new conditions and covenants established in the present loan;

(v) Change the management of the Borrower.

c. This loan will be subject to such other terms and conditions as AID may deem advisable.

SECTION VI - ISSUES

A. Raised by the Loan Committee in USAID/Paraguay

1. Foreign Exchange Risk to COMDESA.

In spite of the fact that the GOP has pegged the value of the guarani to the U.S. dollar, after the dollar was devaluated, the Loan Committee has expressed some concern over the question of the likely effects of an eventual devaluation of the Guarani on the ability of COMDESA to survive as a viable institution through such a period.

The first AID loan provided for COMDESA to reserve 2% of total yearly outstanding portfolio for such an event, an amount which certainly would be insufficient if COMDESA could not collect at the new rate from its sub-borrowers the monies it lent at the old rate. Requiring a covenant in the second AID loan for a larger cash reserve, or a cumulative reserve to reach, after a period of years, 10% of total portfolio outstanding would give greater protection and assurance that COMDESA could reduce the impact of a devaluation if its sub-borrowers could not pay the readjusted amounts of their debts. However, such provision would at best be a palliative because no one can forecast with any accuracy the rate of inflation which would cause the GOP to devaluate the Guarani. There is no assurance either that the devaluation will be close to the range of 10%. The Loan Committee believes that COMDESA should not, at its present stage of development, remove from development lending activity 10% of its entire portfolio, but progressively establish a cash reserve for maintenance of value over a period of 5 years equivalent to 5% of the amount of its outstanding obligations repayable in foreign exchange. This seems more reasonable and more realistic. During the joint evaluation meetings with COMDESA the adequacy of the provisions for reserves will be thoroughly studied and specific recommendations will be made, if required.

Up to now, COMDESA has passed the maintenance of value risk to its sub-borrowers. COMDESA's management pointed out to the Loan Committee that Decree Law #284 specifically approved such procedure. One of her recent informational documents, dated 15 February, 1973, (and titled "Modalidades Operativas"), refers, in point number 7, to the fact that the sub-borrowers assume the exchange risk when COMDESA finances from its foreign resources, whether in dollars or guaranies. This policy has been questioned by AID auditors who were of the opinion that COMDESA was discriminating among its sub-borrowers. However, it is our understanding that the end user of the funds should and does bear the exchange risk in all countries developed or underdeveloped.

The Loan Committee has discussed with COMDESA the need to make an analysis and evaluation of the effects of a hypotetical devaluation of 10 and 15% on its total portfolio. COMDESA has agreed to do so and may require technical assistance to carry out such a study. On the basis of recommendations resulting from such a study COMDESA will consider adopting specific policies concerning the over-all problem of maintenance of value and the measures required to implement them. In designing a loan package for its sub-borrower COMDESA is carefully providing a mix of AID loan generated guaranies and COMDESA's own guaranies (on which there is no exchange risk) to buffer the possible impact of devaluation of the local currency on the operations of its sub-borrower thus lessening the potential impact on COMDESA itself. The Loan Committee expects that in the future COMDESA will gradually increase the proportion of COMDESA's own guaranies in all the financing packages when local currency funds become available through the roll over or additional equity.

The Loan Committee recommends that for the time being COMDESA be required to establish a separate cash reserve which overaa period of 5 years should reach the equivalent of 5% of its outstanding obligations repayable in foreign exchange.

While this issue is closely related to issue No. 3, Government Guarantee, the Loan Committee believes that the risk of maintenance of value is less than the risk to COMDESA of being exposed to potential pressure.

2. Use of Lines of Credit from Commercial Banks by COMDESA.

The Loan Committee has discussed with COMDESA's management the possible use of commercial banks' lines of credit. The point was stressed that COMDESA should negotiate for medium term lines of credit rather than the short term usually made available by the commercial banks.

COMDESA's arguments were that since it will have to obtain funds at non-concessionary terms and one of the sources might be the Commercial Banks, it would be wise to start establishing now firmer banking relations with the commercial banks. In addition, as a matter of prestige it would benefit COMDESA to have such solid references in the financial world market when the time comes to look for additional funds. Finally there are many operations corollary to long term lending which are directly related to development. These operations are generally financed with funds earmarked for such purposes by the commercial banks. Those operations could yield additional returns that would strengthen COMDESA's financial situation.

While these points are well taken and other reasons could be found to loosen the hold, in the light of AID's experience with other financieras, the Loan Committee recommends that the Loan Agreement contain a clause which would require AID approval not only for any additional borrowing above a certain amount but also for the terms of loans which COMDESA may obtain within that amount. The Loan Committee feels that such a clause will provide better control over both the types of operations that COMDESA will finance with such additional funds and the debt-equity ratio of COMDESA.

It must be noted that such a clause will not be an absolute limitation since AID would surely approve additional borrowings by COMDESA when justified.

3. GOP Guarantee.

The Loan Committee has considered the desirability of requiring a Government Guarantee for the second loan, taking into account the advantage of passing the maintenance of value risk to the Government of Paraguay.

In discussions with COMDESA's management the matter of guarantee was studied in depth. COMDESA expressed strong apprehension that this could affect seriously its independence of judgement. ions.

The Loan Committee noted COMDESA's view that, within the Paraguayan context, it is not desirable to require a guarantee of the Government of Paraguay.

The Loan Committee suggests that COMDESA obtain from the Central Bank of Paraguay a letter stating that it has no objection to COMDESA's additional borrowing of up to $3.0 million from AID. This is a procedure used by the IFC in some countries and the General Manager of COMDESA did not foresee any difficulty in obtaining such a letter from the Central Bank. According to Law the Central Bank is empowered to regulate COMDESA's operation and assure that COMDESA will have access to the necessary foreign exchange when payments under AID loans become due. This letter of non-objection could be required as a condition to signing the Loan Agreement.

4. Appraisal Banking.

After long discussions concerning methods and techniques used by COMDESA in its operations from the project identification and promotion activities, through the actual lending operation and follow up system, the Loan Committee is convinced that COMDESA is using appraisal banking techniques and that its decisions are based on the quality and profitability of the project and not just on the amount or type of collateral offered, financial, political or social.

The procedures used by COMDESA are reflected in the requirements specified in the forms for loan application, project analysis, appraisal of the management, capacity of the applicant, creditworthiness, financial position of the individual or firm. The use of "package lending" by COMDESA fits well within the appraisal banking techniques. The four representatives of the commercial banks who serve on the Board of COMDESA have a long experience in appraisal banking and act as watchdogs to make sure that the lending policies and criteria are applied.

The Loan Committee estimates that COMDESA is well on the way to using exclusively appraisal banking techniques in its new operations.

B. Raised by the CAEC.

In two separate cables (See ANNEX IV, Exhibits AandB) the CAEC raised some specific issues which are treated below.

1. Evolution of COMDESA into a more Innovative Development Finance Institution.

Using the criteria indicated in the CAEC cable (STATE 212860 of November 24, 1972), the Loan Committee discussed with COMDESA's management the features of a program which would move COMDESA in an even more developmental direction. From the beginning COMDESA's management contended that all its operations were geared to activities which fostered the economic development of Paraguay. The plea was made to judge COMDESA within the realities of the context of Paraguay. Without entering into recrimination the Loan Committee reviewed with COMDESA's management its policies, criteria, portfolio and pointed out some of the measures required to make of COMDESA a more innovative development finance institution. The following points were stressed and COMDESA's management accepted them:

a) COMDESA will establish the highest priority for activities directed primarily at increasing:

(i) Production for export;
(ii) Processing of Paraguayan agricultural mineral and forest products;
(iii) Processing, marketing, and distribution of foodstuffs;
(iv) Projects which foster income distribution and generate employment.

b) COMDESA will not finance production of consumer goods as import substitution whenever such activities are made viable and profitable only by heavy tariff protection or exclusive import privileges;

c) COMDESA will establish and maintain a policy that eighty percent (80%) of its operations will be dedicated to activities within the above listed priorities;

d) COMDESA will require its applicants to state the efforts they have made to obtain financing from other sources and the terms and conditions of such other sources. In the financial analysis of the project made by COMDESA a specific finding must be made by COMDESA as to reasonableness of such terms and conditions for the type of project. Even in the case of projects which do not require USAID's approval, the summary of the loan submitted by COMDESA shall record COMDESA's finding on this point;

e) COMDESA will continue to require that all projects be supported by a satisfactory feasibility study made by an individual or firms acceptable to COMDESA;

f) COMDESA will not finance short term working capital (less than 12 months);

g) In "package lending" where COMDESA must act also as a catalyst any short-term working capital component of the package must be offered by COMDESA to local commercial banks. If the borrower insists upon concentrating its primary debt in one institution , COMDESA will sell the first maturities to local commercial banks;

h) COMDESA will broaden its policies aiming at providing a greater range of services than those made available by other lending institutions in Paraguay. It will undertake to prepare and promote the development of projects within the priority fields and provide financing for capital goods - medium and long-term working capital, technical assistance in management;

i) It will use up to $300,000 of the new loan funds to make sub-loans for pre-investment studies and for management technical assistance to its sub-borrowers. The repayments of such sub-loans shall constitute a special fund to be used by COMDESA for such activities;

j) In the project analyses made by COMDESA and in the feasibility studies financed by COMDESA there will be a specific requirement to treat the possible effect of the proposed activity on the ecology of Paraguay and make appropriate recommendations as to the measures which would protect the environment.

The Loan Committee believes that by agreeing to the above points COMDESA has demonstrated its full acceptance of the responsibilities of its unique role within the financial sector of Paraguay.

The new features will require additional efforts on the part of COMDESA's small staff. The Loan Committee was asked to provide an amount of up to $100,000 that COMDESA will use to cover the cost of the technical assistance it will need to reinforce the skills of its staff and to pay for the contract services of competent consultants who will help COMDESA carry out its project development functions.

2. Dollar - Local Currency Mix in the Second Loan

After reviewing the results of the first loan and the adjustments which were required to allow a greater use of loan funds for local currency costs, the Loan Committee analyzed with COMDESA the estimates for the applications being considered by the institution. The conclusion reached is that the second loan agreement should allow a maximum of 50% for local currency cost, unless AID otherwise agrees in writing, indicating that AID would not be unwilling to consider later developments in COMDESA's project financing requirements as they affect this issue. In the development projects required by Paraguay at its present stage of growth, the greatest demand continues to be for medium and long term construction cost and working capital. The "package lending" method undertaken by COMDESA would be practically fruitless if it could not participate in the financing of a substantial part of the local currency component. It is expected that within five years when its roll over funds will be growing COMDESA will not need to use foreign exchange borrowings to cover local cost to the extent it does now. COMDESA is being prodded into more development lending activities which require longer terms. This slows down the roll over and reduces the availability of local currency for new loans.

The Loan Committee recommends that the Loan Agreement establish a maximum of 50% local currency cost.

3. Livestock Financing by COMDESA

The Loan Committee discussed with COMDESA's management the issue raised during the DAEC review of the IRR on the desirability of permitting COMDESA to continue its operations in the area of livestock financing. The discussions took note of the fact that the Government of Paraguay has assigned livestock financing as a high priority development activity, and that COMDESA's management, in recognition of such priorities, desired to establish a balanced portfolio among livestock, agribusiness, manufacturing and service industries. However, while the Loan Committee recognized that there existed a financing gap for livestock production which COMDESA has and could continue to fill (cattle importation and medium-long term working capital requirements--see page 14), the Loan Committee stressed that the reason for AID's consideration of additional support through long term concessional financing to COMDESA was not to enable that institution to enter further into an area where other international lending agencies (IBRD-IDB) have already made extensive resources available. The Committee felt that both livestock production and agricultural production were areas currently inappropriate for COMDESA to be involved with since alternate sources of financing do exist for these activities and COMDESA as a development bank can stimulate greater developmental changes in the Paraguayan economy by concentrating its resources in areas of greater need.

4. Financial Environment in which COMDESA Operates.

a. General Environment. The Government of Paraguay recognizes the need for a strong private sector but does very little to encourage its growth. It levies export taxes, it does not exercize any real control on contraband, it does not offer sufficient incentives to the industries which generate badly needed foreign exchange. The Central Bank of Paraguay, which controls the terms and conditions of credit offered by banks and other financial institutions, alleging that the threat of inflation justifies a strict control of commercial bank operations, imposes a 42% reserve requirement to reduce credit availability and increase its cost. So far the commercial banks have not been able to enter into discount or rediscount operations which could help in the development of Paraguay's private sector. There is a feeling of uncertainty among the commercial banks in Paraguay.

The Central Bank issued a resolution early in 1972 requiring commercial banks to place 25% of their loan portfolio in industry, 20% in export financing and 10% in agriculture, by September 1972. Under this regulation, loans would be made for a period of 240 days to one year with a maximum interest rate of 14%, including bank commissions. This measure aimed at expanding the time and amount of short term working capital and reducing its cost, since the prevailing interest rates range from 16 to 20% depending on terms. The Central Bank hoped that with this measure it could induce the more efficient commercial banks to gradually take over some of the present operations of the National Development Bank and to relieve it of requests for working capital from the commodity producing sectors. No spectacular chamge has taken place since the Resolution was passed and the commercial banks maintain their conservative lending activities, i.e. the traditional short term, quick return operations, such as the financing of import and exports which yield about 18% per annum.

The National Development Bank, created in March 1961 in replacement of the Banco del Paraguay, is the largest lending institution in Paraguay.

It is organized in three relatively distinct departments, Commercial Banking and Savings, Agricultural Credit and Development Loans. The Commercial Department operates as a normal commercial bank. The Agricultural Credit Department has two divisions making loans to small and commercial farmers, from two lines of credit financed by AID and the IDB. The Development Loan Department uses mainly lines of credit from the German Kreditanstalt Fur Wiederaufban and the IDB for financing imports of machinery and equipment. The Bank is prohibited by Law from making equity investments.

Medium and long term credit is made available by the Bank at rates which vary from 9 to 16 percent. The exchange risk is passed on the borrower in most cases. Since funds from both the Kreditanstalt fur Wiederaufban and the IDB industrial credits are only available to finance foreign exchange costs, local currency for financing the high medium term working capital requirements of agricultural processing industries must be found locally. As indicated above, the policy of the Central Bank is to reduce gradually the participation of the National Development Bank in financing the working capital needs of the commodity producing and processing sectors.

The Bank is a large and complex institution operating in a variety of ways through its three departments. As a government institution, it tends to move slowly and often makes loans on grounds of political considerations or adequacy of collateral rather than on detailed appraisal of individual proposal. It does very little effective promotion, and its collection methods are considered weak.

b. Availability of Funds for Development Lending Activities in Paraguay. The Loan Committee has analyzed the data prepared by the Central Bank of Paraguay to establish the availability of funds for development lending in agriculture and industry in the two official banks of Paraguay, the Central Bank of Paraguay and the National Development Bank (BNF). (See ANNEX VI Exhibit 1). Of a total of approximately $47.0 million, the

Central Bank received $15.0 million from the IBRD (IDA funds for the Fondo Ganadero) and $1.0 million from the Central Bank of Brazil. At the end of CY 1972 it had a balance available of $5,361,740 for livestock operations. The National Development Bank received $7.0 million from the "Banco de la Nación Argentina" for livestock operations; $9.0 million from AID for crop production mainly grain; $3.0 million from the ExImBank for irrigation and agricultural equipment; $8.0 million from IDB for agricultural development directed at small farmers; $4.7 million from the IDB for pre-investment studies and industrial development and $6.0 million from the Development Bank of the West Germany Government for industrial development. As of December 31, 1972, the National Development Bank had a balance available of about $19.0 million for agriculture, livestock and industrial lending.

All commercial banks had an estimated balance of $2.0 million available for lending during the month of January 1973. Most of those funds came from deposits. The commercial banks traditionally lend only on a short-term basis (i.e. maximum of 240 days) preferably to commerce and industry.

At the end of CY 1972 COMDESA had a balance available of about $800,000 for lending consisting of $500,000 of AID funds and $300,000 from repayment on loans.

Suppliers credit for machinery and equipment were also available through the channel of the NDB for an indefinite amount.

(1) Interest Rates.

(i) Commercial Banks.

The structure of interest rates and cost of credit in Paraguay which is basically under the control of the Central Bank is very flexible. There is practically no restriction on the method of computation. The lack of specific regulation of interest and commission charges produces disparate costs for borrowers depending on the type of banking operations. A few examples will suffice:

The discount of a document for ₲100 due at the end of 180 days would have the following costs:

₲6 as interest; ₲3 as commission. The borrower receives ₲91 and the cost to the borrower on an annual basis is 19.78%.

In the case of direct loans which in turn vary in term of repayment from one month to one year, interest and commission are discounted from the loan at the outset. The cost to the borrower is similar to that of a discounted document.

In the case of overdrafts the maximum term is 30 days, the real cost of the credit is 30% per annum including interest, commissions and taxes.

In the case of a loan guaranteed with a mortgage the cost to the borrower is higher because of the cost of preparing the necessary documents.

(ii) Public Lending Institution.

The National Development Bank has used the following rates:

	Annual Cost to the Borrower
(1) Commercial Department-own funds-all purposes=12% + 4% commission -	16.4 - 20%
(1 year maximum) - own funds-winter livestock feeding= 12% + 3%	15.5 - 16%
Lines of credit-external funds-commercial short term=11% + 2%	14 - 20%
(2) Development Department - own funds - 12 + 1%	13 - 13.5%
Long term C years-external funds KFW - 9% + 0.13%	9 - 9.25%
Maximum to long term 1 to 10 years IDB - 10% + 0.10%	11.7 - 12.7%
(3) Agriculture Department - 5 years - own funds - wheat program - 10% + 1%	10.5 - 10.6%
Short term limit 1 year - Central Bank funds - wheat program - 10% + 1%	11.5 - 12.5%
Long term 7 years - AID - wheat program - 10% + .10	10.33 - 10.5%
5 years - Agricultural Machinery - EximBank - 9% + .20	9.5 - 9.6%
5 years - Agricultural Machinery - Suppliers Credit Guaranteed by NDB - 10% + .20	10.5 - 10.6%

The Fondo Ganadero administered by the Central Bank lends at 9% - does not collect any commission - but taxes and other fees on a loan for the maximum term of 12 years would add .21%. It does not finance working capital.

C. Other Types of Credit.

Due to the restrictions imposed by the Central Bank or the commercial banks, many operations are carried out by institutions or individuals at the following rates:

Advance deposits on imports: 24% per annum plus about 6% differential on foreign currency dealing.

Curb market loans reach 4% per month.

Loans for house construction cost a minimum of 18% interest and commissions.

D. Terms of COMDESA's Loans.

1. COMDESA, up to now has charged 10% interest on loans made with AID loan funds and 12% on loans made with other funds. In addition, COMDESA charges commissions which vary from 1% to 4% on its loans. Whenever the commission is charged the interest rate is adjusted over the life of the loan so that the maximum return to COMDESA from interest and commission does not exceed 10% on AID Loan funds and 12% on COMDESA's own funds.

2. The proposed second loan will allow COMDESA to charge up to 12% on loans made with AID loan funds and up to 14% on loans made by COMDESA with funds from other sources.

3. COMDESA may finance medium and long term working capital needs as part of a package.

E. Conclusion.

Given the environment in which COMDESA is working, the Loan Committee is satisfied that COMDESA is not in a position to substitute either the commercial banks or the National Development Bank in the type of lending those institutions are making. While there may be a certain area of overlapping with the operations of the National Development Bank, this was taken into account when the first loan to COMDESA was authorized. The mere fact that there exists a Government sponsored institution operating in the field of development financing has not precluded AID from lending to the private sector development bank in the same country. Very often AID has encouraged completion between both types of institution because healthy competition tends to improve efficiency.

In the case of COMDESA the second loan will impose sufficient restrictions as to terms, grace periods, interest rates, types of loans for priority projects based on sound feasibility studies, to prevent under-cutting by COMDESA.

With more or less comparable terms and higher interest rates offered by COMDESA, the Loan Committee feels that when COMDESA competes with the National Development Bank it will be on the basis of quality and efficiency of services offered by COMDESA.

the concerns of COMDESA, and in view of the fact that the Government of Paraguay has, to date, not accepted the two-step feature offered in conjunction with other loans, a decision was made not to consider the issue further.

5. Government Guarantee.

The Loan Committee considered the desirability AID's requiring a Government guarantee for the proposed loan along with consideration of the two-step offer. For the same reason as indicated in the preceding paragraph, the Loan Committee believes it inadvisable to seek such a guarantee. However, COMDESA will obtain from the Banco Central del Paraguay an indication of any objections it might have to the proposed loan. A response of "no objection" would serve as assurance that the Government would make available required amounts of foreign exchange to enable COMDESA to service its debt to AID.

SECTION V - LOAN ADMINISTRATION AND IMPLEMENTATION PLAN

A. Project Execution.

1. Through Meeting of Conditions Precedent.

Drafting, negotiation and signing of the Loan Agreement and of the basic Implementation Letter could be completed within 90 days after the letter of advice. No official ratification of the GOP will be required.

There will be four conditions precedent to initial disbursement:

a) Legal Opinion, b) evidence of full commitment of funds from Loan 526-L-019, c) arrangements for additional equity capital equivalent to $500,000; d) establishment of a separate reserve for maintenance of value commensurate to Borrower's outstanding long-term foreign debt in addition to the reserve requirements of the first AID loan and the legal reserve.

Compliance with those conditions can be expected 90 days after signing of the Loan Agreement. Disbursement of loan funds could start by December 1973.

2. Review and Approval of Sub-Projects by COMDESA.

COMDESA's project identification and promotion system as well as its procedures related to application, review and approval of sub-loans are described in detail in ANNEX V Exhibit 4 . In brief, applications received in the formats shows in ANNEX VIII-Ex.1 are submitted to the Board for a policy level decision as to the application's basic eligibility; if favorable, the staff conducts a close examination of the proposed operation and prepares a detailed analysis to support its recommendations; the Board approves or rejects the proposal or may give a conditional approval; the staff then negotiates an agreement; the Manager and the customer sign a contract.

COMDESA has acquired a reputation for prompt response to inquiries and is receptive to any imaginative, feasible proposal. Over 400 inquiries have been received so far, of these about 190 reached the Board and 127 operations have been approved. The talent and experience of the Board and of the Management Consultant have been an important factor in the promotion and appraisal of loans and investments. The role of the Management Consultant was expected to diminish as COMDESA increased gradually its permanent staff and upgraded its skills over the next three years.

3. Review and Approval of Sub-Projects by USAID.

Such AID reviews and approvals of sub-loans as may be required will be conducted by the USAID/Paraguay Loan Implemantation Committee. The Capital Development Officer and the USAID Controller will have permanent representation on the Committee which will count also on any other assistance as may be appropriate. The Loan Implementation Committee shall review the monthly progress report to ascertain that none of the reported operations is in conflict with the Loan Agreement and recommend action when necessary. The Loan Committee recommends that the project description of the second Loan Agreement should provide specific development lending criteria which will simplify the processing of sub-loans requiring AID approval. Among the features recommended are: a) limitation of lending for development projects in agreed upon priority areas, b) no working capital loans for a term of less than 12 months, c) AID approval is required for loans in excess of $100,000 or its equivalent, d) AID approval is required for equity investment by COMDESA, e) AID approval is required when total exposure of COMDESA with any sub-borrower is in excess of $300,000 or its equivalent, f) AID approval is required for any direct loan to an officer of COMDESA or one of its principal stockholders or to a firm in which they have a substantial interest, g) AID approval is required when, irrespective of amount, the applicant has already received more than 3 sub-loans from COMDESA.

The Loan Committee believes that with specific guidelines clearly defined in Implementation Letters and a streamlining of the internal processing procedure of the Mission, the decision on any loan application requiring AID approval could be reached and communicated to COMDESA within 10 days after receipt of an application supported by complete and valid documentation.

A new "Loan Summary" has already been designed and discussed with COMDESA's management. An agreement was reached to start using the form for all new sub-loans under the present AID loan. (See ANNEX VIII-Exhibit 2). Adjustments will be made as required so that at the time the new loan funds will become available, the new form will have already been tested for more than 6 months. COMDESA has also revised the checklist used by its staff. The new checklist will be put in use before July 1973.

4. Supervision and Loan Administration by COMDESA's Staff.

COMDESA's management has designed and is using a follow-up plan for the administration and supervision of the operations of its sub-borrowers by COMDESA's own staff. This plan includes the control of the use of the funds and the evaluation of the goods and services financed with COMDESA's sub-loans. In-service training is thus intensified which upgrades the skills of the present staff to the benefit of both COMDESA and its customers.

B. Progress Review.

1. Reporting.

The loan agreement will require that COMDESA prepare and submit reports on its total portfolio.

(a) Monthly Progress Report, giving a brief summary of financing activity during the month. (See ANNEX VIII-Exhibits 3).

(b) Monthly and Annual Financial Statements including Income Statements, Balance Sheets and comparison with previous periods.

(c) Quarterly Progress Reports giving a detailed analysis of its activities (loans, investments, guaranties) during the Quarter, with sources and use of funds, sub-loan terms, etc.

In addition, the Quartely Progress Report shall provide a description and evaluation of the technical assistance received and given by COMDESA.

(d) Report of the Annual Audit performed by a firm acceptable to AID, and

(e) Annual Report, summarizing the year, prepared for stockholder and public distribution.

2. Evaluation.

Evaluation of COMDESA's utilization of the loan funds as well as its performance as a development lending institution will begin with these reports. Joint reviews will be held twice a year to coincide with COMDESA's program and budget reviews.

The Loan Committee suggests that prior to the commitment by COMDESA of more than one half of the loan funds and prior to the disbursement or issuance of commitment documents for the second half, USAID/Paraguay make a formal evaluation of the extent to which COMDESA's operations performance has matched its stated goals and lending priorities.

3. Framework for Evaluation.

a. COMDESA's performance will be evaluated by measuring it against the following goals generally accepted for a development bank:

(i) Provide Medium and Long Term Loans:

a) Has COMDESA made other than medium and long term loans? Loans under 12 months?

b) Package financing by COMDESA.

c) Have all maturities of 12 months or less been taken up by commercial banks?

(ii) Strengthen the Private Sector:

a) Technical assistance in management, budgeting, marketing, etc.

b) Promotion of operations for package lending which require financing of short maturities by commercial banks.

c) Providing funds for developmental lending not otherwise available for such purpose from other sources.

(iii) Attract non-AID Foreign Sources of Funds:

a) Equity investment in COMDESA.

b) Lines of Credit to COMDESA.

c) Equity investment in COMDESA promoted projects.

d) Consortium financing.

(iv) Finance Small and Medium Size Enterprises:

a) COMDESA's use of up to $200,000 to finance small enterprises through existing or new channels.

b) Review of portfolio.

(v) Provide Moderate-Sized Loans:

COMDESA's balanced lending. Its total portfolio will not show more than 30% of outstanding loans in amounts exceeding $300,000.

(vi) Stimulate Investment:

a) Promotion of sound projects which require a minimum of 30% investment by entrepreneurs.

b) Financial and technical assistance offered to entrepreneurs.

(vii) Promote Capital Markets:

a) Acquiring and offering for sale equity participation.

b) Placing new additional shares of its own stock.

c) Issuing or underwriting other debt instruments.

(viii) Provide Technical Assistance to Borrower:

a) In preparation of project.

b) In execution of project.

(ix) Promote New Investment Opportunities:

To what extent COMDESA's system of Project identification and promotion is geared to this purpose. What are the results?

(x) Stimulate High Priority Investment:

Has COMDESA adhered to its policy of lending for the development of high priority activities as specified in ANNEX 1 to the Loan Agreement.

b. The evaluation of COMDESA's operations will not be limited to the above goals but will also include an appraisal of the effectiveness of COMDESA in financing priority activities which aim at increasing:

(i) production for export
(ii) processing of Paraguayan agricultural, mineral and forest products
(iii) processing, marketing and distribution of foodstuffs
(iv) employment opportunity and income distribution

In addition the following checklist will be used to make a critical examination of COMDESA as an institution:

(i) Changes in ownership, Board, management, organization and procedure.
(ii) Change in Banking Laws affecting COMDESA.
(iii) Relation of COMDESA with GOP, business sector.
(iv) Changes in availability and terms of resources.
(v) Appropriateness or adequacy of operating policies and any significant deviation therefrom.
(vi) Volume and types of operations, how they compare with forecasts. New trends. Relative importance of various forms of financing undertaken and significance thereof.
(vii) Extent and quality of other activities such as technical assistance, promotion, etc.
(viii) Economic impact of COMDESA's activities.
(ix) Quality of portfolio, extent of protection against risks afforded by reserve funds.
(x) Problems - what action was taken to solve them? Are there outstanding issues and problems? What solutions are proposed?
(xi) Role of COMDESA in the economy. Present. What future new activities are contemplated? How do they fit within the established priorities?

The Loan Committee believes that any joint evaluation should be reflected in a comprehensive report with specific recommendations for action by COMDESA or AID when required. In that report the value of the above framework should be weighed and appropriate recommendations made for adjustments.

C. Technical Assistance.

During the first two years of operations COMDESA has used technical assistance provided by ADELATEC to establish the framework of a sound development institution. In particular, the services of Mr. Sergio Vargara, an experienced banker, who acted as Operations Manager for a period of about two years, helped give COMDESA a good foundation based on clear development banking policies. At the expiration of his contract COMDESA hired Mr. Vargara as a Consultant for the following year. During that same period, the recruiting of the key employees of COMDESA took place; on the basis of justified needs the original amount of $150,000 for technical assistance was raised to $300,000. More than two thirds of such amount will be used by COMDESA itself and the balance will be used to cover the cost of consultant services required by COMDESA's customers.

Compared to other financieras, the cost of technical assistance during and after the organization period of COMDESA could be considered high.

However the types of skill and experience needed for such an institution are scarce in Paraguay and the results obtained so far justify such cost.

The Loan Committee has discussed the need of COMDESA for additional technical assistance under the second loan. An amount not to exceed $100,000 will be disbursed over a period of 4 years. COMDESA intends to use these funds to pay for the services of experienced consultants in capital market operations, long term financial planning, and in-service training of COMDESA's staff.

In view of the demand for pre-investment and technical assistance from COMDESA's customers the Loan Committee recommends that up to $300,000 of the second loan funds be used by COMDESA through a Special Fund Account for sub-lending to cover the cost of (a) pre-feasibility and feasibility studies, (b) technical assistance in planning and administration. It is suggested that COMDESA maintain a separate revolving account of up to $300,000 for the same purposes.

Whenever COMDESA finances a project resulting from such studies, the project loan will include the cost of such study as part of the package and the first repayments of such loan would replenish the Special Fund Account for Technical Assistance to sub-borrowers.

The Loan Committee strongly supports the financing of technical assistance for planning and administration of enterprises which have not acquired the necessary skills in management and financial planning.

D. <u>Procurement and Disbursement</u>.

Procurement will be handled by COMDESA's customers who will utilize the Small Business Notification only when formal biddings are advisable.

Disbursement of Loan Funds for Dollar Costs will be effected through the AID Letter of Commitment or other customary AID procedures. In the utilization of the first loan, COMDESA opened several global Letters of Commitment and is very familiar with this procedure.

Disbursement of loan funds for Local Currency Costs will continue to be made by the Mission through the direct reimbursement procedure as already established in the present Loan Agreement and approved by AID/Washington.

COMDESA is familiar with the AID procurement and disbursement procedures.

E. Conditions and Covenants.

1. Prior to signing of the loan agreement, Borrower will submit evidence that the General Assembly of Stockholders has approved additional capitalization amounting to a minimum of the equivalent of $500,000.

2. Prior to Initial Disbursement.

The Loan Agreement will include the standard conditions and require: (a) evidence satisfactory to AID that the Borrower has taken appropriate measures to raise its paid-in capital to the equivalent of $1.5 million; (b) the establishment of a separate reserve for maintenance of value commensurate to Borrower's outstanding long term foreign debt in addition to the reserve requirements of the first AID loan and the legal reserve; (See pages 52-53.); (c) evidence of full commitment of funds from Loan 526-L-019.

3. Other Terms and Conditions.

a. Goods, services and marine insurance financed under the loan shall have their sources and origin in countries included in Code 941 of the AID Geographic Code Book. Marine Insurance may be financed under the loan only if it is obtained on a competitive basis and any claims thereunder are payable in freely convertible currencies. Ocean shipping financed under the loan shall be procured in any country included in Code 941 of the AID Geographic Code Book.

b. The loan agreement will provide for a pari passu arrangement for payment of the additional capitalization as follows:

(i) No more than one million ($1.o million) of this loan will be released unless COMDESA submits evidence of receipt of additional paid-in capital amounting to the equivalent of $166,000.

(ii) No more than two million of this loan will be released unless COMDESA submits evidence of receipt of additional paid in capital amounting to the equivalent of $500,000.

c. Unless AID otherwise agrees in writing, Borrower may not borrow from other sources any amount of money which would result in a debt equity ratio in excess of five (5) to one (1).

4. Covenants.

a. Unless AID otherwise agrees in writing, Borrower shall not:

(i) Use AID loan funds to make any sub-loan for a term of less than one (1) year or more than 10 years.

(ii) Finance in whole or in part with loan funds any project which includes refinancing of any kind.

(iii) Use more than an aggregate amount of $300,000 of funds from the loan for equity investments;

(iv) Provide more than twenty-five percent (25%) of the equity investment for any sub-project;

(v) Use more than 25% of AID loan funds for working capital financing.

(vi) Declare or pay any cash dividends on any shares of any class of stock of the Borrower whether now or hereafter outstanding which would represent a return of more than twelve percent (12%) to the shareholder in any calendar year unless such distribution in excess of twelve percent (12%) is matched by an equal appropriation to earned surplus and also an equal prepayment of the AID loan;

(vii) Make any sub-loan to any enterprise when such sub-loan would cause the debt-equity ratio of such enterprise to exceed the ratio of 70:30;

(viii) Sell, transfer, lease or otherwise dispose of all or any substantial portion of its assets (except for sale, in the normal course of business, of equity investments), or undertake any merger or consolidation;

(ix) Subordinate AID's status as preferential creditor to the claim of any other credit of Borrower.

b. The Borrower will consult with, and obtain prior written approval from AID, before undertaking any of the following actions:

(i) Approve more than three sub-loans to any individual, enterprise or single investor group;

(ii) Make sub-loans to, or equity investment in, any enterprise if the aggregate amount exceeds the equivalent of one hundred thousand dollars ($100,000);

(iii) Use AID loan funds to make any sub-loan for working capital only. In the cases of sub-loans where working capital is a component, the financing of such component shall not be for a term of less than 12 months;

(iv) Materially amend its charter or by-laws or the basic terms, rules, regulations, policies and procedures approved by AID for the implementation of Loan 526-L-019 except when such amendments are required to fulfill new conditions and covenants established in the present loan;

(v) Change the management of the Borrower.

c. This loan will be subject to such other terms and conditions as AID may deem advisable.

SECTION VI - ISSUES

A. Raised by the Loan Committee in USAID/Paraguay

1. Foreign Exchange Risk to COMDESA.

In spite of the fact that the GOP has pegged the value of the guarani to the U.S. dollar, after the dollar was devaluated, the Loan Committee has expressed some concern over the question of the likely effects of an eventual devaluation of the Guarani on the ability of COMDESA to survive as a viable institution through such a period.

The first AID loan provided for COMDESA to reserve 2% of total yearly outstanding portfolio for such an event, an amount which certainly would be insufficient if COMDESA could not collect at the new rate from its sub-borrowers the monies it lent at the old rate. Requiring a covenant in the second AID loan for a larger cash reserve, or a cumulative reserve to reach, after a period of years, 10% of total portfolio outstanding would give greater protection and assurance that COMDESA could reduce the impact of a devaluation if its sub-borrowers could not pay the readjusted amounts of their debts. However, such provision would at best be a palliative because no one can forecast with any accuracy the rate of inflation which would cause the GOP to devaluate the Guarani. There is no assurance either that the devaluation will be close to the range of 10%. The Loan Committee believes that COMDESA should not, at its present stage of development, remove from development lending activity 10% of its entire portfolio, but progressively establish a cash reserve for maintenance of value over a period of 5 years equivalent to 5% of the amount of its outstanding obligations repayable in foreign exchange. This seems more reasonable and more realistic. During the joint evaluation meetings with COMDESA the adequacy of the provisions for reserves will be thoroughly studied and specific recommendations will be made, if required.

Up to now, COMDESA has passed the maintenance of value risk to its sub-borrowers. COMDESA's management pointed out to the Loan Committee that Decree Law #284 specifically approved such procedure. One of her recent informational documents, dated 15 February, 1973, (and titled "Modalidades Operativas"), refers, in point number 7, to the fact that the sub-borrowers assume the exchange risk when COMDESA finances from its foreign resources, whether in dollars or guaranies. This policy has been questioned by AID auditors who were of the opinion that COMDESA was discriminating among its sub-borrowers. However, it is our understanding that the end user of the funds should and does bear the exchange risk in all countries developed or underdeveloped.

The Loan Committee has discussed with COMDESA the need to make an analysis and evaluation of the effects of a hypotetical devaluation of 10 and 15% on its total portfolio. COMDESA has agreed to do so and may require technical assistance to carry out such a study. On the basis of recommendations resulting from such a study COMDESA will consider adopting specific policies concerning the over-all problem of maintenance of value and the measures required to implement them. In designing a loan package for its sub-borrower COMDESA is carefully providing a mix of AID loan generated guaranies and COMDESA's own guaranies (on which there is no exchange risk) to buffer the possible impact of devaluation of the local currency on the operations of its sub-borrower thus lessening the potential impact on COMDESA itself. The Loan Committee expects that in the future COMDESA will gradually increase the proportion of COMDESA's own guaranies in all the financing packages when local currency funds become available through the roll over or additional equity.

The Loan Committee recommends that for the time being COMDESA be required to establish a separate cash reserve which overa period of 5 years should reach the equivalent of 5% of its outstanding obligations repayable in foreign exchange.

While this issue is closely related to issue No. 3, Government Guarantee, the Loan Committee believes that the risk of maintenance of value is less than the risk to COMDESA of being exposed to potential pressure.

2. Use of Lines of Credit from Commercial Banks by COMDESA.

The Loan Committee has discussed with COMDESA's management the possible use of commercial banks' lines of credit. The point was stressed that COMDESA should negotiate for medium term lines of credit rather than the short term usually made available by the commercial banks.

COMDESA's arguments were that since it will have to obtain funds at non-concessionary terms and one of the sources might be the Commercial Banks, it would be wise to start establishing now firmer banking relations with the commercial banks. In addition, as a matter of prestige it would benefit COMDESA to have such solid references in the financial world market when the time comes to look for additional funds. Finally there are many operations corollary to long term lending which are directly related to development. These operations are generally financed with funds earmarked for such purposes by the commercial banks. Those operations could yield additional returns that would strengthen COMDESA's financial situation.

While these points are well taken and other reasons could be found to loosen the hold, in the light of AID's experience with other financieras, the Loan Committee recommends that the Loan Agreement contain a clause which would require AID approval not only for any additional borrowing above a certain amount but also for the terms of loans which COMDESA may obtain within that amount. The Loan Committee feels that such a clause will provide better control over both the types of operations that COMDESA will finance with such additional funds and the debt-equity ratio of COMDESA.

It must be noted that such a clause will not be an absolute limitation since AID would surely approve additional borrowings by COMDESA when justified.

3. GOP Guarantee.

The Loan Committee has considered the desirability of requiring a Government Guarantee for the second loan, taking into account the advantage of passing the maintenance of value risk to the Government of Paraguay.

In discussions with COMDESA's management the matter of guarantee was studied in depth. COMDESA expressed strong apprehension that this could affect seriously its independence of judgement. ions.

The Loan Committee noted COMDESA's view that, within the Paraguayan context, it is not desirable to require a guarantee of the Government of Paraguay.

The Loan Committee suggests that COMDESA obtain from the Central Bank of Paraguay a letter stating that it has no objection to COMDESA's additional borrowing of up to $3.0 million from AID. This is a procedure used by the IFC in some countries and the General Manager of COMDESA did not foresee any difficulty in obtaining such a letter from the Central Bank. According to Law the Central Bank is empowered to regulate COMDESA's operation and assure that COMDESA will have access to the necessary foreign exchange when payments under AID loans become due. This letter of non-objection could be required as a condition to signing the Loan Agreement.

4. Appraisal Banking.

After long discussions concerning methods and techniques used by COMDESA in its operations from the project identification and promotion activities, through the actual lending operation and follow up system, the Loan Committee is convinced that COMDESA is using appraisal banking techniques and that its decisions are based on the quality and profitability of the project and not just on the amount or type of collateral offered, financial, political or social.

The procedures used by COMDESA are reflected in the requirements specified in the forms for loan application, project analysis, appraisal of the management, capacity of the applicant, creditworthiness, financial position of the individual or firm. The use of "package lending" by COMDESA fits well within the appraisal banking techniques. The four representatives of the commercial banks who serve on the Board of COMDESA have a long experience in appraisal banking and act as watchdogs to make sure that the lending policies and criteria are applied.

The Loan Committee estimates that COMDESA is well on the way to using exclusively appraisal banking techniques in its new operations.

B. Raised by the CAEC.

In two separate cables (See ANNEX IV, Exhibits AandB) the CAEC raised some specific issues which are treated below.

1. Evolution of COMDESA into a more Innovative Development Finance Institution.

Using the criteria indicated in the CAEC cable (STATE 212860 of November 24, 1972), the Loan Committee discussed with COMDESA's management the features of a program which would move COMDESA in an even more developmental direction. From the beginning COMDESA's management contended that all its operations were geared to activities which fostered the economic development of Paraguay. The plea was made to judge COMDESA within the realities of the context of Paraguay. Without entering into recrimination the Loan Committee reviewed with COMDESA's management its policies, criteria, portfolio and pointed out some of the measures required to make of COMDESA a more innovative development finance institution. The following points were stressed and COMDESA's management accepted them:

a) COMDESA will establish the highest priority for activities directed primarily at increasing:

(i) Production for export;
(ii) Processing of Paraguayan agricultural mineral and forest products;
(iii) Processing, marketing, and distribution of foodstuffs;
(iv) Projects which foster income distribution and generate employment.

b) COMDESA will not finance production of consumer goods as import substitution whenever such activities are made viable and profitable only by heavy tariff protection or exclusive import privileges;

c) COMDESA will establish and maintain a policy that eighty percent (80%) of its operations will be dedicated to activities within the above listed priorities;

d) COMDESA will require its applicants to state the efforts they have made to obtain financing from other sources and the terms and conditions of such other sources. In the financial analysis of the project made by COMDESA a specific finding must be made by COMDESA as to reasonableness of such terms and conditions for the type of project. Even in the case of projects which do not require USAID's approval, the summary of the loan submitted by COMDESA shall record COMDESA's finding on this point;

e) COMDESA will continue to require that all projects be supported by a satisfactory feasibility study made by an individual or firms acceptable to COMDESA;

f) COMDESA will not finance short term working capital (less than 12 months);

g) In "package lending" where COMDESA must act also as a catalyst any short-term working capital component of the package must be offered by COMDESA to local commercial banks. If the borrower insists upon concentrating its primary debt in one institution , COMDESA will sell the first maturities to local commercial banks;

h) COMDESA will broaden its policies aiming at providing a greater range of services than those made available by other lending institutions in Paraguay. It will undertake to prepare and promote the development of projects within the priority fields and provide financing for capital goods - medium and long-term working capital, technical assistance in management;

i) It will use up to $300,000 of the new loan funds to make sub-loans for pre-investment studies and for management technical assistance to its sub-borrowers. The repayments of such sub-loans shall constitute a special fund to be used by COMDESA for such activities;

j) In the project analyses made by COMDESA and in the feasibility studies financed by COMDESA there will be a specific requirement to treat the possible effect of the proposed activity on the ecology of Paraguay and make appropriate recommendations as to the measures which would protect the environment.

The Loan Committee believes that by agreeing to the above points COMDESA has demonstrated its full acceptance of the responsibilities of its unique role within the financial sector of Paraguay.

The new features will require additional efforts on the part of COMDESA's small staff. The Loan Committee was asked to provide an amount of up to $100,000 that COMDESA will use to cover the cost of the technical assistance it will need to reinforce the skills of its staff and to pay for the contract services of competent consultants who will help COMDESA carry out its project development functions.

2. Dollar - Local Currency Mix in the Second Loan

After reviewing the results of the first loan and the adjustments which were required to allow a greater use of loan funds for local currency costs, the Loan Committee analyzed with COMDESA the estimates for the applications being considered by the institution. The conclusion reached is that the second loan agreement should allow a maximum of 50% for local currency cost, **unless** AID otherwise agrees in writing, indicating that AID would not be unwilling to consider later developments in COMDESA's project financing requirements as they affect this issue. In the development projects required by Paraguay at its present stage of growth, the greatest demand continues to be for medium and long term construction cost and working capital. The "package lending" method undertaken by COMDESA would be practically fruitless if it could not participate in the financing of a substantial part of the local currency component. It is expected that within five years when its roll over funds will be growing COMDESA will not need to use foreign exchange borrowings to cover local cost to the extent it does now. COMDESA is being prodded into more development lending activities which require longer terms. This slows down the roll over and reduces the availability of local currency for new loans.

The Loan Committee recommends that the Loan Agreement establish a maximum of 50% local currency cost.

3. Livestock Financing by COMDESA

The Loan Committee discussed with COMDESA's management the issue raised during the DAEC review of the IRR on the desirability of permitting COMDESA to continue its operations in the area of livestock financing. The discussions took note of the fact that the Government of Paraguay has assigned livestock financing as a high priority development activity, and that COMDESA's management, in recognition of such priorities, desired to establish a balanced portfolio among livestock, agribusiness, manufacturing and service industries. However, while the Loan Committee recognized that there existed a financing gap for livestock production which COMDESA has and could continue to fill (cattle importation and medium-long term working capital requirements--see page 14), the Loan Committee stressed that the reason for AID's consideration of additional support through long term concessional financing to COMDESA was not to enable that institution to enter further into an area where other international lending agencies (IBRD-IDB) have already made extensive resources available. The Committee felt that both livestock production and agricultural production were areas currently inappropriate for COMDESA to be involved with since alternate sources of financing do exist for these activities and COMDESA as a development bank can stimulate greater developmental changes in the Paraguayan economy by concentrating its resources in areas of greater need.

4. <u>Financial Environment in which COMDESA Operates.</u>

a. <u>General Environment</u>. The Government of Paraguay recognizes the need for a strong private sector but does very little to encourage its growth. It levies export taxes, it does not exercize any real control on contraband, it does not offer sufficient incentives to the industries which generate badly needed foreign exchange. The Central Bank of Paraguay, which controls the terms and conditions of credit offered by banks and other financial institutions, alleging that the threat of inflation justifies a strict control of commercial bank operations, imposes a 42% reserve requirement to reduce credit availability and increase its cost. So far the commercial banks have not been able to enter into discount or rediscount operations which could help in the development of Paraguay's private sector. There is a feeling of uncertainty among the commercial banks in Paraguay.

The Central Bank issued a resolution early in 1972 requiring commercial banks to place 25% of their loan portfolio in industry, 20% in export financing and 10% in agriculture, by September 1972. Under this regulation, loans would be made for a period of 240 days to one year with a maximum interest rate of 14%, including bank commissions. This measure aimed at expanding the time and amount of short term working capital and reducing its cost, since the prevailing interest rates range from 16 to 20% depending on terms. The Central Bank hoped that with this measure it could induce the more efficient commercial banks to gradually take over some of the present operations of the National Development Bank and to relieve it of requests for working capital from the commodity producing sectors. No spectacular change has taken place since the Resolution was passed and the commercial banks maintain their conservative lending activities, i.e. the traditional short term, quick return operations, such as the financing of import and exports which yield about 18% per annum.

The National Development Bank, created in March 1961 in replacement of the Banco del Paraguay, is the largest lending institution in Paraguay.

It is organized in three relatively distinct departments, Commercial Banking and Savings, Agricultural Credit and Development Loans. The Commercial Department operates as a normal commercial bank. The Agricultural Credit Department has two divisions making loans to small and commercial farmers, from two lines of credit financed by AID and the IDB. The Development Loan Department uses mainly lines of credit from the German Kreditanstalt Fur Wiederaufban and the IDB for financing imports of machinery and equipment. The Bank is prohibited by Law from making equity investments.

Medium and long term credit is made available by the Bank at rates which vary from 9 to 16 percent. The exchange risk is passed on the borrower in most cases. Since funds from both the Kreditanstalt fur Wiederaufban and the IDB industrial credits are only available to finance foreign exchange costs, local currency for financing the high medium term working capital requirements of agricultural processing industries must be found locally. As indicated above, the policy of the Central Bank is to reduce gradually the participation of the National Development Bank in financing the working capital needs of the commodity producing and processing sectors.

The Bank is a large and complex institution operating in a variety of ways through its three departments. As a government institution, it tends to move slowly and often makes loans on grounds of political considerations or adequacy of collateral rather than on detailed appraisal of individual proposal. It does very little effective promotion, and its collection methods are considered weak.

b. Availability of Funds for Development Lending Activities in Paraguay. The Loan Committee has analyzed the data prepared by the Central Bank of Paraguay to establish the availability of funds for development lending in agriculture and industry in the two official banks of Paraguay, the Central Bank of Paraguay and the National Development Bank (BNF). (See ANNEX VI Exhibit 1). Of a total of approximately $47.0 million, the

Central Bank received $15.0 million from the IBRD (IDA funds for the Fondo Ganadero) and $1.0 million from the Central Bank of Brazil. At the end of CY 1972 it had a balance available of $5,361,740 for livestock operations. The National Development Bank received $7.0 million from the "Banco de la Nación Argentina" for livestock operations; $9.0 million from AID for crop production mainly grain; $3.0 million from the EximBank for irrigation and agricultural equipment; $8.0 million from IDB for agricultural development directed at small farmers; $4.7 million from the IDB for pre-investment studies and industrial development and $6.0 million from the Development Bank of the West Germany Government for industrial development. As of December 31, 1972, the National Development Bank had a balance available of about $19.0 million for agriculture, livestock and industrial lending.

All commercial banks had an estimated balance of $2.0 million available for lending during the month of January 1973. Most of those funds came from deposits. The commercial banks traditionally lend only on a short-term basis (i.e. maximum of 240 days) preferably to commerce and industry.

At the end of CY 1972 COMDESA had a balance available of about $800,000 for lending consisting of $500,000 of AID funds and $300,000 from repayment on loans.

Suppliers credit for machinery and equipment were also available through the channel of the NDB for an indefinite amount.

(I) Interest Rates.

(i) Commercial Banks.

The structure of interest rates and cost of credit in Paraguay which is basically under the control of the Central Bank is very flexible. There is practically no restriction on the method of computation. The lack of specific regulation of interest and commission charges produces disparate costs for borrowers depending on the type of banking operations. A few examples will suffice:

The discount of a document for ₲100 due at the end of 180 days would have the following costs:

₲6 as interest; ₲3 as commission. The borrower receives ₲91 and the cost to the borrower on an annual basis is 19.78%.

In the case of direct loans which in turn vary in term of repayment from one month to one year, interest and commission are discounted from the loan at the outset. The cost to the borrower is similar to that of a discounted document.

In the case of overdrafts the maximum term is 30 days, the real cost of the credit is 30% per annum including interest, commissions and taxes.

In the case of a loan guaranteed with a mortgage the cost to the borrower is higher because of the cost of preparing the necessary documents.

(ii) Public Lending Institution.

The National Development Bank has used the following rates:

		Annual Cost to the Borrower
(1)	Commercial Department-own funds-all purposes=12% + 4% commission -	16.4 - 20%
	(1 year maximum) - own funds-winter livestock feeding= 12% + 3%	15.5 - 16%
	Lines of credit-external funds-commercial short term=11% + 2%	14 - 20%
(2)	Development Department - own funds - 12 + 1%	13 - 13.5%
	Long term 8 years-external funds KFW - 9% + 0.13%	9 - 9.25%
	Maximum to long term 1 to 10 years IDB - 10% + 0.10%	11.7 - 12.7%
(3)	Agriculture Department - 5 years - own funds - wheat program - 10% + 1%	10.5 - 10.6%
	Short term limit 1 year - Central Bank funds - wheat program - 10% + 1%	11.5 - 12.5%
	Long term 7 years - AID - wheat program - 10% + .10	10.33 - 10.5%
	5 years - Agricultural Machinery - EximBank - 9% + .20	9.5 - 9.6%
	5 years - Agricultural Machinery - Suppliers Credit Guaranteed by NDB - 10% + .20	10.5 - 10.6%

The Fondo Ganadero administered by the Central Bank lends at 9% - does not collect any commission - but taxes and other fees on a loan for the maximum term of 12 years would add .21%. It does not finance working capital.

C. Other Types of Credit.

Due to the restrictions imposed by the Central Bank or the commercial banks, many operations are carried out by institutions or individuals at the following rates:

Advance deposits on imports: 24% per annum plus about 6% differential on foreign currency dealing.

Curb market loans reach 4% per month.

Loans for house construction cost a minimum of 18% interest and commissions.

D. Terms of COMDESA's Loans.

1. COMDESA, up to now has charged 10% interest on loans made with AID loan funds and 12% on loans made with other funds. In addition, COMDESA charges commissions which vary from 1% to 4% on its loans. Whenever the commission is charged the interest rate is adjusted over the life of the loan so that the maximum return to COMDESA from interest and commission does not exceed 10% on AID Loan funds and 12% on COMDESA's own funds.

2. The proposed second loan will allow COMDESA to charge up to 12% on loans made with AID loan funds and up to 14% on loans made by COMDESA with funds from other sources.

3. COMDESA may finance medium and long term working capital needs as part of a package.

E. Conclusion.

Given the environment in which COMDESA is working, the Loan Committee is satisfied that COMDESA is not in a position to substitute either the commercial banks or the National Development Bank in the type of lending those institutions are making. While there may be a certain area of overlapping with the operations of the National Development Bank, this was taken into account when the first loan to COMDESA was authorized. The mere fact that there exists a Government sponsored institution operating in the field of development financing has not precluded AID from lending to the private sector development bank in the same country. Very often AID has encouraged completion between both types of institution because healthy competition tends to improve efficiency.

In the case of COMDESA the second loan will impose sufficient restrictions as to terms, grace periods, interest rates, types of loans for priority projects based on sound feasibility studies, to prevent under-cutting by COMDESA.

With more or less comparable terms and higher interest rates offered by COMDESA, the Loan Committee feels that when COMDESA competes with the National Development Bank it will be on the basis of quality and efficiency of services offered by COMDESA.

CHECKLIST OF STATUTORY CRITERIA

(Alliance for Progress)

COUNTRY PERFORMANCE

Progress Towards Country Goals

1. FAA § 208; § 251(b)

A. Describe extent to which country is:

(1) Making appropriate efforts to increase food production and improve means for food storage and distribution.

(1) The Government of Paraguay has made substantial progress in new programs designed to increase food production. During the period 1964 to 1970 production of wheat increased from 8,800 MT to 36,000 MT, soybeans from 10,000 MT to 45,000 MT, and rice from 20,000 MT to 35,000 MT. Further expansion of food production is planned.

(2) Creating a favorable climate for foreign and domestic private enterprise and investment.

(2) Recently the GOP enacted a new investment law (Ley No. 216, Nov.9, 1970) which offers advantageous terms for foreign investors. A private development bank (COMDESA) created with AID assistance is now operating. The GOP has repeatedly encouraged foreign private investors and strongly supports AID's investment guarantee programs.

(3) Increasing the public's role in the developmental process.

(3) The GOP continues strong efforts to develop the interior by providing land to colonists and technical assistance to small producers. In addition, the government has indicated agreement with the need for a Private Development Bank (Financiera) with private ownership and management (now being established with AID advice). Also the Government supported the private Housing Guaranty project just authorized for construction of 500 private homes.

(4) (a) Allocating available budgetary resources to development.

(4) (a) Paraguay allocates substantial portion of its national budget to development.

(b) Diverting such resources for unnecessary military expenditures. (See also Item No.16 and intervention in affairs of other free and independent nations.) (See also Item No. 14).	There have been no substantial increase in military expenditures and there is no known intervention in other countries' affairs.
(5) Willing to contribute funds to the project or program.	The GOP is shared in the capitalization of the Project through a loan of $400,000 equivalent to the Financiera.
(6) Making economic, social, and political reforms such as tax collection improvements and changes in land tenure arrangements, and making progress toward respect for the rule of law, freedom of expression and of the press, and recognizing the importance of individual freedom, initiative, and private enterprise.	The GOP has improved its tax collection efforts in the past years, increasing tax revenues from 8.9 billion in 1971 to ¢ 9.5 in 1972. The Paraguayan Congress has recently enacted a broadly based income tax law, which is expected to become Law upon signing by the President of the Republic.
(7) Adhering to the principles of the Act of Bogota and Charter of Punta del Este.	Paraguay adheres to the principles of the Act of Bogota and the Charter of Punta del Este.
(8) Attempting to repatriate capital invested in other countries by its own citizens.	Not applicable since Paraguay's investment in other countries is negligible.
(9) Otherwise responding to the vital economic, political, and social concerns of its people, and demonstrating a clear determination to take effective self-help measures.	A new Constitution was adopted in November 1967, which, by providing a popularly elected bi-cameral legislature, increases popular participation in government. Paraguay is demonstrating a clear determination to take effective self-help measures as shown by recent increase in collection of various kinds of taxes, and contributions from its own sources toward agriculture and educational reform. The GOP has demonstrated its determination to implement CIAP and AID recommended self-help measures.
B. Are above factors taken into account in the furnishing of the subject assistance?	The above factors have been taken into account in the furnishing of subject assistance.

Treatment of U.S. Citizens

2. FAA § 620(c). If assistance is to government, is the government liable as debtor or unconditional guarantor on any debt to a U.S. citizen for goods or services furnished or ordered where (a) such citizen has exhausted available legal remedies and (b) debt is not denied or contested by such government?	No such cases are known to exist in Paraguay.
3. FAA § 620(e)(1). If assistance is to a government, has it (including agencies or subdivisions) taken any action which has the effect of nationalizing, expropriating, or otherwise seizing-ownership or control of property of U.S. citizens or entities beneficially owned by them without taking steps to discharge its obligations toward such citizens or entities?	Not applicable.
4. FAA § 620(o); Fishermen's Protective Act. § 5. If country has seized, or imposed any penalty or sanction against, any U.S. fishing vessel on account of its fishing activities in international waters,	Not applicable to Paraguay as it is an inland country without any fishing activity in international waters.
a. has any deduction required by Fishermen's Protective Act been made?	Not applicable.
b. has complete denial of assistance been considered by AID Administrator?	Not applicable.

Relations with U.S. Government and Other Nations

5. FAA § 620(d). If assistance is for any productive enterprise which will compete in the U.S. with U.S. enterprise, is there an agreement by the recipient country to prevent export to the U.S. of more than 20% of the enterprise's annual production during the life of the loan?	Not applicable.

6. FAA § 620(j). Has the country permitted, or failed to take adequate measures to prevent, the damage or destruction by mob action, of U.S. property?	There have been no incidents or damage by mob action against U.S. property in Paraguay. Adequate measures have been taken to prevent them.
7. FAA § 620(l). If the country has failed to institute the investment guaranty program for the specific risks of expropriation, inconvertibility or confiscation, has the AID administration within the past year considered denying assistance to such government for thiss reason?	Paraguay has signed a Specific Risk Guarantee Agreement with the U.S.
8. FAA § 620(q). Is the government of the recipient country in default on interest or principal of any AID loan to the country?	Paraguay is not in default on interest or principal on any AID loan.
9. FAA § 620(t). Has the country severed diplomatic relations with U.S.? If so, have they been resumed and have new bilateral assistance agreement been negotiated and entered into since such resumption?	Not applicable. Paraguay has consistently maintained diplomatic relations with the United States.
10. FAA § 620(u). What is the payment status status of the country's U.N. obligations? If the country is in arrears, were such arrearage taken into account by the AID Administrator in determining the current AID Operating Year Budget?	Paraguay is not delinquent on its U.N. obligations.
11. FAA § 620(a). Does recipient country furnish assistance to Cuba or fail to take appropriate steps to prevent ships or aircraft under its flag from carrying cargoes to or from Cuba?	According to the best information available, Paraguay allows none of the prescribed activities.
12. FAA § 620(b). If assistance is to a government, has the Secretary of State determined that it is not controlled by the international Communist movement?	The Secretary of State has determined that Paraguay is not controlled by the communist movement.

13. FAA § 620(f). Is recipient country a Communist country?	No.
14. FAA § 620(i). Is recipient country in any way involved in (a) subversion of, or military aggression against, the U.S. or any country receiving U.S. assistance, or (b) the planning of such subversion or aggression?	Paraguay is not in any way so involved.
15. FAA § 620(n). Does recipient country furnish goods to North Viet-Nam or permit ships or aircraft under its flag to carry cargoes to or from North Viet-Nam?	Accordint to the best information available, no Paraguayan ships or aircraft transport cargoes to or from North Viet Nam.
16. FAA § 481. Has the government of the recipient country failed to take adequate steps to prevent narcotic drugs and other controlled substances (as defined by the Comprehensive Drug Abuse Prevention and Control Act of 1970) produced or processed, in whole or in part, in such country, or transported through such country, from being sold illegally within the jurisdiction of such country to US Government personnel or their dependents, or from entering the U.S. unlawfully?	The Government has instituted adequate measures for the control or narcotics and other controlled substances.

Military Expenditures

17. FAA § 620(s). What percentage of country budget is for military expenditures? How much of foreign exchange resources spent on military equipment? How much spent for the purchase of sophisticated weapons systems? (Consideration of these points to be coordinated with the Bureau for Program and Policy Coordination, Regional Coordinators and Military Assistance Staff (PPC/RC).	16.7 % of Paraguay's budget for 1972 was allocated to the Ministry of Defense. An estimated maximum of $1.0 million in foreign exchange resources were spend on military equipment in 1972. No funds were expended on sophisticated weapons systems. AID/W has determined that Paraguay is not devoting an unnecessary percentage of its budget for military purposes.

CONDITIONS OF THE LOAN

General Soundness

18. FAA § 201(d). Information and conclusion on reasonableness and legality (under laws of country and the U.S.) of lending and relending terms of the loan.	Terms are legal and reasonable under both U.S. and Paraguayan law.

19. FAA § 251(b)(2); § 251(e). Information and conclusion on activity's economic and technical soundness. If loan is not made pursuant to a multilateral plan, and the amount of the loan exceeds $100,000, has country submitted to A.I.D. an application for such funds together with assurances to indicate that funds will be used in an economically and technically sound manner?

The activity is concluded to be economically and technically sound. The application for this loan, plus detailed discussions before and after receipt of the application give sufficient information and assurance that the funds will be used in an economically and technicall sound manner.

20. FAA § 251(b). Information and conclusion on capacity of the country to repay the loan, including reasonableness of repayment prospects.

It is concluded that the Borrower has the capacity to repay and that there is reasonable assurance of repayment.

21. FAA § 611(a)(1). Prior to signing of loan will there be (a) engineering, financial, and other plans necessary to carry out the assistance and (b) a reasonably firm estimate of the cost to the U.S. of the assistance?

Not applicable.

22. FAA § 611(a)(2). If further legislative action is required within recipient country, what is basis for reasonable expectation that such action will be completed in time to permit orderly accomplishment of purposes of loan?

Not applicable.

23. FAA § 611(e). If loan is for Capital Assistance, and all U.S. assistance to project now exceeds $1 million, has Mission Director certified the country's capability effectively to maintain and utilize the project?

See Annex II, pg. 1 for Mission Director's Certification.

24. FAA § 251(b). Information and conclusion on availability of financing from other free-world sources, including private sources within the United States.

Financing for this project is not available from other free-world sources, including private sources within the U.S. at a reasonable cost.

Loan's Relationship to Achievement of Country and Regional Goals

25. FAA § 207; § 251(a). Extent to which assistance reflects appropriate emphasis on: (a) encouraging development of democratic economic, political, and social institutions; (b) self-help in meeting the country's food needs; (c) improving availability of trained manpower in the country; (d) programs designed to meet the country's health needs, or (e) other important areas of economic, political and social development, including industry; free labor uniones, cooperatives, and Voluntary Agencies; transportation and communication; planning and public administration; urban development; and modernization of existing laws.

This project will provide a democratic corporate structure, patterned after U.S' private economic institutions with management responsive to shareholders. It will encourage further development of non-government institutions.

By providing a new source of capital to private enterprises, largely agro-oriented, the Project will help the private sector to expand and improve its capacity for meeting the country's food needs.

The project will directly result in the training of development banking experts in Paraguay. Indirectly, it will expand the job market by financing expansion of enterprises and the creation of new businesses.

This loan does not directly meet health needs. Indirectly it will raise the standard of living of many workers and their families.

The Project will directly contribute to the expansion of private industry and will improve the outlook for more rapid expansion, both social and economic, in the non-government sector.

26. FAA § 209. Is project susceptible of execution as part of regional project? If so why is project not so executed?

The project is not susceptible of execution as part of a regional project.

27. FAA § 251(b)(3). Information and conclusion on activity's relationship to, and consistency with, other development activities, and its contribution to realizable long-range objectives.

The Project is consistent with the objectives and other development activities of the U.S. in Paraguay. It will contribute to the economic development of the country, especially in agro-industry. Sub-loans should improve the Marketing and processing facilities and improve the countries export capacity of agricultural products.

28. <u>FAA § 251(b)(7)</u>. Information and conclusion on whether or not the activity to be financed will contribute to the achievements of self-sustaining growth.	Based on the reasonable criteria to be used in making sub-loans, providing for profits to the sub-borrowers in addition to sufficient earnings to repay, it is concluded that this activity will build capital and lead to self-sustaining growth.
29. <u>FAA § 281(a)</u>. Describe extent to which the loan will contribute to the objective of assuring maximum participation in the task of economic development on the part of the people of the country, through the encouragement of democratic, private, and local governmental institutions.	The Project involves the creation of a democratic private institution designed to encourage participation of private individuals and corporations in the task of economic development.
30. <u>FAA § 281(b)</u>. Describe extent to which program recognizes the particular needs, desires, and capacities of the people of the country; utilizes the country's intellectual resources to encourage institutional development; and supports civic education and training in skills required for effective participation in governmental and political processes essential to self-government.	The loan is based upon the demand for reasonable credit by private persons and corporations for development purposes. Sub-loans will allow the borrowers to employ modern technology in expanded business activity. It will call on the resources of the private sector and will result in improved professional skills and trained manpower.
31. <u>FAA § 601(a)</u>. Information and conclusions whether loan will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage development and use of cooperatives, credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency, and commerce; and (f) strengthen free labor unions.	The loan will (a) increase trade by improving and creating means of production, processing and marketing, (b) foster initiative and competition by expanding the size and diversity of the private sector, (c) be available to help finance projects proposed by cooperatives, credit unions and other associations, (d) discourage monopolistic practices which may exist because small competitors lack capital necessary to compete effectively, and (e) improve technical efficiency in a wide range or agro-industrial activities by financing the use of modern technology based on sound planning; (f) the project would not directly strenthen or weaken free labor unions.

32. FAA § 619. If assistance is for newly independent country; is it furnished through multilateral organizations or plans to the maximum extent appropriate?	Not applicable.
33. FAA § 251(h). Information and conclusion on whether the activity is consistent with the findings and recommendations of the Inter-American Committee for the Alliance for Progress in its annual review of national development activities.	By making possible expansion of agricultural production, processing and marketing, this loan is consistent with the findings and recommedations of CIAP.
34. FAA § 251(g). Information and conclusion on use of loan to assist in promoting the cooperative movement in Latin America.	Cooperatives will be eligible for subloans from the Borrower.
35. FAA § 209; § 251(b)(8). Information and conclusion whether assistance will encourage regional development programs, and contribute to the economic and political integration of Latin America.	Through increased international trade, the Project will indirectly promote regional economic development.

Loan's Effect on U.S. and A.I.D. Program

36. FAA § 251(b)(4); § 102. Information and conclusion on possible effects of loan on U.S. economy, with special reference to areas of substantial labor surplus, and extent to which U.S. commodities and assistance are furnished in a manner consistent with improving the U.S. balance of payments position.	This Project does not relate to the areas of labor surplus and commodities.
37. FAA § 601(b). Information and conclusion on how the loan will encourage U.S. private trade and investment abroad and how it will encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).	There will be U. S. private sector participation in this project to the extent that some of the loan proceds will be used to purchase materials from U. S. sources.

38. FAA § 601(d). If a capital project, are engineering and professional services of U.S. firms and their affiliates used to the maximum extent consistent with the national interest?	Not applicable.
39. FAA § 602. Information and conclusion whether U.S. small business will participate equitably in the furnishing of goods and services finance by the loan.	U.S. small business will participate equitably.
40. FAA § 620(h). Will the loan promote or assist the foreign aid projects or activities of the Communist-Bloc countries?	Not applicable.
41. FAA § 621. If Technical Assistance is financed by the loan, information and conclusion whether such assistance will be furnished to the fullest extent practicable as goods and professional and other services from private enterprise on a contract basis. If the facilities of other Federal agencies will be utilized, information and conclusion on whether they are particularly suitable, are not competitive with private enterprise, and can be made available without undue interference with domestic programs.	All Technical Assistance will be contracted from private individuals and firms.
42. FAA § 252(a). Total amount of money under loan which is going directly to private enterprise, is going to intermediate credit institutions or other borrowers for use by private enterprise, is being used to finance imports from private sources, or is otherwise being used to finance procurements from private sources.	All amount of the loan will be used to finance the costs of goods and services procured from eligible private sources.

Loan's Compliance with Specific Requirements

43. FAA § 201(d). Is interest rate of loan at least 2% per annum during grace period and at least 3% per annum thereafter?	Yes.

44. FAA § 608(a). Information on measures to be taken to utilize U.S. Government excess personal property in lieu of the procurement of new items.	Not applicable.
45. FAA § 604(a). Will all commodity procurement financed under the loan be from U.S. except as otherwise determined by the President?	Commodities purchased with loan funds, will have their source and origin in the U.S. and other eligible countries.
46. FAA § 604(b). What provision is made to prevent financing commodity procurement in bulk at prices higher than adjusted U.S. market price?	No conflict.
47. FAA § 604(d). If the cooperating country discriminates against U.S. marine insurance companies, will loan agreement require that marine insurance be placed in the U.S. on commodities financed by the loan?	This provision will be included in the Loan Agreement.
48. FAA § 604(e). If off-share procurement of agricultural commodity or product is to be financed, is there provision against such procurement when the domestic price of such commodity is less than parity?	Not applicable.
49. FAA § 611(b): App.§ 101. If loan finances water or water-related land resources construction project or program, is there a benefit-cost computation made, insofar as practicable, in accordance with the procedures set forth in the Memorandum of the President dated May 15, 1962?	Not applicable.
50. FAA § 611(c). If contracts for construction are to be financed, what provision will be made that they be let on a competitive basis to maximum extent practicable?	Will be complied with.
51. FAA § 620(g). What provision is there against use of subject assistance to compensate owners for expropriated or nationalized property?	No loan funds will be used to compensate owners for expropriated or nationalized property.

52. FAA § 612(b); § 636(h). Describe steps taken to assure that, to the maximum extent possible, the country is contributing local currencies to meet the cost of contractual and other services, and foreign currencies owned by the U.S. are utilized to meet the cost of contractual and other services.	Not applicable.
53. App. § 104. Will any loan funds be used to pay pensions, etc., for military personnel?	Not applicable.
54. App. § 106. If loan is for capital project, is there provision for AID approval of all contractors and contract terms?	Not applicable.
55. App. § 108. Will any loan funds be used to pay U.N. assessments?	Under the proposed loan no funds will be authorized for uses proscribed in App. #108 and monitoring and auditing steps will seek to assure compliance.
56. App. § 109. Compliance with regulations on employment of U.S. and local personnel for funds obligated after April 30, 1964 (AID Regulation 7).	Will comply.
57. FAA § 636(i). Will anu loan funds be used to finance purchase, long-term lease, or exchange of motor vehicle manufactured outside the United States, or any guaranty of such a transaction?	Loan funds will not be used to finance non-U.S. manufactured motor vehicles.
58. App. § 501. Will any loan funds be used for publicity or propaganda purposes within U.S. not authorized by the Congress?	No funds will be used for publicity purposes within the U. S.
59. FAA § 620(k). If construction of productive enterprise, will aggregate value of assistance to be furnished by U.S. exceed $100 million?	Not applicable.

60. FAA § 612(d). Does the U.S. own excess foreign currency and, if so, what arrangements have been made for its release?

There is no U.S. owned excess foreign currency available for this project.

61. MMA § 901.b. Compliance with requirement that at least 50 per centum of the gross tonnage of commodities (computed separately for dry bulk carriers, dry cargo liners, and tankers) financed with funds made available under this loan shall be transported on privately owned U.S. flag commercial vessels to the extent that such vessels are available at fair and reasonable rates.

This provision will be included in the Loan Agreement.

CERTIFICATION PURSUANT TO SECTION 611(e)
OF THE FOREIGN ASSISTANCE ACT OF 1961,
AS AMENDED

I, John R. Oleson, the principal officer of the Agency for International Development in Paraguay, having taken into account, among other things, the maintenance and utilization of projects in Paraguay previously financed or assisted by the United States, do hereby certify that in my judgement Paraguay has both the financial capability and the human resources capability to effectively maintain and utilize the capital assistance project, "Compania Paraguaya de Desarrollo, S.A." (COMDESA II).

John R. Oleson
John R. Oleson, Director

Date: 27 April 1973

UNCLASSIFIED
AID-DLC/P-1087
ANNEX III
Exhibit 1
May 24, 1973

INTER-AMERICAN DEVELOPMENT BANK
WASHINGTON, D.C. 20577

CABLE ADDRESS: INTAMBANC

January 11, 1973

Mr. Frederick Schieck
Assistant Director
Office of Development Resources
Department of State
Agency for International Development
Washington, D.C. 20523

Dear Mr. Schieck:

With reference to your letter of December 6, 1972, regarding a loan proposal received by AID to finance sub-loans and limited equity investments in the private sector of Paraguay for the creation, expansion, or modernization of agricultural, agro-industrial, manufacturing and transportation enterprises, we wish to inform you that at present the Bank is not contemplating financing this proposal.

Sincerely yours,

Sidney Schmukler
Assistant Program Advisor

ANNEX III-Exhibit 2

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

1818 H Street, N.W., Washington, D.C. 20433, U.S.A.

Area Code 202 · Telephone - EXecutive 3-6360 · Cable Address INTBAFRAD

December 21, 1972

Mr. Frederick W. Schieck
Assistant Director
Office of Development Resources
Department of State
Agency for International Development
Washington, D.C.

Dear Mr. Schieck:

PARAGUAY - COMDESA

This is in reply to your letter to Mr. Alter dated December 6, 1972. We have conducted a preliminary review of the report on COMDESA prepared by the USAID Mission in Paraguay. The Bank has no immediate interest in financing this project. However, we would appreciate your keeping us informed of the progress being made in obtaining the necessary financing for this private development finance company.

We have referred the project document to the International Finance Corporation (IFC) which has already been in contact with COMDESA and is currently awaiting concrete proposals from that company on possible IFC participation. You may, therefore, wish to contact the IFC directly.

Sincerely yours,

Gunter K. Wiese
Director
Country Programs Department
Latin America and Caribbean
Regional Office

AGENDA

Export-Import Bank - AID Liaison Group

811 Vermont Avenue, N. W. - Room 1275

December 18, 1972

1. Paraguay - Compania Paraguaya de Desarrollo S.A. (CONDESA) (Sub-loans & Limited Equity Investments in Private Sector) $2.1 million

December 15, 1972

MEMORANDUM TO THE BOARD OF DIRECTORS

Re: Paraguay - Compania Paraguaya de Desarrollo S.A. (COMDESA) $2.1 million
(Sub-loans & Limited Equity Investments in Private Sector)

Recommendation: Return to AID

- -

AID has inquired whether Eximbank would be interested in considering a $2.1 million loan to COMDESA, a private development finance and investment institution. Funds from the proposed loan will be used primarily for sub-loans and limited equity investments in the private sector for the creation, expansion or modernization of agriculture, agro-industrial, manufacturing and transportation enterprises in Paraguay. It is estimated that at least 60% of the loan would be made available to cover local costs.

The staff recommends that the Bank express no interest in this project due to the high local cost component and the need for concessionary repayment terms.

Joseph Fleig
Eugene Oakes

Department of State

TELEGRAM

May 24, 1973

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APPROVED BY: HERMAN KLEINE, AA/LA
LA/DR:RCRISLER(DRAFT), LROSENBERG(DRAFT), BSIDMAN(DRAFT)
JSHEA(DRAFT), ELIJEWSKI(INFO)
LA/DP:JROYER(DRAFT)
LA/APU:HJACOBSON(DRAFT)
USAID/P:JOLESON(DRAFT)
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AIDAC

SUBJECT: IRR FOR COMDESA PRIVATE DEVELOPMENT BANK

DAEC REVIEWED AND APPROVED SUBJECT IRR ON NOVEMBER 10 WITH FOLLOWING OBSERVATIONS:

1. MISSION SHOULD DEVELOP AND SEEK TO NEGOTIATE WITH COMDESA A PROGRAM WHICH WOULD INSURE, TO MAXIMUM EXTENT POSSIBLE, THE EVOLUTION OF COMDESA INTO A MORE INNOVATIVE DEVELOPMENT FINANCE INSTITUTION. LOAN JUSTIFICATION WOULD DEPEND IN LARGE MEASURE ON PROSPECTIVE FEASIBILITY OF MOVING COMDESA IN DEVELOPMENTAL DIRECTION. THE ELEMENTS TO BE CONSIDERED BY MISSION IN DESIGNING SUCH A PROGRAM WOULD INCLUDE BUT NOT NECESSARILY BE LIMITED TO THOSE LISTED BELOW.

A. CRITERIA FOR PROJECT SELECTION AND FINANCING, INCLUDING (1) GREATER ASSURANCES THAT FUNDS UNDER SECOND AID LOAN WILL NOT BE USED TO SUBSTITUTE FOR SOURCES OF FINANCING OTHERWISE AVAILABLE,

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AND (II) POSSIBLE LIMITATION ON AND PRIORITIES AMONG ELIGIBLE SUB-PROJECT AREAS (E.G., IS CATTLE BREEDING THE TYPE OF PROJECT REQUIRING "VENTURE FINANCING?")

B. TERMS AND CONDITIONS OF INVESTMENTS, RELATED NOT ONLY TO FINANCIAL VIABILITY OF ICI BUT ALSO TO COMDESA'S UNIQUE ROLE WITHIN FINANCIAL SECTOR.

C. PLAN FOR CREATING WITHIN COMDESA A PROJECT IDENTIFICATION AND DEVELOPMENT CAPABILITY (AS WELL AS APPRAISAL BANKING SKILLS), INCLUDING TYPES AND NUMBER OF ADDITIONAL STAFF NEEDED, PROPOSED SCHEDULE FOR HIRING SUCH PERSONNEL, RELATED TECHNICAL ASSISTANCE REQUIREMENTS AND PLANS FOR PROMOTING INVESTOR INTEREST IN NEW AND INNOVATIVE PROJECTS.

D. DESIRABILITY OF COMDESA UTILIZING AID LOAN FOR (1) EQUITY INVESTMENTS, (2) PROJECTS SPONSORED AND DEVELOPED BY COMDESA, (3) TECHNICAL ASSISTANCE OR (4) OTHER SPECIAL CATEGORIES OF ACTIVITY WHICH MIGHT BE PROMOTED, AND OF ALLOCATING SPECIFIC PERCENTAGES FOR THESE AREAS.

E. PLAN INDICATING HOW PRIORITY FOR EXPORT PROJECTS WILL BE MANIFESTED.

F. ESTIMATED TIME-PHASING OF IMPLEMENTATION OF MEASURES LISTED ABOVE, COMMITMENTS FROM COMDESA WHICH MIGHT BE EXPRESSED AS CONDITIONS PRECEDENT TO DISBURSEMENTS AND POSSIBLE TIME PHASES FOR DISBURSEMENT FOR DIFFERENT PURPOSES (E.G. TECHNICAL ASSISTANCE VS. SUB-LOANS).

G. SUCH OTHER MEASURES AS MISSION MAY DEEM PRACTICAL TO ORIENT AND DIRECT COMDESA TOWARD DEVELOPMENTAL GOALS.

2. CAP SHOULD ALSO INCLUDE ANALYSIS OF FOLLOWING:

A. FINANCIAL SECTOR, AND PARTICULARLY THOSE FINANCIAL MARKETS SERVING AGRO-INDUSTRIAL ENTERPRISE, INCLUDING COST, TERMS AND AVAILABILITY OF EXISTING SOURCES OF CREDIT TO PRIVATE SECTOR.

B. AMOUNT AND TYPE OF ADDITIONAL CREDIT NEEDED BY PRIVATE SECTOR AND BASIS FOR SUCH ESTIMATES, INCLUDING POSSIBLE INCREASED EQUITY OR QUASI-EQUITY ROLE FOR COMDESA.

C. RELATIONSHIP BETWEEN GOP DEVELOPMENT OBJECTIVES AND POLICIES AND COMDESA'S PROPOSED LENDING PRIORITIES. PROJECTED IMPACT OF COMDESA'S EXPANDED OPERATION ON INCOME DISTRIBUTION AND EMPLOYMENT GENERATION.

D. SOME EFFICIENCY CRITERIA WILL PROBABLY BE REQUESTED AS ONE PART OF COMDESA'S PROJECT SELECTION PROCEDURES. EFFICIENCY CRITERIA CAN BE DEFINED AS THE COMPETITIVE RELATIONSHIP OF THE OUTPUT OF A COMDESA FINANCED PROJECT TO DUTY FREE IMPORTS, IF

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IMPORT-SUBSTITUTION IS A PRIMARY DEVELOPMENT JUSTIFICATION FOR THE SUB-LOAN. ATTENTION SHOULD BE GIVEN TO A DESCRIPTION AND ANALYSES OF THE GOP POLICIES IN REGARD TO PRIVATE SECTOR AGRO-INDUSTRY INVESTMENT AND EXPORTS. FISCAL POLICIES, SUCH AS IMPORT TARIFFS AND EXPORT TAXES, AS WELL AS CREDIT RESTRAINTS, ARE THE MOST LIKELY CANDIDATES FOR INCLUSION. A REASONABLE UNDERSTANDING OF THE ECONOMIC ENVIRONMENT IN WHICH COMDESA OPERATES SHOULD BE INCLUDED IN THE CAP. SUCH AN ANALYSIS, POSSIBLE DONE ALREADY BY EITHER THE IBRD, IDB, OR IMF, WILL PROVIDE A MUCH CLEARER COM-PREHENSION OF WHAT EFFICIENCY CRITERIA CAN BE REASONABLY EXPECTED FROM COMDESA. IT WOULD COMPLEMENT THE LIMITED FINANCIAL SECTOR ANALYSIS NOTED ABOVE. ANOTHER CRITERIA THAT SHOULD BE ADDRESSED IS THE EMPLOYMENT GENERATING IMPACT OF THE PROPOSED LENDING PRIORITIES. SEE AIDTO A-1413, DATED 10/7/72.

E. DOLLAR - LOCAL CURRENCY FINANCING MIX APPROPRIATE TO ACHIEVE NEW COMDESA LENDING PRIORITIES, WHICH PRESUMABLY ADDRESS PRIVATE SECTOR DEVELOPMENT PROBLEMS.

F. APPROPRIATE TERMS FOR PROPOSED AID LOAN, BASED ON (1) COMDESA CASH FLOW AND PROFIT PROJECTIONS, TAKING INTO ACCOUNT INCREASED OPERATING COSTS OF EXPANDED PROJECT DEVELOPMENT AND APPRAISAL BANKING FUNCTIONS, AND PAYMENT OF DIVIDENTS AT SOME TIME IN FUTURE, AND (2) PARAGUAY'S PROJECTED EXTERNAL DEBT SERVICE RATIO. IF GOP GUARANTY OF LOAN DEEMED DESIRABLE, CON-SIDERATION SHOULD BE GIVEN TO TWO-STEP LOAN WITH APPROPRIATELY DIFFERENTIATED TERMS.

G. FEASIBILITY OF INCLUDING SOME FORM OF "ENVIRONMENTAL SOUNDNESS" ANALYSIS FOR PROSPECTIVE COMDESA SUB-LOANS.

3. TO ASSIST MISSION IN PROJECT ANALYSIS AND CAP PREPARATION, PROPOSE TWO WEEK TDY COMMENCING O/A NOVEMBER 25 OF JAMES SHEA, LOAN OFFICER AND EDWARD LIJEWSKI, FINANCIAL ANALYST. ADDITIONAL TDY ASSISTANCE WOULD ALSO BE AVAILABLE IN JANUARY SHOULD MISSION SO DESIRE.

MISSION DIRECTOR OLESON CONCURS IN PROPOSED TDY SUBJECT TO MISSION APPROVAL. REQUEST MISSION CONCURRENCE AND APPROPRIATION ALLOTMENT TO BE CHARGED. WILL ADVISE ETA ASAP. JOHNSON

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DRAFTED BY: LA/DR:MDBROWN/JMSHEA
APPROVED BY: BARRY SIDMAN, LA/DR
LA/DR, F W SCHIECK/L ROSENBERG (BOTH IN SUBS)
LA/APU, J L ROUSH SUBS
DESIRED DISTRIBUTION: 6N
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AIDAC

SUBJECT: PROPOSED SECOND LOAN TO COMDESA

REFERENCE: STATE 212862

1. ON THE BASIS OF THE DEBRIEFING OF THE AID/W TDY TEAM RECENTLY IN ASUNCION TO ASSIST IN PREPARING A CAPITAL ASSISTANCE PAPER (CAP) FOR SUBJECT LOAN, WE BELIEVE IT MAY BE HELPFUL TO THE MISSION IF WE ELABORATE SOMEWHAT ON THE OBSERVATIONS PROVIDED IN REFTEL.

2. THE KEY ISSUE TO BE ADDRESSED IN THE CAP WILL BE THE EXTENT TO WHICH COMDESA WILL BECOME MORE DEVELOPMENT-ORIENTED AND, RELATED THERETO, HOW TO ASSURE THAT A FOLLOW-ON LOAN TO COMDESA WILL NOT BE UTILIZED FOR DEVELOPMENTAL PROJECT FINANCING THAT COULD BE ARRANGED FROM ALTERNATE SOURCES IN PARAGUAY. AS ONE MEANS OF DEMONSTRATING A GREATER DEVELOPMENT ORIENTATION AS WELL AS GIVING ASSURANCES RE "SUBSTITUTION FINANCING", IT IS RECOMMENDED THAT, IN ADDITION TO LIMITING THE USE OF LOAN FUNDS AND AN INCREASING PROPORTION OF COMDESA'S TOTAL AVAILABILITIES TO MEDIUM AND LONG TERM FINANCING, THE MISSION CONSIDER REQUIRING RELATIVELY HIGHER EFFECTIVE INTEREST

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RATES AND LOWER COLLATERAL REQUIREMENTS BASED ON AN APPRAISAL BANKING APPROACH TO PROJECT FINANCING. TO PERMIT AN EVALUATION OF THE UNIQUENESS OF COMDESA'S TERMS, THE CAP SHOULD CONTAIN A DESCRIPTION AND AN ANALYSIS OF THE REAL COST (INTEREST, FEES, COMMISSIONS, ETC.), TERMS, CONDITIONS AND SOURCES OF LOAN FUNDS IN THE PARAGUAYAN CAPITAL MARKET TO THE VARIOUS TYPES OF BORROWERS, AS WELL AS A BREAKDOWN OF VOLUME OF FUNDS FLOWING FROM THE VARIOUS SOURCES. CAP SHOULD ALSO ANALYZE THE LIKELY EFFECT OF CREDIT AVAILABILITIES OF RECENT GOP DECRESS ALTERNATING COMMERCIAL BANK LOAN PORTFOLIO DISTRIBUTION.

3. THE MISSION MIGHT ALSO CONSIDER THE ADVISABILITY OF REQUIRING EVIDENCE OF NON-AVAILABILITY OF ALTERNATIVE SOURCES OF REASONABLE FINANCING BY MEANS OF A CERTIFICATION OF NON-AVAILABILITY. COMDESA CO[illegible], AS PART OF ITS SUB-LOAN APPROVAL PROCEDURES, REQUIRE A SATISFACTORY STATEMENT BY THE SUB-LOAN APPLICANT OUTLINING APPLICANT'S EFFORTS TO OBTAIN FINANCING FROM OTHER SOURCES AND EXPLAINING WHY OTHER SOURCES OF CREDIT WERE NOT REASONABLY
AVAILABLE.

4. THERE MAY, HOWEVER, BE CIRCUMSTANCES WHEN "SUBSTITUTION FINANCING" IS BOTH LEGITIMATE AND DESIRABLE IN A DEVELOPMENTAL SENSE. SUCH CIRCUMSTANCES WOULD BE THOSE IN WHICH IT CAN BE DEMONSTRATED THAT THE FORM AND CONTENT OF THE ASSISTANCE PROVIDED BY COMDESA WOULD CONTRIBUTE MATERIALLY TO THE SUB-BORROWER'S PROSPECTS FOR A SUCCESSFUL INVESTMENT. IF THE MISSION BELIEVES THAT THE APPROACH IS DESIRABLE AND FASIBLE, THE CAP SHOULD DESCRIBE THE MEANS TO BE EMPLOYED TO ENSURE THAT COMDESA'S INPUTS ARE GENUINELY NEEDED AND WILL HAVE A SIGNIFICANT BENEFICIAL EFFECT ON THE PROJECT.

5. WITH REGARD TO ITEMS I.C. AND D.(3) IN REFTEL, THE TDY TEAM REPORTED THE EXISTENCE OF THREE INSTITUTIONS SUPPORTED BY THE GOP AND/OR AID AND PRIVATE GROUPS WHICH ARE ALREADY PERFORMING THE PROJECT DEVELOPMENT FUNCTION. PERHAPS SOME SORT OF CONTRACTUAL RELATIONS BETWEEN COMDESA AND ONE OR MORE OF THESE INSTITUTIONS OR GROUPS WOULD BE PREFERABLE TO THE CREATION WITHIN COMDESA OF SUCH CAPABILITY.

6. TAKING INTO ACCOUNT DEBT-EQUITY RATIO, ABILITY OF COMDESA TO RAISE ADDITIONAL EQUITY, PROJECTED DEMAND FOR LOANS, LONGER

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MATURITIES, AND OTHER PERTINENT VARIABLES. CAP SHOULD CONTAIN FINANCIAL PROJECTIONS WHICH SHOW LIKELY EFFECT OF AID LOAN ON VIABILITY OF COMDESA AND ITS ABILITY TO BECOME INDEPENDENT OF CONCESSIONAL EXTERNAL ASSISTANCE AT SOME FUTURE DATE.

7. PURSUANT TO A RECENT DECISION BY THE DEPUTY U.S. COORDINATOR REGARDING EVALUATION OF ALL NEW LOAN PROJECTS, THE CAP MUST DEVELOP A FRAMEWORK FOR FUTURE EVALUATION. THE CAP SHOULD CONTAIN NARRATIVE AND STATISTICAL DESCRIPTION OF THE PRESENT LEVEL AND QUALITY OF ACTIVITY IN SECTORS IN WHICH COMDESA PROPOSES TO OPERATE DURING SECOND LOAN DISBURSEMENT PERIOD, TOGETHER WITH PROJECTIONS OF LIKELY SOCIO-ECONOMIC IMPACT OF LOAN, INCLUDING SUCH AREAS AS EMPLOYMENT, TECHNOLOGIES, SIZE OF FIRMS BENEFITTED, INVESTMENT LEVELS, ETC. THE CAP SHOULD ALSO INDICATE WHAT, IF ANY, CHANGES IN PROCEDURE COMDESA WILL NEED TO AND IS WILLING TO MAKE IN ORDER TO INSURE THAT DATA WILL BE AVAILABLE TO PERMIT MEANINGFUL EVALUATION.

8. GIVEN THE AMOUNT OF WORK BELIEVED NECESSARY TO COMPLETE CAP, AND THE DELAY IN THE RETURN OF THE TDY TEAM, IT IS LIKELY THAT TARGET DATE FOR CAP SUBMISSION SHOULD BE SHIFTED FROM FEBRUARY TO LATER IN FISCAL YEAR. REQUEST MISSION VIEW OF REALISTIC DATE. AID/W TEAM IS AVAILABLE TO ASSIST MISSION, BUT RECOMMENDS THAT ITS TDY COINCIDE WITH SERGIO VERGARA'S PRESENCE AT COMDESA.
ROGERS

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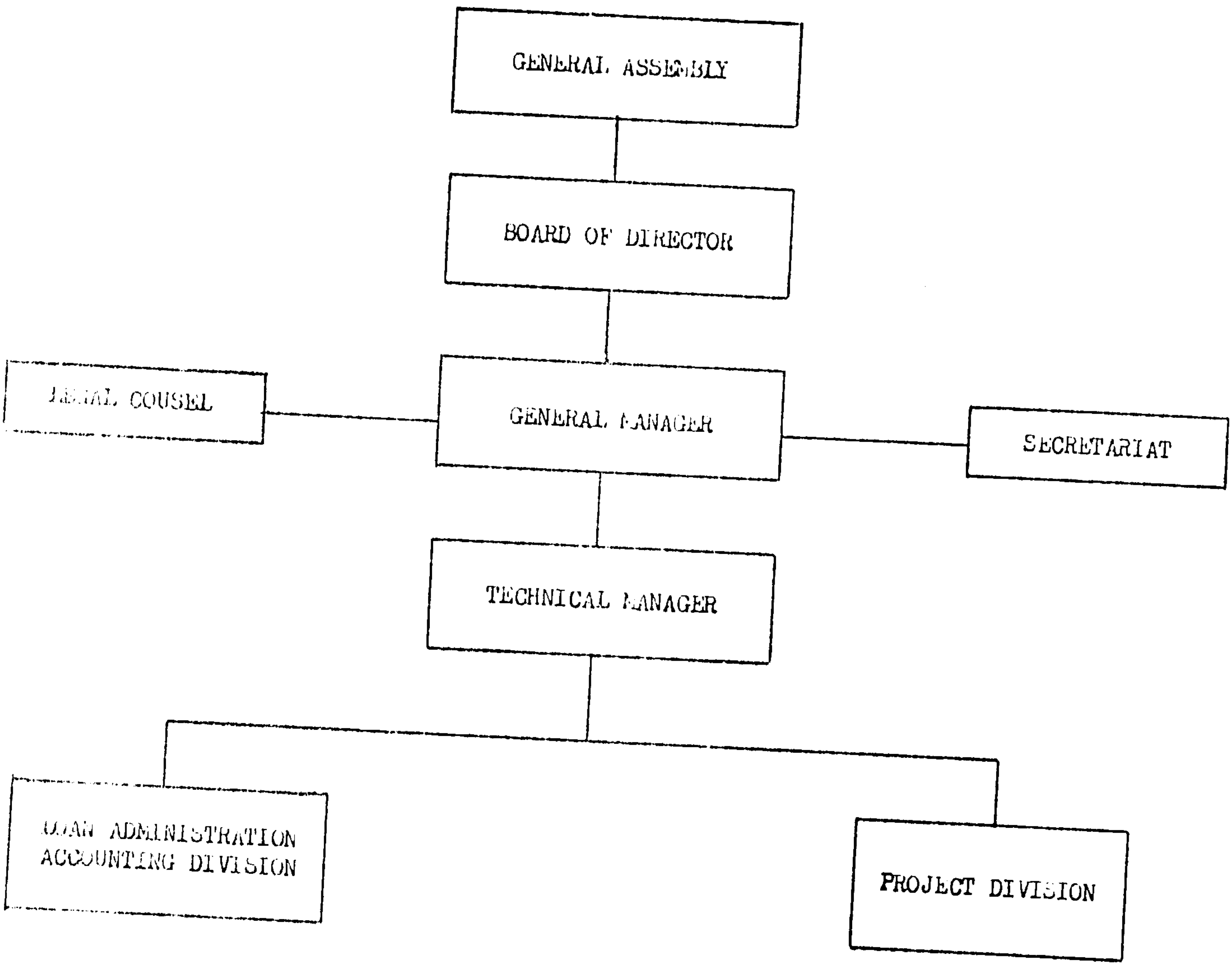
ANNEX V
Exhibit 1
May 24, 1973

COMPANIA PARAGUAYA DE DESARROLLO S.A.

C.O.P.D.E.S.A.

ORGANIZATIONAL CHART



The following is excerpted from a document published by COMDESA describing, _inter alia_, the legal structure of the company.

Chapter II
Social Capital - Shares

Article 6. Authorized social capital is $1,000,000, constituted by 12,600 shares valued at $79.36 each. These shares will be emitted in a series which is comprised of three groups; Group A, with 6,300 shares; Group B, with 3,150 shares.

Article 7. The number of shares outstanding (at the time of this document) are the following: Group A - Series 1, 6,300 shares; Group B - Series 1, 3,150 shares; Group C - Series 1, 3,150 shares. These shares denominated Group A - Series 1, Group B - Series 1 and Group C - Series 1 will have a double vote for each share in the General Assemblies of Shareholders, as will new shares. In the case of sale of shares of Group C - Series 1, the priority of option for the acquisition of such shares will be the following: First, the holders of shares in Group A - Series 1, followed by the holders of Group B - Series 1, and lastly, the general public.

Article 8. The authorized capital of the Company can be increased to $5,000,000 by resolution of the General Assembly of Shareholders, through the emission of the new series of shares which maintain the respective proportions between the series and groups indicated in the preceeding Article. All increases in authorized capital and emissions of new series of shares will be made part of the public record, at which time the corresponding taxes will be assessed and the document will be inserted in the Public Registry of Commerce. The holders of shares already issued will have the option to subscribe and integrate the new shares, in proportion to those which they already hold. To this effect, the Board of Directors will publish in the two daily newspapers with the largest circulation in the capital city, for fifteen days at least, the announcement of the issuance of new shares and will communicate by telegram with shareholders registered as residents in other countries, with at least twenty days advance notice, the issuance and subscription of new shares. If the holders of the original shares do not present themselves within the fifteen days following the publication of said announcement to subscribe and integrate the new shares in the conditions established by the General Assembly, the said new shares will be able to be subscribed and integrated by other interested parties. The Board of Directors will also communicate by note and other direct media to those registred shareholders the issuance of new shares, the sole essential requirement being, nevertheless, the aforementioned publication of the announcement

Article 9. The shares will be issued in the name of the first holder of record, indivisible, signed by the President and Directors, with the specifications required in the form prescribed by the Law. One certificate will be able to represent more than one share. No more than one owner for each share or each certificate will be recognized. In the case in which two or more persons have participation in one or more shares or certificates, the participants or groups will communicate with the Company regarding which of them will exercise the corresponding rights of the share or shares and certificates. No shareholder of Group A - Series 1 will be able to be the holder of more than 50 shares which represent a total value of $3,968, or less than 10 shares which represent a value of $794 of said Group A - Series 1, except if at the proposal of the Board of Directors, the General Assembly of Shareholders authorizes an increase in the maximum amount by a majority of more than 75% of those shareholders present and voting. The resolution which is thereby adopted will be entered in the Public Registry of Commerce.

Article 10. The shares and/or certificates of Group A - Series 1, Group B - Series 1, and Group C - Series 1 will be transferable, after prior authorization of the Board of Directors in each case, and the shares of succeeding series will be transferable by simple enforsement, but the Company will not recognize the new owner except through written communication of the transference which be annotated on the Registry of Shareholders.

Article 11. The Board of Directors will maintain the Registry of Shareholders in which will be annotated the names of the owners, number and series of their shares and their domicile, as well as the transference of the shares and the name, shares and domicile of the new shareholders.

Article 12. When the General Assembly considers it convenient to facilitate the circulation of shares, it can arrange that the new shares which are issued be to the bearer or convert and interchange the already issued shares for bearer shares, through agreement of each shareholder, abolishing or limiting in consequence the required annotation on the Registry of Shareholders. So that the resolution which is adopted in this respect has validity, it will require the favorable vote of two thirds of the shareholders present. Said resolution will be inscribed in the Public Registry of Commerce.

NAME: ABELARDO BRUGADA SALDIVAR

DATE AND PLACE OF BIRTH: [redacted]

NATIONALITY: Paraguayan

EDUCATIONAL BACKGROUND: Public Accountant.
Degree in Economics, Faculty of Economic Sciences, National University of Asunción

SPECIALIZED STUDIES:

Seminar on Administration and National Development, West Berlin, 1967.
IDB - sponsored Seminar, International Financing, Washington, 1963.
CEPAL - sponsored Course on Social and Economic Development Programming, Santiago de Chile, 1962-63.
Organization and Methods Course, School of Administration, National University of Asunción, 1960.

PAST AND PRESENT POSITIONS:

1958-1960 Economist, Planning Commission for Economic Development, Ministry of Finance.
1960-1962 Auditor and then Chief Auditor, Income Tax Office.
1963-1964 General Programmer, National Planning Office (dependent of the Presidency of the Republic).
1964-1966 Alternate Representative of Paraguay before the Latin American Free Trade Association (LAFTA), Montevideo.
1966-1968 Director, Technical Department, National Development Bank.
Member of the Consultative Council, Institute for the Intergration of Latin America.
Member, National Foreign Trade Council.
Member, National Commission for the Cuenca del Plata.
Member of the Board of Directors, International Bank for Reconstruction and Development; International Development Association and International Finance Corporation as representative of Paraguay, Argentina, Chile, Uruguay and Bolivia, from 1968 through 1970.
Professor, Faculty of Economic Sciences, National University of Asunción
General Manager, CONDESA.

NAME: EMILIO RAMIREZ RUSSO

DATE AND PLACE OF BIRTH: [redacted]

NATIONALITY: Paraguayan

EDUCATIONAL BACKGROUND: Public Accountant.
Degree in Economics, Faculty of Economic Sciences, National University of Asunción.

SPECIALIZED COURSES:

Management and Development Project, Pittsburgh, 1955
Planning and Development of Agro-Industrial Projects, Berlin, Germany, 1968.
Economic Planning and Industrial Programming, Tokyo, Japan, 1968.

PAST AND PRESENT POSITIONS:

Alternate Representative of Paraguay before LAFTA, 1969-72.
Director, Industry and Energy Division, National Planning Office.
Private Enterprise Advisor, 1958-63.
Director, Consultors Plainver-Consult, 1960-69.
Member, Consultative Council, Development and Productivity Center, 1966-69.
Member, National Foreign Trade Council, Ministry of Foreign Relations, 1967-69.
Member, National Accounts Commission, Central Bank of Paraguay, 1964.
Professor, Faculty of Economic Sciences, National University of Asunción.
Technical Manager, CORDESA, 1973.

NAME: JUAN ANTONIO [illegible]

DATE AND PLACE OF BIRTH: [redacted]

NATIONALITY: Paraguayan

EDUCATIONAL BACKGROUND: Secondary School

PAST AND PRESENT POSITIONS:

Chairman, Board of Directors, CAPSA (industrial processing plant), 1956-64.
Chairman, Board of Directors, Cafetalera Paraguaya S.A., 1970.
Chairman, Board of Directors, Nitroquimica S.A., 1971.
President, Football League of Paraguay, 1969.
President, Guaraní Club (football association), 1970.
Chairman, Board of Directors of CORDESA, 1970.

NAME: MARIO A. [illegible]

DATE AND PLACE OF BIRTH: [redacted]

NATIONALITY: Argentine

EDUCATIONAL BACKGROUND: Secondary School

SPECIALIZED STUDIES:

Those pertinent to his career in a banking institution, the Banco de la Nación Argentina, where he was employed from 1943.

PAST AND PRESENT POSITIONS:

1957 Manager, Banco Nación Argentina, Santa Lucía Branch (Corrientes)

1960 Manager, Banco Nación Argentina, San Javier Branch (Santa Fé).
1961 Manager, " " " , San Lorenzo Branch (Santa Fé).
1962 Manager, " " " , Concordia Branch (Entre Ríos).
1964 Manager, " " " , Paraná Branch (Entre Ríos).
1965 Manager, " " " , Santa Fé Branch (Buenos Aires).
1970 Manager, " " " , Asunción Branch (Paraguay)

NAME: RAUL DAUMAS LADOUCE

DATE AND PLACE OF BIRTH: [redacted]

NATIONALITY: Paraguayan

EDUCATIONAL BACKGROUND: Secondary School.
Graduate, Law School, National University of Asunción.

SPECIALIZED COURSES:

Faculty of Business Administration, Texas University, 1951.
Several courses in Administration Programming, Techniques Costing and Public Relations at the Development and Productivity Center.
Studies in Development Institutions in Colombia, Ecuador and Perú, 1969.

PAST AND PRESENT POSITIONS:

General Manager and Member of the Board of Directors of La Colmena S.A., 1952-62.
Member of the Board of Directors of Dala S.A. (shoe manufacturing enterprise).
Chairman, Board of Directors of Orbis, S.A.
Chairman, Board of Directors of Grafex Paraguaya, S.A.
Vice-president, Patria de Seguros, S.A.
Vice-president, Board of Directors of Credito Capitalizador de Ahorros, S.A.
Alternate Member, Board of Directors, CONDESA.
President, Federation of the Production, Industry and Commerce (FEPRINCO), 1967-70.
Member of the Honorable Municipality Council of Asunción, 1965-70.
Member of the Consultative Council, Paraguayan Industrial Federation, 1956-58.
President, Paraguay's Association of Industrial Printers, 1955-58.

NAME: OSCAR S. NETTO

DATE AND PLACE OF BIRTH: [redacted]

NATIONALITY: Paraguayan

SPECIALIZED STUDIES: Accounting
Bookkeeping
Business Management

PAST AND PRESENT POSITIONS:

President, Incoga S.A.
President, Incasa S.A.
President, Oscar S. Netto S.A.
Director, Campos y Haciendas S.A.
Member of the Council of Estate
Director of COMDESA
Director, Garantía S.A.

NAME: HECTOR BERTONI RISSO

DATE AND PLACE OF BIRTH: [redacted]

NATIONALITY: Uruguayan

EDUCATIONAL BACKGROUND:

Civil Engineering, Faculty of Engineering, National University of Uruguay.
Industrial Engineering, studies, Buenos Aires, 1941-42.
Industrial Engineering studies, United States, 1946-47-48.
Local courses sponsored by IDB/NDB; USAID/CDP; CAES (In-Service Training Center), Asunción, 1964-65-66-67-68 and 69.

PAST AND PRESENT POSITIONS:

Manager, Siam Di Tella, Buenos Aires, 1939-55.
Member, Board of Directors of Manuel Ferreira, S.A., 1946-55, Asunción.
President, Máquinas y Motores S.A., Asunción 1955-62.
Executive Vice-president, Manufactura de Pilar S.A., 1955-66.
Adela Investment Co. S.A., Representative, 1966-67.
Vice-president, Board of Directors of COMDESA, 1970-1973.
Director-Manager, Bertoni y Asociados S.M.C.
President, Salay and Cía. I.C.S.A., 1970-1973.
Vice-president, Chamber of Textile Industrialists of Paraguay, 1962-66.
Vice-president, Paraguayan Industrial Federation, 1963-66.
Member of the Board of Directors Federation of the Production, Industry and Commerce Federation (FEPRINCO), 1963-66.
Member of the Board of Directors of the Paraguayan Federation of Lumber Dealers, 1969-70.

NAME: JULIO CESAR SCHUPP

DATE AND PLACE OF BIRTH: [redacted]

NATIONALITY: Paraguayan

EDUCATIONAL BACKGROUND: Public Accountant
Economist, Faculty of Economic Sciences, National University of Asunción.

SPECIALIZED STUDIES:

Faculty of Economic Sciences, University of Rome, 1960-61
Institute of Business Enterprises, Faculty of Social Studies, (PRODEO), Rome, 1961-62.
International Monetary Fund (Financial Analysis and Policy), Washington, 1965-66.

PAST AND PRESENT POSITIONS:

Officer of the Bank of Paraguay, 1950-52.
Officer of the Central Bank of Paraguay, 1952-63.
Technical Advisor, Ministry of Finance, 1963-65.
Executive Secretary, National Commission for Fiscal Reform.
Coordinator, National Commission for the Cuenca del Plata.
Member, National Export Promotion Council.
Under Secretary of State for Economic Affairs, Ministry of Foreign Relations.

NAME: JOSE MARTINEZ YARYES

DATE AND PLACE OF BIRTH: [redacted]

NATIONALITY: Paraguayan

EDUCATIONAL BACKGROUND: Public Accountant
Degree in Economics, Faculty of Economic Sciences, National University of Asunción.

SPECIALIZED STUDIES:

IDB and Other Financial Sources, IDB/Washington, 1971.
Marketing and Distribution, AID, Bogotá, 1967.
Industrial Development, AID, Atlanta, Georgia, U.S., 1966.
Several local courses on: Business Organization, Capital Markets, Costs, etc.

PAST AND PRESENT POSITIONS:

Director-Manager, A. Martínez e Hijos, S.A.C. (Imports).
Director-Manager, Cintex AIC (Textile Industry).
Director, COFDESA.
Director, El Comercio Paraguayo S.A. (Insurance company).
Director, Tacurupytá S.A. (Forestry Industry).
Manager: Establecimientos Ganaderos Silvio Vargas Ramos y Noemí Vargas de Martínez; agricultural enterprise in San Ignacio, Laureles, Quiindy and Paraguarí.
President, Tax Commission, Federation of the Production, Industry and Commerce (FEPRINCO).
Member, Council of Industry and Investments, Ministry of Industry and Commerce, as representative of the private sector.
Former President of: FEPRINCO, Importers' Association, Basket-ball Federation of Paraguay.

NAME: ATILIO R. SEPPE

DATE AND PLACE OF BIRTH: [redacted]

NATIONALITY: Paraguayan

EDUCATIONAL BACKGROUND: Public Accountant

PAST AND PRESENT POSITIONS:

Director-Manager, Casa Módiga, S.A.
Member, National Foreign Trade Council

NAME: THOMAS F. HOLT

DATE AND PLACE OF BIRTH: [redacted]

NATIONALITY: North-American

EDUCATIONAL BACKGROUND:

High School in San Luis Obispo, California, US.
Graduate Bachelor of Arts in International Relations, US.
Graduate Master of Business Administration, US.

PAST AND PRESENT POSITIONS:

August 1958-December 1960, Federal Reserve Bank, San Francisco, California, US.
January 1961-December 1961, Trainee, Bank of America N.T. & S.A.
January 1961 and up-to-date, Bank of America N.T. & S.A.
January 1962-September 1963, Lending Officer
October 1963-September 1965, International Training Officer
September 1965-May 1966, Area Relations Officer, Latin America Division
May 1966-March 1968, Sub-Manager, Buenos Aires, Branch, Argentina.
April 1968-August 1970, Sub-Manager, Montevideo Branch, Uruguay
September 1970 to the present, Manager, Asunción Branch, Paraguay.

NAME: MANFREDO RAMIREZ RUSSO

DATE AND PLACE OF BIRTH: [redacted]

Nationality: Paraguayan

EDUCATIONAL BACKGROUND: High School
Lawyer - Graduate from the Law School, National University of Asunción.

PAST AND PRESENT POSITIONS:

Criminal Attorney, 1956-57.
Judge of the Criminal Court of the First Instance, 1957-58.

Judge of the Commercial Court of the First Instance, 1958-60
Legal Adviser, Directory of Military Industries.
Legal Adviser, COMDESA.
Legal Adviser, Algodonera Guaraní, S.A.
Legal Adviser, Molino Harinero de Concepción, S.A.
Legal Adviser, Infopa S.A.
Member of the Board of Directors, Algodonera Guaraní S.A.
Director General of Worship, GOP Ministry of Education and Worship.
Private Law Office specialized in Commercial law and Regional Intergration Law.
Professor, Faculty of Economic Sciences, National University of Asunción.

UNCLASSIFIED
Annex V-Exhibit 3

CUADRO DE OPERACIONES DE C[illegible]MDESA HASTA EL 31.XII.72
(Todas las cifras están dadas en Dólares)
Datos preliminares sujetos a modificación

Nº	Fecha Otorgam.	Prestatario	Objetivo	Vencimiento	Monto Total $U.S.
1	9.10.70	Cerámica Hellmers S.A.	IND. Industria Cerámica	5 años	23.810
2	9.12.70	Financiera Rural S.A.	AGR. Estudio Factibilidad	5 años	23.810
3	16.12.70	Rigoberto Ramírez Lópes	TUR. Restaurant	2 años	6.349
4	8. 1.71	Juan G.López	TRANS. Transporte Fluvial	2½ años	9.524
5	8. 1.71	Secundino Méndez	GAN. Cría y Mejoras	8 meses	5.079
6	20. 1.71	Astillero San Isidro	TUR. Embarc.Fluvial	2 años	23.810
7	20. 1.71	Carlos M.Sienra	GAN. Invernada	2 años	19.841
		Carlos M.Sienra	GAN. Cría y mejoras	5 años	23.810
8	20. 1.71	Hernán Ginés	IND. Chacinados	5 años	43.103
9	20. 1.71	Rodolfo Westermayer	TUR. Hotel	2 años	4.222
10	23. 2.71	Ganadera Nery Huerta	GAN. Retención Vientres	3 años	19.841
11	23. 2.71	Carlos Ramírez Boettner	GAN. Cría y mejoras	5 años	16.349
12	23. 2.71	Transtur	TUR. Buses	4 años	29.094
13	31. 3.71	Dionisio Araujo	GAN. Cría y Mejoras	5 años	23.810
14	31. 3.71	Héctor Valenzuela	GAN. Cría y mejoras	8 años	23.810
15	12. 4.71	Carlos Schaumann	IND. Confección camisas	2½ años	7.143
16	13. 4.71	Mario A.Brusquetti	GAN. Cría y mejoras	4½ años	11.905
17	16. 4.71	Raimundo Rolón	GAN. Cría y mejoras	5 años	35.714
		Raimundo Rolón	GAN. Invernada	2 años	27.778
18	16. 4.71	Cerámica Hellmers S.A.	IND. Industria Cerámica	5 años	27.778
19	4. 5.71	Achilles Rubén Yorg	GAN. Mejoras	3 años	1.191
		Achilles Rubén Yorg	GAN. Invernada	2 años	1.984
20	4. 5.71	Vicente Mayor	IND. Vacunas	3 años	7.937
21	7. 5.71	Imexpaco S.R.L.	IND. Acopio.Export.Palmito	18 meses	43.651
22	18. 5.71	Rigoberto Ramírez	TUR. Restaurant	2 años	3.175
23	3. 6.71	Eaton y Cía.S.A.	GAN. Retención vientres	4 años	35.714
24	22. 6.71	Halley Mora Hnos.S.A.	IND. Fideos y espirales	3 años	33.373
25	25. 6.71	Nitroquímica Paraguaya S/A.	IND. Abonos químicos	18 meses	78.282
26	25. 6.71	Elías Armele S.A.	TUR. Hotel	5 años	119.048
27	29. 6.71	Concepción de Pino	GAN. Cría y mejoras	5 años	23.810
28	6. 7.71	Carlos y Guillermo Spinzi	GAN. Cría y mejoras	5 años	16.667
		Carlos y Guillermo Spinzi	GAN. Invernada	5 años	7.143
29	13. 7.71	A.Octavio Sosa Gautier	GAN. Cría y mejoras	5 años	21.825
		A.Octavio Sosa Gautier	GAN. Invernada	2 años	9.524
30	13. 7.71	Molino Tacumbú	IND. Molino arroz	5 años	31.746
31	14. 7.71	Martha Z.de Bauzá	GAN. Cría y Mejoras	5 años	35.714
32	14. 7.71	Elsa Granada de Brizuela	GAN. Cría y mejoras	5 años	27.778
		Elsa Granada de Brizuela	GAN. Invernada	2 años	11.905
33	20. 7.71	Raúl Sosa Gautier	AVI. Avicultura	6 años	23.810
34	27. 7.71	Ganadera Indiana S.A.	GAN. Cría y mejoras	5 años	39.683
35	27. 7.71	César Zavala-Ipafrisa	IND. Frigorífico	3 años	19.841
36	27. 7.71	Fernando Arza Encina	GAN. Cría y mejoras	5 años	17.778
		Fernando Arza Encina	GAN. Invernada	2 años	7.619
37	27. 7.71	Pedro Camacho	GAN. Cría y mejoras	5 años	31.746
38	3. 8.71	Estancia Tobatiry	GAN. Cría y mejoras	5 años	27.778
		Estancia Tobatiry	GAN. Invernada	2 años	11.905
39	3. 8.71	Lelia Q. de Bonzi	GAN. Cría y mejoras	5 años	27.778
40	3. 8.71	Oscar Omar Báez	GAN. Cría y mejoras	5 años	9.524
41	3. 8.71	Jaime Jariton	TUR. Hotel	4 años	39.683
42	18. 8.71	Crown Cork Paraguaya S.A.	IND. Envases hojalata	18 meses	148.775
43	31. 8.71	Arístides y Jorge Parodi	GAN. Cría y mejoras	5 años	9.524
44	31. 8.71	La Fluvial de Transportes	TRA. Transporte Fluvial	4½ años	6.349
45	31. 8.71	Orbis S.A.	IND. Imprenta	45 meses	35.118
46	1. 9.71	Iruña S.A.	IND. Aserraderos	10 años	140.000
47	1. 9.71	Ipafrisa	IND. Frigorífico	5 años	91.270
48	7. 9.71	Arsenia Z.de De Gásperi	GAN. Cría y mejoras	5 años	27.778
		Arsenia Z. de De Gásperi	GAN. Invernada	2 años	11.905
49	8. 9.71	Banco de Semen Congelado S.R.L.	GAN. Servicios	18 meses	19.674
50	21. 9.71	Hermanos Galli Riart	GAN. Invernada	2 años	2.976
		Hermanos Galli Riart	GAN. Cría y mejoras	5 años	7.143
51	21. 9.71	Leonor M.de Gonzáles	GAN. Invernada	2 años	4.524
52		Leonor M.de Gonzáles	GAN. Cría y mejoras	3 años	14.524
52	21. 9.71	Silvia de Fretes	GAN. Cría y mejoras	3 años	11.905
53	27. 9.71	Felipe A.Gavaglio	GAN. Cría y mejoras	4 años	2.222
54	26.10.71	Fernando Arza Encina	GAN. Cría y mejoras	5 años	3.888
55	26.10.71	Ganadera San Martín	GAN. Cría y mejoras	5 años	34.921
56	5.11.71	La Greco Paraguaya	IND. Aserradero	65 días	31.745
57	9.11.71	Ganadera Santa Petrona	GAN. Cría y mejoras	5 años	19.841
58	16.11.71	Herminio Valiente	GAN. Cría y mejoras	5 años	19.841
59	23.11.71	Blás Morínigo	GAN. Cría y mejoras	5 años	19.841
60	23.11.71	Florencio Javier Llano	GAN. Cría y mejoras	5 años	19.841

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61	30.11.71	Leopoldina P.de Abente	GAN. Cría y mejoras	4 años	11.905
62	14.12.71	Turismo Hanga Roa S.A.	TUR. Motel	6 años	39.777
63	14.14.71	Gilberto Pereira	GAN. Invernada	2 años	3.571
		Gilberto Pereira	GAN. Cría ymejoras	5 años	8.333
64	14.12.71	Fidel Ruiz Huidobreo	GAN. Cría y mejoras	5 años	11.905
65	16.12.71	Tacurú Pytá S.A.	IND. Aserradero	7 años	125.914
66	29.12.71	Ricardo Franco Navarro	GAN. Cría y mejoras	5 años	25.396
67	29.12.71	Ganadera Carlota S.R.L.	GAN. Cría y mejoras	5 años	8.333
68	30.12.71	Delfino Manchini	AVI/ Const. y aves	6 años	47.619
69	30.12.71	Alberto Zacur	IND. Mármol	18 meses	2.381
70	8. 2.72	Juan Salay	IND. Fábrica muebles	6 años	39.682
71	23. 2.72	Iruña S.A.	IND. Aserradero	4½ años	31.746
72	29. 2.72	Agr.Gan.Ñú Porá S.A.	AGR. Agricultura	60 días	11.905
73	15. 3.72	Juan Céspedes	TUR. Parador	6 años	43.650
74	15. 3.72	La Vencedora S.A.	IND. Tabaco	10 años	71.428
75	22. 3.72	Matilde de Haldchentz	IND. Cerdas	2 años	7.937
76	23. 3.72	Rigoberto Ramírez López	TUR. Restaurant	3 años	15.873
77	24. 3.72	Fortunato Gonz'alez	IND. Cal	5 años	11.905
78	24. 3.72	Nidia de Martínez	IND. Ñandutí	3 años	3.968
79	24. 3.72	Flaviano Adorno	IND. Cuernos	3 años	3.174
80	4. 4.72	Alberto Zacur	IND. Mármol	18 meses	2.381
81	5. 4.72	Hernán Ginés Segovia	IND. Chacinados	8 años	42.428
82	6. 4.72	Goliat Paraguaya S.R.L.	IND. Cal	30 meses	4.087
83	11. 4.72	Faustino Fornera	IND. Cerdas	2 años	3.968
84	11. 4.72	Kaoru Iwasaki	AGR. Cultivos	18 meses	11.111
85	11. 4.72	Raúl Sosa Gautier	AVI. Avicultura	6 años	8.730
86	2. 5.72	Raúl Sosa Gautier	AVI. Avicultura	6 años	19.047
87	19. 5.72	Antonio Aveiro Stark	GAN. Servicios	5 años	21.190
88	23. 5.72	Nicodemus Llamas	IND. Calabazas	2 años	6.349
89	24. 5.72	Elías Armele S.A.	TUR. Hotel	5½ años	80.952
90	29. 5.72	Goliat Paraguaya S.R.L.	IND. Cal	3 años	19.841
91	30. 5.72	Grosso y London	IND. Confecciones	6 años	47.000
92	30. 5.72	Humberto Duarte Portillo	TRA. Fluvial	3 años	10.317
93	20. 6.72	Luciano Ferrari	TUR. Restaurant	5 años	6.746
94	28. 6.72	Moisés Zappatini	TUR. Hotel	7 años	79.365
95	5. 7.72	La Gruta S.R.L.	GAN. Cerdos	6 años	63.770
96	11. 7.72	Juan G.López	TRA. Transporte Fluvial	3 años	17.460
97	11. 7.72	Octavio Sosa Gautier	GAN. Retención vientres	4 años	7.937
98	11. 7.72	Elvira S.A.	GAN. Cría y mejoras	5 años	39.683
99	11. 7.72	Ganadera Charrúa S.A.	GAN. Cría y mejoras	5 años	39.683
100	25. 7.72	Juan Céspedes	TUR. Parador	18 meses	1.667
101	27. 7.72	La Vencedora S.A.	IND. Tabaco	10 años	23.809,5
102	24. 8.72	Estancia Tobatiry S.A.	GAN. Retención vientres	4 años	23.809,5
103	31. 8.72	Fundería Milano	IND. Fundición	2 años	6.349
104	4. 9.72	Peroni y otros	IND. Menta	3 años	7.937
105	5. 9.72	Salay y Cía. S.A.	IND. Maderas	3 años	39.683
106	12. 9.72	La Palmera	IND. Panificados	6 años	28.571
107	19.9.72	Regúnega y Lucas	GAN. Cría y mejoras	5 años	41.667
108	21. 9.72	Ipafrisa	IND. Frigorífico	3 años	71.429
109	20. 9.72	Tacurú-Pytá S.A.	IND. Aserradero	7 años	3.968
110	26. 9.72	Turismo Hanga Roa S.A.	TUR. Moteles	57 meses	6.349
111	18.10.72	Ferrario-Bareiro	AVI.	2 años	11.905
112	18.10.72	Scavone Hnos. S.A.	IND. Farmacéuticos	7 años	196.817
113.	17.11.72	Luciano H. Maldonado	TRANS, Transp. fluvial	3 años	14.286
114.	17.11.72	Estanislao Domínguez PPI	TRANS. Transp. terrestre	18 meses	6.548
115	21.11.72	Adin Peter Steenland	A/I Aves y cerdos	6 años	19.841
116	11.12.72	Arnaldo Carlos Tovar	GAN. cerdos	4 años	7.937
117	12.12.72	Raúl Sosa Gautier	AVI. Construcciones	6 años	2.381
118	12.12.72	Fernando Arza Encina	GAN. Retención	5 años	1.587
119	12.12.72	Carlos y Guillermo Spinzi	GAN. Cría	5 años	794
120	26.12.72	Silvio Vargas y Noemí V.de Martínez	GAN. Cría y mejoras	4 Años	42.857
121	27.12.72	Aditardo Vazquez	IND. Jabonería	5 años	46.032
122	27.12.72	Ceferino W. Gutierrez	GAN. mejoras	5 años	28.572
123	27.12.72	Perla de Medina	GAN./AG cría y agric.	7 años	22.183
124	27.12.72	S.A.C.I. H.Petersen	IND. Construcción	7 años	46.032
125	27.12.72	Miguel y José Morínigo B.	A/I. Agric.Aserr.Menta	7 años	46.032
126	27.12.72	Alberto Sosa	GAN. Cría	5 años	23.016
127	23.11.72	Alberto Zacur PPI	IND. mármol	18 meses	6.762
					3.693.065

(++) Tasas máximas para los préstamos en U$S y G.
(+) Fondos AID-Re-Inversión

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Compania Paraguaya de Desarrolo S.A.

COMDESA

Asuncion, March 30, 1973

Extension of Sub-loan Maturities

The solicitations for extending the due date for sub-loan principal and/or interest payments presented to COMDESA by its clients were motivated in general by circumstantial situations of short duration. In no case do the extensions granted by COMDESA exceed the total term assigned to each loan.

The following is a categorization of the reasons for, and particulars of, sub-loan debt rescheduling to date.

I. Market Difficulties: Coincidence of payments falling due in a period of diminished tourist inflow; problems in the marketing of cattle and other livestock due to excessively heavy rains (roads become impassable); strong competition met by Paraguayan products in nearby foreign markets caused by changes in exchange rates in certain periods; banking difficulties encountered in the Argentine market for the exportation of livestock, etc.

	Borrower	Amount	Term	Principal or Interest
A.	Lumberyard SanIsidro	$7,856	270 days	Principal
B.	Rigoberto Ramirez Lopez	$742	90 days*	Interest
C.	Delfino Manchini	$793	15 months	Principal
D.	Martha Zubizarreta de Banza	$2,178	90 days*	Interest
E.	Kaoru Iwasaki	$3,703	180 days	Principal
F.	Jaime Jariton	$6,700	12 months	Principal

II. Payments falling due coincidentally with the full production phase and operational evolution of the business, requiring utilization of all available resources to take full advantage of installed capacity and immediate market possibilities; seasonal availability of raw materials, etc.

	Borrower	Amount	Term	Principal or Interest
A.	Imexpaco, S.R.L.	$14,550	180 days	Principal
B.	Orbis, S.A.	$3,968	18 months	Principal
C.	Exporcrin, S.R.L.	$1,984	90 days*	Principal

III. Miscellaneous. The single instance below represents commissions postponed because of the non-utilization of a line of credit of $U.S. 100,000 which will be utilized during 1973.

	Borrower	Amount	Term	Commission
A.	Nitroquimica Paraguaya, S.A.	$4,000	180 days*	Commission

*Identifies those rescheduled loans cancelled (repaid) as of March 30, 1973.

COMDESA'S PROJECT IDENTIFICATION AND PROMOTION ACTIVITIES

COMDESA's system of Project Identification and Promotion consists of five major subsections:

1) System or Network of Intercommunication; 2) Conferences; 3) Informational Brochures; 4) "Field Trips" by COMDESA's executives; 5) Feasibility Studies Activities.

1. System or Network of Intercommunication

COMDESA believes that, in order for COMDESA to establish such a system with the principal sources of developmental projects in the Paraguayan private sector, she must first maintain accessible channels of information.

COMDESA submits that the best channels of such information in the context of Paraguay come about through the daily contacts made between its Directors and Executive Staff with the people who guide and direct the productive activities and the so-called "living forces" of the economic world.

Notwithstanding the above, with the objective of systematizing and maintaining a permanent source of pertinent information to assist in project identification and promotion, COMDESA's Management has implemented the following administrative instructions:

a) Maintain up to date the subscription and files of all the magazines and publications published in Paraguay which concern productive activities and economic and financial questions, such as:

- Statistical Bulletins and other publications of the Central Bank.
- Publications of the Technical Secretariat of Planificación.
- Publications of CEPEX (Export Promotion Center).
- Publications of the Development and Productivity Center.
- Publications of the National Institute of Technology and Normalization.
- Informational Magazine of the Paraguayan Industrial Union.
- Informational Magazine of the Federation of Industrial and Commercial Producers.

b) Daily review of local press publications: ABC, La Tribuna and Patria; clipping all articles of interest to COMDESA for placement in its files, alfabetically and chronologically organized.

c) Initiate subscriptions to the following foreign publications:
- -Statistical reports and monographs of the IMF, IBRD, BID, etc.
- -Publications of ALIDE (Latin American Association of Development Finance Institutions).
- -Business Week Magazine.
- -International Management Magazine.
- -Revistas and Periódicos (Argentine publication).
- -Análisis.
- -El Correo Comercial.
- -Mercado.

More directly, the System of Intercommunication, as such, functions through permanent contacts, of an official and institutional character at the management level with the following organizations specializing in the identification of productive initiatives:

a) Department of Economic Studies of the Central Bank.

b) Department of Economic Studies of the Banco Nacional de Fomento.

c) Technical Secretariat of Planificación, office of the President of the Republic.

d) CEPEX, Export Promotion Center.

e) INTN, National Institute of Technology and Normalization.

f) CDP: Development and Productivity Center.

g) Ministries of Economic Sector: Hacienda, Commerce, Public Works and Agriculture.

h) Economic Departments of both universities.

i) CEPADES (Paraguayan Center for Development Studies).

j) Labor Unions of the Productive Sector: FEPRINCO (Paraguayan Federation of Production, Industry and Commerce). Industrial Union; Rural Association, National Agricultural Society and Financiera Rural.

k) Commercial banks (shareholders in COMDESA).

2. Conferences

COMDESA's policy in this area is the following: to be present at all national or international level meetings which are concerned with issues involved in Economic Sectors of priority interest to COMDESA, if invited or access is open; providing information on COMDESA's role and methods of operation.

3. Informational Brochures on COMDESA

COMDESA has actively pursued this informational activity since 1971 and to-date has issued the following:

-"COMDESA at the Service of the Creative Force of Paraguay". Two editions have been published and distributed widely.

-"COMDESA - the Private Sector and National Development" also widely distributed.

-"COMDESA - the First Eight Months," a brochure with narrative and graphs of COMDESA's operational growth to September, 1971, published on the occasion of the Rural Exposition of 1971 and distributed to the public.

-"COMDESA - First Annual Report", published in 1972 and containing, in addition to the first balance sheet and explanations, narrative sections on COMDESA's organization and credit policies. 1,000 copies were printed and distributed widely, not only to shareholders.

-"COMDESA: Second Annual Report," now in preparation, maintaining and amplifying the informative tradition of the first annual report, in terms of emphasizing the objectives and policies of COMDESA.

To effect the distribution and dissemination of these and new publications COMDESA maintains an ample mailing list of "autoridades," shareholders, economic and bank managers, representatives of business firms, etc. The list includes names and address both outside of and within Paraguay.

Finally, the Annual Budget contains provisions (#300414 and 300412) for funds for "Publicity and Promotion."

4. Field Trips by Executive Staff

In recognition of the good results arising from the field trips which were made by COMDESA's management staff during the first two years of operation - to the "regional poles of development" as well as to the sites of COMDESA financed projects - COMDESA's management has programmed a systematic plan of "executive field trips," which will be maintained and refined in the future.

The plan contemplates a schedule for two kinds of field trips:

a) Field trips to identify projects in the interior of Paraguay and to make known more widely the objectives and unique role of COMDESA as a project promoter. These trips will be directed and possibly performed by either the General or Technical manager, or they may be carried out by experts under contract to COMDESA to do this work.

b) Follow-up visits to COMDESA - financed projects, by COMDESA's executives or the technical expert charged with control of that type of projects.

The second type of trip will provide opportunities for identification and promotion of new initiatives.

COMDESA proposes to make at least one trip of type a), every month and to make trips of type b), to all projects located in the interior at least twice each month (this would be frequent enough to enable COMDESA to inspect each of the type b) projects at least every six months).

5. Feasibility Studies

COMDESA has firmly set as one of its operational objectives to give the highest priority in its financing of sub-projects to those which fall under the rubric "global projects." Global projects are those which involve the organization or reorganization, or complete modernizing, of a developmental initiative (can be a new project or an expansion-rationalization of an existing project) in which the intervention of COMDESA reaches into all the organizational aspects through technical assistance and financing.

For this class of "global projects" COMDESA always requires a feasibility study (technical and economic) and, based on the conclusions of that report, a second study of organizational, legal and financial feasibility which will determine the best "structures" which should be given to the new or rationalized business, the lines of its legal and administrative structure, the required proportion of capital and credits for the entire investment and the expected returns until the project is finally consolidated and the amortization is complete of at least, the financing given by COMDESA.

The Technical-Economic feasibility studies will be entrusted by COMDESA to consulting firms specializing in the type of undertaking being considered. For this purpose COMDESA has been compiling, since the beginning of its operations, a list of national and foreign firms qualified for such work, with reference to their specializations.

The Feasibility Studies of Organization, Legal Formation, and Financial Structure will be carried out under the direction and responsibility of the staff of COMDESA. In cases where the projects are specialized or complex beyond the experience of COMDESA, she will contract for special consultant assistance to prepare the assessment.

The comments in the preceding paragraphs are valid for the projects which are brought to COMDESA by individual entrepreneurs, as well as for those which COMDESA herself promotes. With respect to this latter category, the main projects of that type which COMDESA will actively promote are included in the list of projects for the two-year Plan of Operations for 1973-1974. (See Section of the Loan Paper.) COMDESA will revise and expand the Program each year, analysing its progress, the experience of the projects undertaken, the errors of programming that were encountered, etc., with the objective of refining the Program each year and turning it into an instrument each year more effective, realistic, and pragmatic.

It is in relation to the above point that COMDESA will make maximum usage of the system of intercommunication with those organizations dedicated to the planning for and identifying of economic initiatives which arise in Paraguay.

COMDESA believes that the point of least concern in reality is the selection of entrepreneurs for those projects promoted by COMDESA. COMDESA states that each situation should be dealt with according to its own exigencies and particularities, as the situation demands, and it is not realistic to plan a rigid system to handle this issue. COMDESA points in this regard that is has concerned itself with having channels of contacts to offer projects not only to interested entrepreneurs in Paraguay itself, but also to potential foreign investors.

The foregoing described COMDESA's systematized approach to Project Identification and Development. Reference was made (point 1., above) to the numerous entities in Paraguay which are, to greater or lesser degree, also active in various facets of project identification and promotion. As specific examples of this point, the paragraphs below describe institutions which produce feasibility studies on their own initiative or at request of others, or identify investment opportunities which would require financing of the kind available almost exclusively from COMDESA.

1. Instituto Nacional de Tecnología y Normalización: The UNIDO has a full time technician producing feasibility studies for industrial and agro-industrial projects. It plans to add another technician to its staff to perform similar type studies. The Instituto works closely with elements of the private sector and, as a result, there is a high degree of probability that several projects will reach the implementation stage as a result of its identification and promotion efforts.

2. Centro de Desarrollo y Productividad: This institution, in conjunction with the Georgia Institute of Technology, is presently elaborating eight feasibility studies for which entrepreneurs have been identified. The Centro and COMDESA have worked closely together, and COMDESA presently has a contract with the Centro for a particular study concerning a marble project. The project itself is in an advanced stage, contracts having been signed for development of the extraction process and the physical plant and equipment. In addition, five new projects will be developed over the next three months. To-date, the Centro has realized studies for 19 projects; COMDESA has participated in the financing of three of them. There is the likelihood that COMDESA will participate in the financing of more Centro projects in the future.

3. National Project Office; National Planning Office; Ministry of Industry and Commerce: Each of these entities has the opportunity and objective of working with various investors who are seeking potential benefits for their projects according to the provisions

of Investment Incentive Law 216. In the course of these discussions, the need for and sources of additional financing as well as technical assistance frequently arises. These offices know of and refer to COMDESA as a source for these funds and services. (COMDESA's System of Intercommunication).

4. <u>Paraguayan Industrial Union and the Paraguayan Federation of Production, Commerce, and Industry</u>: Membership in these entities includes a great proportion of the entrepreneurial talent in Paraguay, many of whom are potential new investors who will need assistance from a source such as COMDESA. Both of these organizations are fully aware of COMDESA and its functions.

FUNDS FOR THE INDUSTRIAL AND AGRICULTURAL DEVELOPMENT AVAILABLE IN OFFICIAL BANKS

	Bank	Sources	Loan No.	Purpose	Maximum Term	Interest	Original Amount	Uncommitted Balance (12/31/72)
				RURAL SECTOR - AGRICULTURE AND LIVESTOCK				
1.	BCP	IDA*/	86-PA	Cattle	12		7,500,000	—
2.	BCP	IDA*/	156-PA	Cattle	12		4,300,000	106,470
3.	BCP	BIRF*/	620-PA	Cattle	12		4,300,000	4,300,000
4.	BCP	Banco Central del Brasil*/	—	Cattle	10 machin. 3 input	7%	1,000,000	955,270
5.	BNF	Banco de la Nación Argentina	—	Livestock	8 machin. 6 cattle	6%	7,000,000	6,717,491
					Sub-Total Agriculture/ Livestock		....	12,079,231
				RURAL SECTOR - AGRICULTURE				
1.	BNF	AID	526-L-012	Agriculture	7 years	10%	9,000,000	3,089,071
2.	BNF	EXIM-BANK	—	Agriculture	5 years	9%	3,000,000	464,603
3.	BNF	BID*/	295-SF-PR	Agriculture-Small Farmers	1-10 years	10%	8,000,000	4,578,076
					Sub-Total Agriculture/ Livestock Development			8,131,750
				INDUSTRIAL SECTOR				
1.	BNF	Kreditanstalt	—	Industry	8 years	9%	3,278,700	296,061
2.	BNF	BID*/	97-SF-PR	Pre-Investment	5 years	9%	700,000	293,023
3.	BNF	BID*/	211-SF-PR	Industry and Tourism	10 years	10%	4,000,000	1,738,714
4.	BNF	Kreditanstalt	(3rd Agreement)	Industry	8 years	9%	2,732,240	2,124,744
					Sub-Total Industry		....	4,452,542
					TOTAL:		....	24,663,523

*/ Risk of Exchange taken by GOP

Source: Central Bank of Paraguay: External Debt - Execution of Loan. As of 12/31/72.

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ANNEX VI
Exhibit 1
5/24/73

LIST OF APPLICATIONS UNDER CONSIDERATION BY COMDESA

(in thousand U.S. dollars)

Applicant	Type of Project	Proj.Cost	COMDESA Financing Required U.S.	Local Cy.	Total
1. TALVIX S.A.	Pilot-Feed Lot	500	50	150	200
2. FRIGOSA 2 proj.	Pork meat processing Plant	300	120	30	150
3. Ag. Coops 2 proj.	Pork meat processing	300	120	30	150
4. Ag. Coops 4 proj.	Poultry	400	--	200	200
5. Vicente Valdez V.	Modular housing-study	18	5	4	9
6. Diaz Espada	Paper products	700	100	100	200
7. FINAP	Plywood & Pressed wood	16,000	200	--	200
8. 4 projects	Saw mills	800	200	--	200
9. SAF Krauch & Co.	Essential oils	100	20	30	50
10. EXIASA	Mandioca pillets plant	260	80	100	180
11. ADITARDO Vasquez	Coconut Oil Soap plant	100	--	50	50
12. 4 projects	Mint essential oil	100	--	50	50
13. 2 projects	T. and C. Fruit Co.	1,500	200	200	400
14. 1 project	Yeast production	200	60	40	100
15. FOLIPAR S.A.	Synthetic fabrics	100	--	50	50
16. Pilas Paraguayas	Batteries	800	100	100	200
17. AMANECER S.A.	Paint & varnishes	160	20	60	80
18. PARACSA	Auto batteries	200	30	70	100
19. ZACUR	MARBLE & GRANITE	1,000	100	100	200
20. 1 project	Glass containers	1,000	100	100	200
21. KIBON S.A.	Foodstuffs	400	60	140	200
22. Zucolillo Enterp.	Cement Plant	4,000	200	--	200
23. PAMPA S.A.	Agricultural Services	300	200	---	200
24. 5 projects	Mint production	300	--	200	200
25. Cia. Paraguaya de Barcazas	Barges	5,000	200	--	200
26. 3 projects	River boats	100	--	50	50
27. Tourism	100 rms. Hotel Guaira	500	100	100	200
28. Tourism	100 rms. Hotel Yaciereta	500	100	100	200
29. Tourism	Religious Site-Guayaqui	200	20	80	100
	TOTAL	35,838	2,385	2,134	4,519

POTENTIAL PROJECTS FOR FINANCING BY CONDESA

(Under Study and Development by Centro de Desarrollo y Productividad)

			Total Investment Estimate
1.	Lime Project	(Colonia Rizza) Concepción	$ 300,000
2.	Lime Project	(Colonia Itacupumi) Concepción	$ 348,000
3.	Solvent Extraction Plant-Soybeans	Zona Central	$ 548,000
4.	Oil Extraction Plant (Coconut & Soybeans)	San Juan Bautista, Misiones	$ 360,000
5.	Wood kiln Dryer	Caaguazú	$ 160,000
6.	Wood kiln Dryer	Puerto Pte. Stroessner	$ 400,000
7.	Oil Extraction Plant	Pedro Juan Caballero	$ 360,000
8.	Manioc Processing Plant	Concepción	$ 50,000
9.	Bone Rendering Plant		$ 360,000
		TOTAL INVESTMENT REQUIRED	$2,886,000

HARTENECK, LOPEZ AND COMPANY

AUDITORS' STATEMENT

Messrs. President and Members of the Board of Directors of Compañia Paraguaya da Desarrollo S.A. (COMDESA).

We have examined the Balance Sheet and the Statement of Profit and Loss of Compañia Paraguaya de Desarrollo S.A. (COMDESA) to December 31, 1972. Our audit was carried out in accordance with generally accepted audit norms and included partial verifications of the accounting books, kept in accordance with present legal provisions and other audit procedures which we consider necessary in these circumstances.

In our opinion, the present Balance Sheet and Statement of Profit and Loss reasonably shows the financial situation of Compañia Paraguaya de Desarrollo S.A. (COMDESA) to December 31, 1972 and the results of its operations for that year, in accordance with generally accepted accounting principles uniformly applied to the operations of the preceding year.

Asuncion, March 15, 1973

/s/
Harteneck, Lopez & Co.

COMPAÑIA PARAGUAYA DE DESARROLLO S.A. (COMDESA)

BALANCE SHEET AS OF DECEMBER 31, 1972

(US$)

ASSETS

Short Term			169,638
Cash		23,236	
Banks, Current Account		55,247	
Banks, Other Deposits		91,154	
Loans and Investments			2,713,129
Discounted Bills - Placements		14,550	
Pre-Investment Loans		22,335	
-COMDESA's Own Funds	19,047		
-GOP Funds (PL 480)	3,287		
Development Loans (includes 1,784,029 at long term)		2,458,946	
-COMDESA's Own Funds	856,502		
-AID Funds	1,228,872		
-GOP Funds (PL 480)	373,571		
Interest and Commissions Earned, but not Collected	88,581		
Advances to Sub-Borrowers	26,297		
Credits in Judicial Recovery	42,092		
Advances for Loans in Process	34,126		
Other Credits	8,342		
Fees to be Collected	17,857		
Investments (Note A)			31,746
Operating Shares		7,936	
Non-Operating Shares		23,809	
Fixed Assets (Note B)			70,776
Furniture and Utensils		15,563	
Office Equipment		39,785	
Equipment (Various)		5,863	
Fixtures		5,273	
Library		1,190	
Equipment and Material in Transit		3,099	
Other Assets			104,609
Expenses Paid in Advance		1,977	
Organization Expenses (Net of Accumulated amortizations by 47,251) (Note C)		87,752	
Technical Assistance Expenses (Net of accumulated amortizations by 3,720) (Note C)		14,880	
		Total Assets	3,089,899

Balance Sheet as of December 31, 1972 (cont.)

LIABILITIES AND NET WORTH

Liabilities			
Short Term			1,940,868
Interest Expenses			
GOP Loan (PL 480)		27,351	
Other Short Term Loans		20,000	
Creditors - Various		158,730	
Provision for Social Expenses		13,931	
Provision for Taxes		844	
Provision for Expenses		22,835	
		6,115	
		249,809	
Long Term (Note E)			
GOP Loan (PL 480)			
AID Loan		365,000	
		1,326,059	
		1,691,059	
OTHER LIABILITIES			
Reserve for farewells			63,390
Reserve for Credits in Process of Collection		650	
Reserve for M.O.V. and Bad Debts		793	
Section 5.02(f) AID Contract (Note H)		51,765	
Accumulated Depreciation-Fixed Assets (Note B)		10,181	
-Furniture	2,887		
-Office Equipment	4,900		
-Equipment, Other	1,133		
-Fixtures	1,026		
-Library	233		
STOCKHOLDER's EQUITY			
Paid-in Capital			1,056,412
Legal Reserve (Note F)		1,000,000	
Uncommitted Surplus		30	
Profit (Loss) 1972		4,662	
		51,720	
OTHER			
Interest Received, not yet Earned		29,227	
TOTAL LIABILITIES AND NET WORTH:			3,089,899

COMPAÑIA PARAGUAYA DE DESARROLLO S.A. (CONDESA)
STATEMENT OF INCOME AND EXPENSES
For Period January 1, 1972 to December 31, 1972

INCOME		329,473
Interest and Commissions	310,080	
Other Operating Income	19,392	
EXPENSES		226,571
Interest and Commissions Paid	49,050	
Salaries and Social Expenses	56,379	
Directors Fees	12,680	
Honorariums - Professionals	10,701	
General Expenses	34,613	
Depreciation of Fixed Assets (Note B)	6,767	
Reserve - Section 5.02(f) (Note H)	50,263	
Tax on Paid-in Capital	6,118	
Operating Income		102,106
Other Income - Dividends	471	471
		102,577
Other Expenses		31,762
Amortization of Organizational Expenses and Technical Assistance (Note C)	31,762	
Earnings Before Taxes		70,815
Provision for Income Tax		19,095
NET RESULT		51,720

COMPAÑIA PARAGUAYA DE DESARROLLO S.A. (COMDESA)

NOTES REFERRING TO THE ACCOUNTING STATEMENTS TO DECEMBER 31, 1972

NOTE A: Investments are appraised at cost.

NOTE B: The Fixed Assets are appraised at acquisition cost and their depreciation is charged to results by the straight line or constant installment system, so that the cost be totally absorbed by the end of its estimated life.

Depreciation of the year charged to results was ₲s.852,723.

Accumulated depreciations are shown among non-callable liabilities in order to comply with legal regulations in force in Paraguay.

NOTE C: Deferred charges are composed of the following:

	Technical Assistance	Organization	Total
Cost	₲s.2,343,600	₲s.17,006,989	₲s.19,350,589
Period of Utilization	5 years	5 years	--
Starting Date	1-1-72	1-4-71	--
Annual Amortization	468,720	3,533,415	4,002,135
Accumulated Amortiz.	468,720	5,950,235	6,418,955
Net Worth	1,874,880	11,056,754	12,931,634

NOTE D: Accounts in foreign exchange are converted into guaranies at the exchange rate of ₲s.126 per U.S. dollar, prevailing on December 31, 1972.

NOTE E: Long Term Debt to December 31, 1972 excluding the portion to be paid during next year, are detailed as follows:

1) Loan from the National Government (PL-480) repayable, after a one-year grace period, as from the reception of the funds, in semi-annual installments of ₡s.630,000, as from January 14, 1994 to January 22, 1992, with the following annual maturity dates: February 11 - August 11 and January 14 - July 14. Interest earned from this loan is 6% a year on the balance, payable with the amortization installments.	₡s.45,990,000
2) AID Loan - U.S.A. repayable in thirty-one semi-annual installments, The maturity date of the first installment is May 24, 1976, payable in U.S. dollars. The interest rate is 2% a year on balances up to April 20, 1976, and from then on until final payments, 3% a year payable in semi-annual installments due.	₡s.167,083,479
Total:	₡s.213,073,479

NOTE F: In order to comply with legal provisions, the Firm will have to earmark 2% of its net earnings for a Legal Reserve Account, until this reaches 10% of the capital. At this time, this amount should be estimated on the net results of the year plus the adjustment of the results of the year 1971 mentioned in Note G. Therefore, the amount to be earmarked for that purpose is ₡s.142,083.

NOTE G: Due to the error in estimating the taxable income for 1971, the amount earmarked for that year was overestimated. Due to this fact and using the adjustment function, the amount of accumulated earnings tonDecember 31, 1971 is modified by increasing the profit for that year in the amount ₡s.587,412.

NOTE M: The following limitations are contained in the Agreement signed with AID-USA:

a) According to Section 5.02(a) of the Agreement, the Firms shall not incur in any loan indebtedness in excess of the equivalent of one million U.S. dollars;

b) According to Section 5.02(c) and (d) of the Agreement, the Firm shall not declare, distribute or pay any dividends on any shares of any class of stock of the Firm, exceeding twelve (12) percent annually of paid-in capital; likewise, it shall not declare any dividends which exceed earnings during the same period.

c) According to Section 5.02(f) and (g) of the Agreement, the Firm shall establish and maintain a bad debt and foreign exchange reserve of not less than 2% per annum on its entire sub-loan and investment portfolio;

The amount of this reserve shall be maintained in liquid assets.

COMPANIA PARAGUAYA DE DESARROLLO S.A. (COMDESA)

Comparative Balance Sheet Figures 1971 and 1972

	1971	1972
ASSETS		
Short Term	369,585	169,638
Cash	1,031	23,236
Banks, Current Account	8,198	55,247
Banks, Other Deposits	439,720	91,154
Loans and Investments	1,528,787	2,713,129
Bills Discounted	29,100	14,550
Pre-Investment Loans	50,793	22,335
-COMDESA's Funds		19,047
-GOP Funds (PL 480)		3,287
Development Loans	1,391,669	2,458,946
-COMDESA's Funds	477,824	856,502
-AID Funds	522,416	1,228,872
-GOP Funds	391,428	373,571
Interest and Commissions Earned but Uncollected	30,526	88,581
Advances to, expenses for, Sub-borrowers	11,946	26,297
Credits in process of recovery-Directly	2,149	-
Credits in process of recovery-Judicial	-	42,092
Other Credits	12,600	8,342
Advances for loans in process	-	34,126
Fees to be collected	-	17,857
Investments	31,746	31,746
Operating Investments	7,936	7,936
Non-Operating Investments	23,809	23,809
FIXED ASSETS	51,485	70,776
Furniture and Utensils	13,309	15,563
Office Equipment	9,220	39,785
Equipment (Various)	5,470	5,863
Fixtures	4,994	5,273
Library	1,145	1,190
Equipment and Material in Transit	17,345	3,099
OTHER ASSETS	109,661	104,609
Interest paid in Advance	-	555
Insurance paid in Advance	968	601
Organization Expenses	106,312	87,752

Organization Expenses	127,874	115,794
Less: Amortization	19,181	28,042
Fees for Technical Assistance		14,880
Fees for Technical Assistance	-	18,600
Less: Amortization	-	3,720
Office Supplies	-	819
TOTAL ASSETS	2,091,266	3,089,899
LIABILITIES AND NET WORTH		
Liabilities	1,245,173	1,940,868
Short Term	70,027	249,809
Interest Expenses Due	20,273	27,351
GOP Loan (PL 480)	15,000	20,000
Creditors - Various	23,044	13,931
Provision for Social Expenses	588	844
Provision for Taxes	5,588	22,835
Provision for Expenses	5,561	6,115
Loan - Bank of America	-	79,365
Loan - Bank of Asunción	-	79,365
Long Term	1,175,145	1,691,059
GOP Loan (PL 480)	385,000	365,000
AID Loan	790,185	1,326,059
Other Liabilities	4,857	63,390
Reserve for farewells	650	650
Reserve for Credits in process of Collection	793	793
Accumulated Depreciation-Fixed Assets	3,414	10,181
-Furniture	1,330	2,887
-Office Equipment	922	4,900
-Equipment, Other	547	1,135
-Fixtures	499	1,026
-Library	114	233
Reserve for M.O.V. and Bad Debts		51,765
STOCKHOLDERS EQUITY AND NET WORTH	824,608	1,056,412
Paid-in Capital	818,413	1,000,000
Subscribed Capital	1,000,000	1,000,000
Less: Shareholders	181,586	-
Legal Reserve	-	30
Results of Fiscal Year	6,194	51,720
Results of Prior Fiscal Year (1971) (See Attached notes)		4,662
OTHER	16,628	29,227
Interest Received, not yet earned	16,628	29,227
TOTAL LIABILITIES AND NET WORTH	2,091,266	3,089,899

COMPAÑIA PARAGUAYA DE DESARROLLO S.A. ([illegible])

STATEMENT OF INCOME AND EXPENSES

For Period January 1, 1972 to December 31, 1972

INCOME		329,473
Interest and Commissions	310,080	
Other Operating Income	19,392	
EXPENSES		226,571
Interest and Commissions Paid	49,050	
Salaries and Social Expenses	56,379	
Directors Fees	12,680	
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General Expenses	34,613	
Depreciation of Fixed Assets (Note B)	6,767	
Reserve - Section 5.02(f) (Note H)	50,263	
Tax on Paid-in Capital	6,118	
Operating Income		102,106
Other Income - Dividends	471	471
		102,577
Other Expenses		31,762
Amortization of Organizational Expenses and Technical Assistance (Note C)	31,762	
Earnings Before Taxes		70,815
Provision for Income Tax		19,095
NET RESULT		51,720

COMMENTS ON COMPARATIVE BALANCE SHEET, 1971 - 1972

A. ASSETS

Short-term, Liquid Assets. Cash and liquid resources amounted to $199,947 less at the end of 1972 than 1971. This difference in short-term liquid assets should be considered in comparison with figures showing the average amount of these assets available for the year. In 1972, the average was $221,000, against $300,000 for 1971. The reduction in the amount for 1972 was the result of two main factors: a more dynamic control of resources; and a temporary halt by AID in disbursing AID Guaranies loan funds to COMDESA until COMDESA received the last remaining payments of its subscribed capital stock.

Loans and Investments. In 1972, COMDESA's "Development loan" portfolio increased by $1,067,277 over 1971. Almost all of this increase was covered by resources from the AID loan since COMDESA's own capital and resources of the GOP-PL 480 loan were fully utilized in 1971. However, COMDESA did not achieve in 1972 the level of activity which its management set for it in their program for 1972 as approved by the Board of Directors. This program contemplated committing $1.0 million in dollars, and $1.4 million in Guaranies during the year. The shortfall is due, in COMDESA's opinion, to the slow movement of dollar loans used to finance the importation of capital goods, and the temporary inability, noted above, to obtain additional AID-Guaranies until COMDESA's subscribed capital was fully paid-in.

Under Investments, there was no change for 1972. The two investments represented in this section are: $7,936 in shares in Tacurú-Pytá, a lumber-sowmill operation, adquired by COMDESA as a fee for technical assistance rendered to the reorganization of that firm; $23,809 in shares of the Banco Paraguayo de Comercio, an investment made by COMDESA in its first few months of activity as recognition of the need to keep all its available resources fully productive. COMDESA plans to liquidate these shares in the near future, when market conditions are likely to be more favorable.

The increase in 1972 in Fixed Assets amounted to $19,291, corresponding to the final figures for value adopted for imported office machines and equipment which in 1971 remained "in transit" awaiting a decision by the National Government on a request to lift customs duties on these items.

Under Other Assets, Organization Expenses continued to be amortized from their initial total of $135,000. A similar amortization is being implemented for Technical Assistance expenses generated in 1972.

B. LIABILITIES

Short-Term Liabilities. In 1972, COMDESA's short-term Liabilities increased by more than a factor of three. This increase was due to: a) larger sums owed for interest and amortization on GOP and AID loans; b) a provision, four times larger in 1972, for taxes on paid-in capital and yearly profits; c) two $80,000 loans from local banks at short terms, to enable COMDESA to continue to operate during the period when AID Guaranies loan funds were held back.

Long-Term Liabilities. The increase here represents greater use of AID loan funds.

Other Liabilities. The increase in this area for 1972 was concentrated in two areas: a) increase in amortization of fixed assets, and; b) the constitution of the M.O.V. -Bad Debt Reserve required by Section 5.02 (f) of the AID loan agreement. (Not less than 2% p.a. on its entire subloan and investment portfolio.)

Stockholder's Equity and Net Worth. The increase in this section for 1972 reflects two favorable points: the receipt of capital for the outstanding shares of subscribed stock; the Net Profit earned by COMDESA, after deductions for income tax and legal reserve.

COMMENTS ON COMPARATIVE STATEMENT OF INCOME AND EXPENSES, 1971 - 1972.

Income. In 1972, COMDESA registered an increase in Operating Income of 160.5%. Part of this increase was due to the growth of the loan - investment activities of the company which increased by 70% over 1971. More importantly for COMDESA, operational commissions rose in 1972, 162% above the 1971 level. This increase was due to the adoption and charge of the system of commission called CENIC (Comisión-Estudio-Negociación y Cierre) which consists in lowering the rate of interest on loans in exchange for the initial and one time commission charge of CENIC, levied against the amount of the credit. COMDESA believes this approach is indispensable to its operations in light of the expenses COMDESA must bear in studying, reviewing and making the loan (before the loan begins to produce significant interest payments) and, in light of the contractual obligation with AID to establish the M.O.V.-Bad Debt reserve of 2% in the same moment of entering each new operation in its portfolio.

Other Income. Reflects an increase in 1972 due to COMDESA's earning fees for services as a "financial agent", for example with avales and guaranties, as well as for special studies and other services.

Expenses. The increase in Interest and Commissions reflects greater use of available resources.

For Salaries and Social Expenses, the figure for 1972 is higher because it includes salaries for the General Manager and the Technical Director, which posts in 1971 were being filled by experts, classified as Technical Assistance support, and paid with funds included under Organizational Expenses now being amortized.

Earnings before Reserves and Tax. These figures reflect the significant increase achieved in Operating Income, which grew at a far greater rate than did Expenses.

Income Tax. In 1971, COMDESA provided for an estimated Income Tax liability of \$5,738. A close examination of the Tax Law applicable to COMDESA in that period resulted in a determination that COMDESA's 1971 profit was not subject to income taxes. In another area, COMDESA thus took \$1,064 from the \$5,738 to make up the shortage, and transferred the remainder, \$4,662, to the Balance for 1972 as retained earnings from 1971.

Net Profit. The figure for 1972, representing a total of 22 months of operation, corresponds to a return of 5.17% on paid-in capital.

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Annex VII, Exhibit 3

COMPAÑIA PARAGUAYA DE DESARROLLO.
(CONDESA)

CASH FLOW PROJECTION (Flujo de Fondos)

	1973	1974	1975	1976	1977	1978
I.- BEGINNING BALANCE Cash in Banks / Balance inicial Fondos disponibles en Bancos						
a) In Local Banks - Bancos locales	78.5	6.0	6.0	6.0	6.0	6.0
b) Time Deposits - Depósitos a plazo	91.1	172.4	263.5	476.1	318.5	25.6
c) Loan Funds from AID - Fondos AID	1,273.9	125.0	250.0	250.0	150.0	---
d) Loan Funds from Other Sources - Fondos Otras Fuentes	---	---	---	---	---	---
Total Cash in Banks - Total Caja en Bancos	1.443.5	303.4	519.5	732.1	474.5	31.6
II.- RECEIPTS - INGRESOS.						
a) Capital Paid-In - Integración de capital (en el año)	166	166	168	150	165	185
b) AID Loan 1 - Convenio AID 1 "	---	---	---	---	---	---
c) AID Loan 2 - Convenio AID 2 "	500.0	1,000.0	1,000.0	500.0	---	---
d) Other Loans - Otros Préstamos: ADELA	300	---	---	---	---	---
Bancos	41.3	200.0	400.0	300.0	350.0	950.0
e) Collection from Sub-Loans - Recuperaciones (Principal)	793.6	1,035.0	1,664.0	1,772.8	1,638.2	1,689.9
" Interests - (Intereses)	387.2	522.9	652.2	727.7	774.3	829.9
f) Interest Collected on Time Deposits - Interes (Dep. Plazo)	7.0	10.5	14.0	21.0	14.0	---
g) Dividends Received on Equity Holdings - Dividendos accs.	0.5	0.5	---	----	---	---
h) Other Income (include sale of equity invest.)- Otros Ingr.	65.0	100.0	104.8	100.0	126.6	132.6
Total Receipts - Total Ingresos	2,780.6	3.036.8	4,033.0	3.571.5	3.070.1	3.787.4
TOTAL I and II - TOTAL I y II	4,224.1	3,340.2	4,552.5	4,303.6	3,544.6	3.819.0
III.- DISBURSEMENTS - EGRESOS.						
a) Loans Granted - Créditos cursados	3,065.5	2,013.3	2,572.9	2.467.2	1.965.6	2.147.7
b) Equity Investments - Inversiones operativas	300.0	50.0	50.0	50.0	50.0	50.0
c) Amortization AID Loan 1 - Amortización Convenio AID 1	---	---	---	84.0	170.0	170.0
d) Interest Id. - Interes Id.	39.3	52.0	52.0	75.5	70.4	65.3
e) Amortization Other Loans - Amortización Otros Préstamos	220.0	270.0	570.0	520.0	570.0	220.0
f) Interest Id. - Interés en " "	29.0	80.0	93.1	85.0	87.5	116.2
g) Amortization AID Loan 2 - Amortización Convenio AID 2	---	---	---	---	---	80.0
h) Interest Id. - Interés Id.	3.7	22.5	45.0	75.0	82.5	96.7
i) Operating Expenses - Gastos de operación	161.2	167.5	176.9	190.0	201.1	216.3
j) Equipment Purchases (assets) - Adquisiciones Equipo	---	---	---	---	---	---
k) Organization Expenses - Gastos de organización	28.0	28.0	31.7	---	---	---
l) Technical Assistance - Asistencia técnica	4.0	4.9	11.0	2.5	2.5	2.5
m) Income Tax - Impuesto a la Renta	19.1	19.4	68.9	97.6	111.5	126.6
n) Other Disbursements - Otros Desembolsos	---	12.3	21.3	32.3	36.9	41.8
Total Disbursements - Desembolsos totales:	3.870.7	2,740.9	3,692.8	3,679.1	3.348.0	3.333.1
IV.- CASH BALANCE - BALANCE DE CAJA --Cash in Banks - En Bancos						
a) In Local Banks - En Bancos locales	6.0	6.0	6.0	6.0	6.0	6.0
b) Time Deposits - Depósitos a plazo	222.4	343.3	603.7	468.5	190.6	479.9
c) Loans Funds from AID - Fondos AID	125.0	250.0	250.0	150.0	---	---
d) Loan Funds from Others - Fondos Otras Fuentes	---	---	---	---	---	---
Total Cash in Banks - Total Caja en Bancos	353.4	599.3	859.7	624.5	196.6	485.9
V.- DIVIDENDS - DIVIDENDOS	50.0	79.8	127.6	150.0	165.0	181.5
VI.-FINAL CASH BALANCE - BALANCE FINAL DE CAJA						
a) In Local Banks - En Bancos locales	6.0	6.0	6.0	6.0	6.0	6.0
b) Time Deposits - Depósitos a plazo	172.4	263.5	476.1	318.5	25.6	298.4
c) Loan Funds from AID - Fondos AID disponibles	125.0	250.0	250.0	150.0	---	---
d) Loan Funds from Others - Fondos Otras Fuentes disponibles	---	---	---	---	---	---
Total Final Cash in Banks - Total Fondos finales dispon.	303.4	519.5	732.1	474.5	31.6	304.4

Compania Paraguaya de Desarollo
(COMDESA)

March 26, 1973

Explanatory Notes to Cash Flow Projections, 1973-78

The following comments correspond to the respective line entries of the Cash Flow Projection:

I-a)--These figures correspond to amounts placed by COMDESA in regular "sight deposit" accounts in local banks.

I-b)--Refers to time deposits and/or savings deposits in Paraguayan Banks.

I-c)--This refers to that portion of the AID funds for which COMDESA has opened Letters of Commitment, in dollars, in foreign banks and against whose total availabilities have not yet been submitted receipts from the suppliers of "capital goods" or "technical assistance".

I-d)--No entries have been recorded in this line because COMDESA assumed that "loans from other sources" are going to be delivered directly to COMDESA and will be accredited to COMDESA's regular bank accounts. (The only instance in which COMDESA would record entries in this line would be when COMDESA obtained overdrafts.)

II-a)--Refers to cash which COMDESA expects to received from the payment of capital for new share subscriptions.

II-b) and c)--Refers to the expected disbursements of AID funds.

II-e)--(second line) - Where the Cash Flow outline refers to Interest, the respective entires combine Interest and Commissions.

III-e)--In the case of Bank Lines of Credit, COMDESA assumed that these would be amortized in the same year that they were obtained, without prejudice to the obtaining of new lines of credit for amounts determined later, in the following year.

III-j)--The amortization of equipment acquired with payment deferred, and the value of equipment acquired with cash, are included in the entry for Operating Expenses; therefore, no entires were placed here.

COMPAÑIA PARAGUAYA DE DESARROLLO S.A. (COMDESA)

PRO-FORMA OPERATING STATEMENT-1973-1978
($000)

ASSETS

	1972	1973	1974	1975	1976	1977	1978
Liquid Assets	169,6	304,3	236,0	396,7	197,3	63,3	(212,9)
Cash	23,2	0,4	0,4	0,4	0,4	0,4	0,4
Banks, Current Account	55,2	3,9	5,6	5,3	6,9	7,9	-
Banks, Other Deposits	91,5	300,0	230,0	391,0	190,0	55,0	-
Loans and Investments	2,713,1	5,194,1	6,463,7	7,661,4	8,018,5	9,356,5	8,831,0
Discounted Bills	14,5	-	-	-	-	-	-
Pre-Investment Loans (*)	22,3	216,7	216,7	216,7	216,7	216,7	216,7
- COMDESA's Funds	19,1	19,1	19,1	19,1	19,1	19,1	19,1
- GOP/AID Funds	3,3	197,6	197,6	197,6	197,6	197,6	197,6
Development Loans (*)	2,458,9	4,636,1	5,842,1	6,982,7	7,318,5	7,640,7	8,089,4
- COMDESA/Banks Funds	956,5	1,654,0	1,860,0	2,000,6	2,336,4	2,658,6	3,107,3
- AID Funds	1,228,9	2,608,5	3,608,5	4,608,5	4,608,5	4,608,5	4,608,5
- GOP Funds	373,6	373,6	373,6	373,6	373,6	373,6	373,6
Interest-Commissions Uncollected	88,6	172,7	215,9	254,7	267,4	278,0	294,7
Advances to Sub-Borrowers	60,6	60,6	60,6	60,6	60,6	60,6	60,6
Credits in Collection (*)	41,9	81,7	102,1	120,4	129,0	134,2	143,3
Other Credits	8,3	8,3	8,3	8,3	8,3	8,3	8,3
Fees to be Collected	17,9	18,0	18,0	18,0	18,0	18,0	18,0
Investments	31,7	331,7	381,7	407,9	457,9	507,9	557,9
Operating Investments (*)	7,9	307,9	357,9	407,9	457,9	507,9	557,9
Shares	7,9	307,9	357,9	407,9	457,9	507,9	557,9
Non-Operating Investments	23,8	23,8	23,8	-	-	-	-
Portfolio (All Asterisked Items)		(5,242,4)	(6,518,8)	(7,727,7)	(8,122,1)	(8,499,5)	(9,007,9)
FixednAssets	70,8	70,8	70,8	70,8	70,8	70,8	70,8
Other Assets	104,6	75,7	42,7	-	-	-	-
Interest Paid in Advance	0,6						
Insurance Paid in Advance	0,6						
Organizational Expenses	87,8	59,7	31,7				
Organizational Expenses	115,8						
Less: Amortization	28,0	28,0	31,7				
Fees: Technical Assistance	14,9	16,0	11,0				
Fees: Technical Assistance	18,6						
Less: Amortization	3,7						
Office Supplies	0,8						
Totals	3,090,0	5,976,6	7,1[illegible],9	8,536,8	8,744,5	8,998,5	9,246,8
Less Liquid Assets		304,3	236,0	396,7	197,3	63,3	(212,9)
Totals		5,672,3	6,958,9	8,140,1	8,547,2	9,935,2	9,459,7

BEST AVAILABLE COPY

LIABILITIES AND NET WORTH	1972	1973	1974	1975	1976	1977	1978
Short and Long Term	1,940,9	4,560,5	5,520,8	6,580,9	6,542,2	6,519,2	6,498,1
Short Term	230.0	315.5	345.8	575.9	341.2	708.2	1,107.1
Interest Due	27,4	30,0	30,0	30,0	30,0	30,0	30,0
Loan - GOP (PL 480)	20,0	20,0	20,0	20,0	20,0	20,0	20,0
Creditors (Various)	13,9	15,0	15,0	15,0	15,0	15,0	15,0
Provision-Social Expenses	0,8	-	-	-	-	-	-
Provision-Taxes	22,8	50,5	80,8	110,9	126,2	143,2	142,1
Provision-Expenses	6,1	-	-	-	-	-	-
Loan - Bank of America	78,4						
Loan - Banco de Asuncion	79,4	200,0	200,0	400,0	150,0	500,0	890,0
Long Term	1,691.1	4,245.0	5,175.0	6,005.0	6,201.0	5,811.0	5,391.0
Loan - GOP (PL 480)	365,0	345,0	325,0	305,0	285,0	265,0	245,0
Loans - AID (I + II)	1,326,1	3,100,0	4,100,0	5,100,0	5,516,0	5,346,0	5,076,0
Loan - ADELA		800,0	750,0	600,0	400,0	200,0	50,0
Other Liabilities	63.4	124.0	157.2	189.0	204.4	219.6	237.3
Reserve for Farewells	0,6	0,6	0,6	0,6	0,6	0,6	0,6
Reserve for Credits (in Collection)	0,8	1,6	2,4	3,2	4,0	4,8	5,6
Depreciation (Accumulated)-Fixed Assets	10,2	17,0	23,8	30,6	37,4	44,2	51,0
Reserve (M.O.V.; Bad Debts)	51,8	104,8	130,4	154,6	162,4	170,0	180,1
Net Worth	1,056.1	1,262.1	1,486.9	1,736.9	1,967.9	2,229.7	2,481.4
Paid-in Capital	1,000.0	1,166.0	1,332.0	1,500.0	1,650.0	1,815.0	2,000.0
Subscribed Capital	1,000,0	1,500,0	1,500,0	1,500,0	2,000,0	2,000,0	2,000,0
-Less Shares Unpaid		334,0	168,0		350,0	185,0	
Legal Reserve	0,1	1,1	3,0	6,0	10,6	15,9	21,9
Profit	51,7	95,0	151,9	230,9	263,3	298,7	290,0
Profit (1971)	4,7						
Free Reserves					44,0	100,1	169,5
OTHER	29.2	30.0	30.0	30.0	30.0	30.0	30.0
Interest Received Not Yet Earned	29,2	30,0	30,0	30,0	30,0	30,0	30,0
TOTALS	3,090.0	5,976.6	7,194.9	8,536.8	8,744.5	8,998.5	9,246.8

COMPAÑIA PARAGUAYA DE DESARROLLO S.A. (COMDESA)
NOTES AND COMMENTARIES ON THE PRO-FORMA OPERATING STATEMENT, 1973-1978

1. For the general orientation of the Statement, an operational policy for COMDESA was presumed which was based on the following decisions:

   a) the annual placement during each fiscal year - in loans as well as in operating investments (shares or debentures) - of all available resources in the respective year, according to the amounts indicated in the Flow statement;

   b) the formation of a portfolio consisting primarily of Development Loans, maintaining a permanent sub-portfolio of approximately ₲200,000 in "Pre-Investment Loans" for the financing of feasibility studies and other expenses related to the preparation of projects;

   c) without affecting the preferencial level given to Development Loans within the portfolio, COMDESA, beginning in 1973, intends to give more emphasis to the financing of projects promoted by COMDESA through the subscription of shares in stock companies. COMDESA expects to place ₲300,000 in this manner in 1973, with ₲50,000 expected to place in the same manner in the following years.

   d) A Bad-Debt loss of 0.5% of total portfolio at the end of each fiscal year was assumed.

2. In addition, the following norms were adopted for the compilation of the data:

   A. Funds Available

      1. AID 1st Loan: Totally disbursed by June 31, 1973.

      2. AID 2nd Loan: To be disbursed during the period July, 1973, through December, 1976. Five year grace period; first repayment of principal due in 1978. Total loan is ₲3.0 million; 75/25% Guaranies to Dollars.

      3. Paid-in Capital: Increased to ₲1.5 million by 1975; with provision for future increase to ₲2.0 million by 1978.

      4. Retained Earnings: Constituted by aggregate amounts of Net Profits after deductions of dividends of 10% on the paid-in capital, beginning after completion of operations for fiscal year 1973. Allowance for stock dividends as appropriate. (COMDESA plans to offer its stockholders stock dividends, as an alternative to cash dividends, and expects ADELA and the local Banks, as well as a significant portion of the small shareholder base, to accept them).

      5. Lines of Credit: In 1973, to total ₲1.0 million comprised by credits from ADELA/Local Banks, and maintained at or near that level through 1978.

B. Income

1. Interest: In view of the impact of the CENIC Commission (See below) on the rate of interest collected during grace periods and of the thythm of the disbursements during the years under consideration, the following norm was established: 9% over portfolio credits of the year 1971, 7% on the increment of the portfolio in the year 1972, and 4 1/2% on one-half of the increment in the portfolio in the current year, 1973.

2. Commissions: Two types of commissions were calculated:

   i) CENIC: 5%, at the time the loan is granted, on the amount of each project loan, a sum which does not conflict with Sections 5.01(a) and (d) of the AID loan agreement as COMDESA compensates for the CENIC charge with a reduction of interest collected during the grace period to 7% for dollar loans and 9 1/2% for guarani loans. (The CENIC is a one-time financial commission charged to the sub-borrower for the full range of services rendered by COMDESA to the sub-borrower in arranging the sub-credit)

   ii) Other Commissions: There are commissions or fees which are charged for financial and professional services which COMDESA provides to its clients - whether or not they are loan clients of COMDESA - for "financial or banking services". For example, when in the promotion and organization of a new project certain operations are required such as the purchase and/or sale of goods and assets, financial or market analysis, assistance in formation of companies according to laws in force, obtaining financing from other sources, etc., such commissions are applied as fees for COMDESA's services.

   Income from these commissions are calculated under "other Operating Income".

   iii) Profit from Operating Investments: includes income from shares or debentures, calculated at 5% annually from shares of firms with 3 years or more operating experience, and 7% from those which have 5 years or more operational history.

C. Operating Expenses
General and Administrative

1. Salaries: Calculated according to a yearly increase of 5% of the total. Additionally, every two years an additional employee of middle range skills with salary of $2,500 per year is included in the calculations.

2. Office Rent: Included in "General Expenses", below.

3. General Expenses: For items such as travel expenses, auditors fees, etc. a stable amount of $10,000 was calculated for each year. The remaining expenses were calculated to increase by 10% yearly.

4. Bad Debt Loss: As noted above, a loss amounting to 0.5% of total portfolio outstanding at end of each year was included in the calculations.

9. Interest Expenses:

1st AID Loan: 2% during grace period, 3% thereafter.
2nd AID Loan: 3% during grace period, 4% thereafter.
Also, 8.75% on the line of credit from ADELA when it is used; 4-1/2 5% over the Lines of Credit from other Banks, assuming that they are acquired at a cost of 9-1/2% annually, but that the average utilization of these credits during each year will be no more than half of each amount.

D. Reserves and Other Deductions

1. Maintenance of Value and Bad Debt; Reserve: Established and maintained at 2% of outstanding loan and inves[illegible] folio.

2. Income Tax: Calculated at a stable rate.

3. Dividends: Calculated on the basis of 10% cash (or stock) dividend following completion of operations for 1973. Remaining balance of income is considered as Free Reserves and included in the following years calculation under Capital and Net Worth accounts.

4. Profit-Sharing: In accord with decisions of the Shareholders, the Directors and Executive Staff of COMDESA may receive bonuses of the following percentages against the fiture produced each year for "Undisbursed Earnings" (after Income Tax): 10% for the Directors and Associates; and 4% for the Executive Staff.

COMPANIA PARAGUAYA DE DESARROLLO S.A. (CONDESA) is a financial institution operating as a Private Development Bank. The main purpose of the Company, as a Development Bank, is to contribute to the development of the different productive sectors of the country by providing technical and financial assistance. In this sense, it fosters the establishment, expansion or modernization of firms which contribute to the economic development of Paraguay and helps the entrepreneur with capital, through medium and long term loans and through direct investments.

CHARACTERISTICS OF THE LOANS

1. Sub-borrowers

Private firms or enterprises and persons.

2. Objective

Productive sectors of the country, related to economic development, such as: cattle, agriculture, forestry, agro-industry, manufacturing industry, tourism and transportation.

3. Purpose

Funds available in CONDESA will be utilized to finance capital goods such as: machinery, equipment, transportation equipment, construction and installations, improvement of agricultural and cattle establishments, purchase of animals for breeding (cattle, hogs, poultry and others); crops, pastures and other investments; and working capital only for the purchasing of raw materials and inputs. Goods purchased with the loan fund can be of national origin or imported.

CONDESA's loan can also be used to finance feasibility studies or investment projects.

4. Amount

The maximum loan amount for any firm is U$S200,000 or its equivalent in local currency, ₲25,200,000: There is no minimum limit.

5. Currency

For goods and services to be paid in the country, guaranies; and for those to be paid abroad, U.S. dollars.

6. Exchange Risk

It is charged to the sub-borrower when foreign resources are used, whether the loan is made in guaranies or dollars.

7. Import Area

Imports for which AID loan funds are used can be made from the United States or any other Latinamerican country, except Cuba.

8. Loan Terms

a) Terms

From 2 to 10 years for capital goods and 18 months for working capital. The grace period is established in accordance to the term agreed upon and it varies between 6 and 24 months. These grace periods are included in the total term.

b) Interest rate

12% a year for guaranies and 10% a year for dollars.

c) Commission

CENIC (Commission for study, negotiation and closing) 5% only once, at the moment of signing the contract. This commission is included in the interest rate mentioned before and it does not modify them.

d) Amortizations

Preferably in semi-annual installments and exceptionally in different installments, when the production cycle so requires.

e) Guaranties

Mortgage and/or Bank guaranties.

9. The following will not be financed with loan funds:

a) Purchase of land.
b) Import duties, taxes and other fiscal charges.
c) Overhead, administration costs, or payment of salaries for the sub-borrower.
d) Used machinery and equipment.
e) Refinancing of debts.

10. Disbursements

Disbursements are made after the sub-borrowers are in agreement with the conditions established by COMDESA, once the legal negotiations are finished.

COMDESA will verify and control the utilization of loan funds and will be informed of the activities of the sub-borrower during the life of the loan; to this effect, it will request submission of vouchers, receipts or invoices for payments made by the sub-borrower; it will visit the sub-borrower; it may review his accounting and it may request periodic progress reports from the sub-borrower.

11. General Criteria for the Analysis

The analysis of a loan request submitted to CONDESA involves the following:

a) That the project is within the features and order of priorities established by CONDESA.

b) Technical and economic feasibility of the project.

c) Sub-borrower's payment ability.

d) Satisfactory guaranties.

OPERATIONAL NORM No. 11

In accordance with the experience gained by the Company up to date regarding control of the loans granted, the General Manager thinks it is convenient that as from the beginning of this year the loan contracts contain in each case and according to the nature of each credit, clauses for review and control that, in general terms, are established in this Norm.

Asunción, January 1973.

GENERAL MANAGER

CLAUSES FOR REVIEW AND CONTROL

It is recommended, in order that COMDESA is in condition to verify the correct utilization of the loans granted, as well as the progress made by the firm and the fulfilment of the economic objectives of the loan, that, under penalty of lapsing of the terms granted to the debtor and demanding total repayment of the loan and interest accrued, the fulfilment of the following clauses:

1. The sub-borrower shall submit to COMDESA all invoices or vouchers of payments made with loan funds. In case of imports, copies of the documents required in the Letter of Credit.

2. The sub-borrower shall authorize COMDESA, during the life of the loan:

   a. To supervise and control the fulfilment of investments planned.

   b. To verify the administrative and accounting organization; and the fulfilment of the recommendations made by its technicians.

   c. To review, whenever it deems it necessary, the accounting books, documents and inventory of the sub-borrower.

3. The sub-borrower shall submit to COMDESA on a semiannual basis starting from the first interest payment, the following:

   a. Statements of financial condition in forms that shall be provided by COMDESA.

   b. Report on volume and value of production and sales, production cost, raw material utilized, labor, salaries and any other necessary information in relation to the progress of the firm.

4. Report on the progress of the firm and balance sheet at the end of each year.

5. The sub-borrower shall notify COMDESA, within 48 hours, any serious problem affecting the progress of the firm.

FOR EXPORTERS

Besides the necessary points mentioned above:

1. Semiannual report on exports: name of the products, quantity, value and destination.

2. All documents related to exports.

FOR CATTLE BUSINESSMEN

Besides the necessary points mentioned above:

1. COMDESA is entitled to supervise the purchase of cattle.

2. The sub-borrower shall submit the following:

   a. Sworn declaration of purchase in forms provided by COMDESA. Such declaration shall contain the name of the supplier, number of animals, type, race, sex, unit price and value of the purchase, within the third day of the purchase.

   b. Certificate of purchase and permit to transfer the animals. If imported, custom papers.

   c. Sworn declaration of sales.

   d. Sworn declaration of stock of animals, when requested by COMDESA.

   e. Semiannual report on sales, purchase, birth, mortality, operating expenses, labor, salaries and any other necessary information.

   f. Reports concerning sanitary care in forms provided by COMDESA.

3. The sub-borrowers shall not sell the animals financed by COMDESA without a written authorization from COMDESA, during five years after the purchase.

LOAN APPLICATION

(Instructions)

1. The Loan application must contain basically the following information:

   a. Amount of loan requested from COMDESA.

   b. Total cost of the project to be carried out and sources of financing.

   c. Type of business.

   d. Purpose of the loan.

   e. Schedule for the utilization of the funds.

   f. Term requested.

   g. Guaranties (type, amount, rank).

2. Information on the applicant: name, type of business, location, capital, banking, commercial and personal references (Forms E 1 or E 2).

3. Declaration of assets and statement of economic and financial condition at the date of submission of the application. Detail of the Assets and Liabilities (Form E 4).

4. Sworn declaration of debts and guaranties granted to third parties: Details: Names, amounts, terms, interest, amortization, purpose, guaranties granted.

5. Information about the capacity and experience of the persons that will be responsible for the firm, at the director, executive, administrative and technical levels.

6. <u>Present characteristics of the establishment:</u>

   a. Location.

   b. Fixed investment (description and value): land, buildings and improvements, machinery, equipment and installations, furniture and fixtures, transportation, cattle and other investments.

   c. Working capital.

   d. Installed and used capacity.

   e. Raw material, materials, fuels, lubricants, power and other production elements. Quantity and amount utilized during the last year.

   f. Personnel (at all levels); number, category, salaries, and social security charges.

   g. Main products produced by the firm, description and unit value.

   h. Volume and value of production and sales for the last 3 or 5 years.

   i. Other useful information.

7. <u>Description of the project:</u> technical and economic feasibility studies containing basically the following information:

   a. The firm.

   b. Market.

   c. Location and size.

d. Technical Aspects: -Engineering of the project
-Raw Materials and inputs
-Labor

e. Investments.

f. Income and expenditures budget. Sources and use of funds. Cash flow. Profitability. Break-even point.

g. Organization.

h. Financing.

8. Plan of utilization of the funds to be granted by COMDESA:

a. Purchase of machinery and equipment:

-List, description and technical specifications.

-Origin, FOB and CIF Asuncion prices and other import costs.

-Pro-forma invoices and catalogues.

-Production capacity and yield.

-Technical assistance for the installation and operation of the equipment.

-Other useful information.

b. Building construction:

-Description and detail of the structure to be built.

-Plans and names of the professionals in charge of the work.

-Metric computation and budget for the construction.

-Time schedule for the construction.

c. Installation Costs:

-Technical supervision.

-Time required for installation and functioning.

-Installation costs.

d. Purchase of raw materials and Inputs:

-List of raw materials and inputs.

-Origin.

-Name, brand and specification.

-Quality.

-Quantity and price (FOB, CIF, import costs).

-Partial shipping quantities, if imported.

-Purpose and use.

e. Purchase of animals (cattle, hogs, poultry and others):

-Origin and name of the supplier.

-Number of animals to be purchased.

-Brand, age, race, sex.

-Unit price and total value.

f. Other investments such as crops, land clearing, pastures or improvements in farm, cattle, and oth r establishments:

-Description and detail of the work to be carried out, specifying quantity, unit and total value.

-Name of the persons in charge of the supervision of the work. If necessary, experience and budget should be submitted.

9. Chronology of the investments and schedule for utilization of the funds.

10. Documents to be attached:

-Plan of the establishment, indicating existing and planned improvements.

-Performance report of the firm and balance sheets for the last three years.

-Property titles for real estate offered as mortgage guaranty and control of goods pledged as security, attaching documents justifying ownership.

If the firm is a stock company or any other type of Partnership:

-By-laws or incorporation papers.

-Copy of the minutes of the last meeting.

-Authorization of the Board of Directors to contract the loan and to mortgage the assets of the firm.

NOTE: All the data and information must be submitted on a timely basis and they must be complete and creditable. The application and forms submitted must be signed by the persons authorized to represent the firm. Likewise, the applicant commits himself to provide any additional information requested by COMDESA in relation to the loan and to collaborate with COMDESA in any supervision deemed necessary.

LOAN SUMMARY

No. of Loan

	Amount		Total
Name of Borrower:	$	₡s.	
Location:			
Purpose:			
Term:	Interest Rate		
Commision - Nature:			
Total project cost	$	$	
Borrower's contribution to this project		$	
Financing by Sources			
AID Funds	$	₡	
COMDESA	$	₡	
Other Sources	$	₡	

Status Previous Loans from COMDESA: Dates - Amounts - Balance due ₡

1. Identification of officer or principal stockholders of COMDESA having any interest in the operation.
2. COMDESA's total exposure re this Borrower: (a) equity ₡
   (b) loan ₡
   (c) guaranty ₡
3. Proposed funding for raw materials added to total amount of raw materials financing will not exceed the limit of $1,000,000 set in Implementation Letter No. 10.
4. Proposed use of loan funds for local cost added to the total amount of local cost financing with AID funds does not exceed the limit of $1,000,000 set by the amended Loan Agreement.
5. The Borrower has sought financing from the following other sources:

6. Feasibility Study made:

7. Borrower's financial status: (a) Debt/Equity Ratio:
(b) Collateral
(c) Loan Guaranteed by:

8. Fits within priority No.:

9. Estimated number of new jobs:

10. Estimated value of local raw materials:

MONTHLY REPORT

Loans
(in 1000 of Guaranies)

Month of ________ 197_

No.	Date	Borrower	Purpose	Total Proj. Cost	Borrower's Contribution	Financing from Other Sources		Financing by COMDESA						Terms		Interest
						Amount	Source	Total Loan	COMDESA's Funds	AID $	AID Local Cy.	Total AID	Working Capital		Grace	

SUMMARY

I.- Accumulated Total number of loans ________ amount ₲ ________
Accumulated number of active loans ________ amount ₲ ________
Loans repaid or cancelled in full ________ amount ₲ ________

II. Installments scheduled for this month Principal ₲ ________ interest ₲ ________
Amount of scheduled installments received " ₲ ________ " ₲ ________
Collections on previous past due accounts " ₲ ________ " ₲ ________
Accumulated balances remaining to be collected " ₲ ________ " ₲ ________

III. Loans rescheduled during this month Principal ₲ ________ interest ₲ ________ REMARKS: New terms
Loan No. Borrower " ₲ ________ " ₲ ________
Total III " ₲ ________ " ₲ ________
Total loans rescheduled to date including this month " ₲ ________ " ₲ ________

IV. Total arrears Number of loans Principal ₲ ________ interest ₲ ________ Aging:

MONTHLY REPORT

Month of ________ 197_

Guaranty operations (Contingent Liability - in thousands of guaranies)

Guaranty #	Date	Issued to	at the request of	Amount	Rate	Term
Total this month						

SUMMARY

Previous total ________ amount ₡ ________

Accumulated total ________ amount ₡ ________

Amount paid by COMDESA under guaranty program this month...... ₡ ________

Accumulated amount paid by COMDESA (including this month)..... ₡ ________

Amount canceled by COMDESA clients this month .... ₡ ________

Total amount cancelled by COMDESA client including this month.. ₡ ________

Balance of COMDESA's contingent liability .... ₡ ________

Total fees, interest and commission collected by COMDESA this month ₡ ________

Total fee, interest and commission collected by COMDESA this month ₡ ________

Total accumulated collections by COMDESA including this month ..... ₡ ________

REMARKS: Action taken by COMDESA on delinquencies.

MONTHLY REPORT

Month of __________ 197_

Equity Investment #	Date	In	% of Enterprise	Number of shares	Par value	Terms	Remarks
Total this month ¢							

SUMMARY

Previous total number of investments __________

Accumulated total including this month __________ amount ¢ __________

Dividends coll.cted this month .... ¢ __________ amount ¢ __________ from investments ¢ __________

Total accumulated dividend collected including this month............ ¢ __________

Sale of shares by COMDESA this month......................... amount ¢ __________

Accumulated total sales of shares by COMDESA including this month.. amount ¢ __________

REMARKS: Inspections by COMDESA's staff:

Problems:

Action taken by COMDESA:

LOAN AUTHORIZATION

Provided from: Alliance for Progress Loan Funds
PARAGUAY: Compania Paraguaya de Desarrollo, S.A. II

Pursuant to the authority vested in the Deputy U. S. Coordinator, Alliance for Progress, Agency for International Development ("A. I. D.") by the Foreign Assistance Act of 1961, as amended, and the delegations of authority issued thereunder, I hereby authorize the establishment of a loan pursuant to Part I, Chapter 2, Title VI, Alliance for Progress of said Act to the Compania Paraguaya de Desarrollo, S.A. (COMDESA) ("Borrower") of not to exceed three million United States dollars ($3,000,000) to assist the Borrower to expand its capabilities as a private development bank by providing U.S. dollars and local currency for technical assistance and loans and equity investment by the Borrower for private industrial and agricultural enterprises and for technical assistance to the Borrower.

This Loan shall be subject to the following terms and conditions:

1. Interest and Terms of Repayment.

The Borrower shall repay the loan to A.I.D. in United States dollars within twenty (20) years from the date of the first disbursement under the loan, including a grace period on principal of not to exceed five (5) years. The Borrower shall pay to A.I.D. in United States dollars interest at the rate of three (3) percent per annum on the disbursed amount of the loan during the grace period, and thereafter at the rate of four (4) percent per annum on the disbursed balance of the loan.

2. Other Terms and Conditions.

(a) Goods and services (except ocean shipping and marine insurance) financed under the loans shall have their source and origin in Paraguay and countries included in A.I.D. Geographic Code 941. Ocean Shipping financed under the loan shall be procured in any country included in A.I.D. Geographic Code 941. Marine insurance financed under the loan shall have its source and origin in Paraguay or any country included in A.I.D. Geographic Code 941, provided, however, that such insurance may be financed under the loan only if it is obtained on a competitive basis and any claims thereunder are payable in convertible currencies.

(b) Unless A.I.D. otherwise agrees in writing, no more than one million five hundred thousand dollars ($1,500,000) of the Loan shall be used to finance local currency costs. United States dollars utilized under the loan to finance local currency costs shall be made available pursuant to procedures satisfactory to A.I.D.

(c) Prior to execution of the loan agreement, Borrower shall provide evidence satisfactory to A.I.D. that the increase of Borrower's capital to $1.5 million equivalent has been duly authorized by Borrower's General Assembly of Stockholders.

(d) Prior to first disbursement under the Loan, Borrower shall submit to A.I.D. evidence of the following in form and substance satisfactory to A.I.D.:

(i) Any changes in its charter or by-laws or the basic terms, rules, regulations, policies and procedures or other matters approved by A.I.D. for the implementation of A.I.D. Loan 526-L-019 executed August 23, 1970 between A.I.D. and the Borrower.

(ii) Evidence that the Borrower has established a separate reserve for maintenance of value commensurate to Borrower's outstanding long-term foreign debt, in addition to the two (2) percent reserve required under A.I.D. Loan 526-L-019 and the legal reserve.

(e) Unless A.I.D. otherwise agrees in writing, disbursements under the loan shall not exceed $1 million until A.I.D. has received satisfactory evidence that Borrower's paid-in capital has reached the equivalent of $1,166,000; nor shall such disbursements exceed $2 million until A.I.D. has received satisfactory evidence that Borrower's paid-in capital has reached the equivalent of $1,500,000.

(f) Borrower shall covenant that, except as A.I.D. otherwise agrees in writing:

(i) Borrower will not incur additional indebtedness which would cause Borrower's debt/equity ratio to exceed five to one (5:1), and will not subordinate A.I.D.'s loans to other indebtedness.

(ii) Borrower shall not declare or pay any cash dividends in excess of a twelve percent (12%) annual return to its shareholders unless provision is made to match such excess by an equivalent allocation to earned surplus and an equivalent prepayment of the Loan.

(iii) Borrower's subloans shall be for a term not less than one year and not more than ten years.

(iv) Borrower's equity investments shall not exceed in the aggregate the equivalent of $300,000 and no such investment shall exceed twenty-five percent (25%) of the equity of any subproject.

(v) Borrower shall not make any sub-loan which would cause the debt/equity ratio of the recipient enterprise to exceed seven to three (7:3).

(g) The Borrower will consult with, and obtain prior written approval from A.I.D., before undertaking any of the following actions:

(i) Approve more than three sub-loans to any individual, enterprise or single investor group.

(ii) Make sub-loans to, or equity investment in, any enterprise if the aggregate amount of such sub-loans or investments exceeds the equivalent of one hundred thousand dollars ($100,000).

(iii) Use A.I.D. loan funds to make any sub-loan for working capital only or utilize more than 25% of the Loan for the financing of working capital. In the cases of any sub-loans by Borrower where working capital is a component, the financing f of such component shall not be for a term of less than 12 months.

(iv) Finance livestock production projects.

The loan shall be subject to such other terms and conditions as A.I.D. may deem advisable.

____
Deputy U. S. Coordinator

____
Date

Clearances:
GC/LA, I. Levy________ Date_____
LA/APU, Jacobson______ Date_____
LA/DR, Kimball________ Date_____
LA/DR, Lijewski_______ Date_____
PPC/DPR, Handly______ Date_____
SER/FM/C/Flinner_____ Date_____

GC/LA, BVerett:lb:5/23/73