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

AID Loan No. 625-H-006
Cap. Asst. Paper No. AID/DLC/P-1042
Project No. 625-26-920-715

CAPITAL ASSISTANCE LOAN AUTHORIZATION

Provided from: Development Loan Funds

Africa Regional: Entente States; African Enterprises

Pursuant to the authority vested in the Administrator of the 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 I, the Development Loan Fund, to the Mutual Aid and Loan Guaranty Fund of the Council of the Entente States ("Borrower") of not to exceed Seven Million Five Hundred Thousand ($7,500,000) dollars. The purpose of the loan is to assist small African enterprises and African entrepreneurs in the five member states "of the Borrower," (Ivory Coast, Upper Volta, Niger, Togo, and Dahomey) to promote the creation or expansion of private industrial, agro-industrial, commerical, and artisanal enterprises and tourism. To accomplish the foregoing, the loan funds will be loaned to the Borrower, reloaned to the development banks of the member states, and then reloaned to qualified clients of the development banks, subject to the following terms and conditions:

1. Interest Rate and Terms of Repayment

(a) The Borrower shall, in United States dollars:

(i) repay the loan to A.I.D. within forty (40) years, including a grace period of not to exceed ten (10) years.

(ii) pay A.I.D. interest on the unpaid principal and any interest accrued thereon at the rate of two percent (2%) per annum during the grace period and three percent (3%) per annum thereafter. Interest may be capitalized for a period of up to three years, provided that the benefits of such capitalization are passed on directly to the development banks.

(b) The development banks shall, in CFA francs (or such other currency as is legal tender in the member states of the Borrower):

(i) pay to the Borrower an amount equivalent to each development bank's share of the loan within thirty (30) years including a grace period of not to exceed five (5) years.

(ii) pay to the Borrower on the unpaid principal and any interest accrued thereon at the rate of three and one half percent (3½%) per annum. Interest may be capitalized for a period of up to three years so as to correspond to the capitalization benefits afforded to the Borrower.

2. <u>Other Terms and Conditions</u>

(a) The Borrower's repayment of the loan will be jointly and severally guaranteed by each of the five member states of the Borrower

(b) Goods and services financed under this loan shall be procured from the member states of the Borrower (all such procurement being deemed local currency costs) and from other countries included in Code 941 of the A.I.D. Geographic Code Book.

(c) Appendix H to M.O. 1442.3 titled "Application of Source and Origin Rules to so-called Shelf Items in "Borrower countries' will be applicable except as varied hereunder:

(i) concerning subloans of $40,000 or less in value, there will be no value limitation on shelf item procurement.

(ii) concerning each subloan greater than $40,000 in value but less than $240,000 in value, there will be a value limitation on shelf item procurement of $3,000 per transaction, and

(ii) concerning each subloan $240,000 in value or greater , there will be value limitation on shelf item procurement of $3,000 per transaction with a $50,000 total limit on shelf item procurement.

(d) Such other terms and conditions as A.I.D. may deem advisable.

Assistant Administrator for Africa

June 27, 1972
Date

625-26-920-715

JUN 27 12 34 PM '75 DEPARTMENT OF STATE

AGENCY FOR INTERNATIONAL DEVELOPMENT

WASHINGTON, D.C. 20523

1042

JUN 27 1975

ACTION MEMORANDUM FOR THE ADMINISTRATOR

THRU: ES

FROM: AA/PPC: Philip Birnbaum

SUBJECT: Entente African Enterprises Loan Amendment

Problem: Because the amount of the proposed loan amendment is $10 million, your signature is required on the attached loan authorization amendment at Attachment C.

Discussion: The promotion of African enterprises has been a policy objective of the Entente countries since January, 1968, when a meeting of 14 French-speaking African nations resolved in Niamey to embark on a program to develop "a dynamic policy of Africanization of staffs of existing enterprises and the promotion of new African enterprises." Subsequent to this meeting, the governments of the Entente nations (Ivory Coast, Upper Volta, Niger, Togo and Dahomey) established industry promotion centers and guaranty funds to promote the establishment of majority African-owned enterprises, and modified investment codes to provide advantages to national entrepreneurs. Development banks in the Entente countries have undertaken the task of providing credit to these African entrepreneurs, largely with resources provided by an A.I.D. loan of $7.5 million authorized in 1972 (Attachment A). An evaluation in February, 1975 found the A.I.D. loan to be highly successful. In less than two years, four of the six development banks receiving re-loans under the A.I.D. loan had fully committed their lines of credit and were therefore hampered in responding further to the demand for credit by African entrepreneurs.

The proposed $10 million loan amendment would provide additional financing through the Entente Fund to the six development banks in the five Entente countries. This financing would enable these development banks to make available to African entrepreneurs access to credit and technical assistance services essential to the establishment, modernization and long-term viability of their enterprises. Subloans by the development banks to African entrepreneurs would be made primarily for local costs of construction, working capital, and other investment needs. A minimum of 15% of loan amendment funds or

$1,500,000 would be used to finance imports from the United States and other Code 941 countries, and up to 10% of loan amendment funds would be eligible for imports from Code 935 (free world procurement) for the transport sector only. The modified shelf-item rules which were applied under the original African Enterprises loan will also be applied under the proposed Amendment: For subloans of $40,000 or less, there will be no invoice value limitation on shelf-item procurement of Code 935 origin; for subloans greater than $40,000, a $3,000 per transaction limit will be applied. (Project Paper p. 34 at Attachment B)

Two million dollars of loan amendment funds would be authorized under Foreign Assistance Act (FAA) Section 103, and would finance agro-industrial and agro-commercial enterprises, and $8,000,000 of loan amendment funds would be authorized under FAA Section 106. This project meets the criteria of Section 103 of the FAA which authorizes assistance "for agriculture, rural development, and nutrition" and Section 106 which authorizes assistance "to help solve economic and social development problems in fields such as transportation, power, industry, urban development, and export development."

The following criteria were used in appraising this project:

a) <u>An Adequate Institutional Framework</u>

The technical capacity of the participating development banks to analyze loan applications and to assist African entrepreneurs will be further strengthened through the proposed loan amendment, and will be matched with increased financial capacity to respond to the credit needs of African entrepreneurs. (See Project Paper, pp. 11-14.)

b) <u>Eligibility Criteria for Subloans</u>

Subloans will be made only to enterprises which are majority African-owned and managed. Interest rates will be raised slightly above commercial rates to assure that African entrepreneurs shift to commercial sources of credit as soon as they become "commercially bankable." Other criteria for subloans are discussed in Section III.C. (pp. 30-35)

c) <u>Economic Soundness</u>

The economic soundness of this project has been analyzed and found to be relatively favorable, with an expected rate of return of 24%. This reflects the large number of economic opportunities for investment in these poorly integrated economies, and the limited availability of credit for African entrepreneurs from the large expatriate commercial banking system. (See Project Paper, pp. 46-49.)

d) Technical Soundness

The project has been designed with careful attention to effective implementation, and to assure the permanent institutionalization of assistance to African entrepreneurs. Close coordination between the Entente Fund and the development banks is designed to identify technical problems promptly, with respect to both entrepreneurs and banks. (See Project Paper, pp. 50-55.)

e) Financial Soundness

This loan meets financial viability in three ways:

1) The governments of the Entente region will guarantee jointly and severally the repayment of the loan;

2) The Entente Fund as the Borrower and Administering Agency will review all subloans, and will approve all subloans in excess of $40,000 in order to assure the economic, financial and technical viability of the enterprise which receives the subloan. In addition, the Entente Fund will receive an interest rate spread of one percent during the first ten years of the loan. The income will cover administrative and technical assistance costs.

3) The participating development banks will establish revolving funds from previous subloan repayments which will continue to be reloaned to African entrepreneurs. These revolving funds are expected to increase more rapidly than loan repayments to the Entente Fund, providing the development banks with a residual financial capacity after the loan has been repaid. (See Project Paper, pp. 35, 55-61.)

With regard to the issue raised under FAA Section 620(a)(3) by the two reported calls of an Ivory Coast flag vessel at Cuban ports in September 1974 (Project Paper page 81), the attached Loan Authorization Amendment requires that the amended Loan Agreement include provisions which will effectively preclude reloans of Loan Amendment funds to banks in any country to which assistance may be barred by the provisions of Section 620(a)(3) until such time as the requirements of that Section are satisfied, or a waiver under Section 664 is obtained.

The cost-sharing requirement of FAA Section 110(a) is inapplicable in the present case, since the project is one which is organized or carried on by or on behalf of or jointly by a group of nations, through the Entente Fund, a multinational organization.

The loan has been reviewed and cleared by all A.I.D. offices concerned, and has the concurrence of the Interagency Development Loan Staff Committee.

Recommendation: It is recommended that you sign the attached loan authorization amendment

Attachments:
- Loan Authorization for Loan No. 625-H-006
- Loan Authorization Amendment
- Project Paper

CLEARANCES:
AA/AFR: SCAdams ______ Date 6/ /75
GC:CGladson ______ Date 6/ /75

Drafted by: AFR/DS:HSoos/GC/AFR:TAMuntsinger/AFR/CWR:FGilbert:jaw

625-26-920-715

1042

AID-DLC/P - 1042/2

LOAN AUTHORIZATION AMENDMENT
AID Loan Amendment No.: 625-T-011 & 625-W-012

Provided under: Foreign Assistance Act Sections 103 and 106
For: Entente Fund: African Enterprises

Pursuant to the authority vested in the Administrator of the Agency for International Development (A.I.D.) by the Foreign Assistance Act of 1961, as amended, (the Act) and the delegations of authority issued thereunder, I hereby authorize the establishment of a Loan Amendment pursuant to Sections 103 and 106 of the Act to increase the African Enterprises Loan (No. 625-H-006) to the Mutual Aid and Loan Guaranty Fund of the Council of the Entente States (Borrower) by an amount not to exceed Ten Million United States Dollars ($10,000,000). The purpose of the Loan Amendment is to assist small African enterprises and African entrepreneurs in the member states of the Borrower (Ivory Coast, Upper Volta, Niger, Togo, and Dahomey) to promote the creation or expansion of private industrial, agro-industrial, commercial, and artisanal enterprises and tourism. To accomplish the foregoing, the Loan Amendment funds will be loaned to the Borrower, reloaned to development banks of the member states, and then sub-loaned to qualified clients of the development banks, subject to the following terms and conditions:

1. Interest Rate and Terms of Repayment

(a) The Borrower shall, in United States dollars:

(i) repay the amount of the Loan Amendment to A.I.D. within forty (40) years, including a grace period of not to exceed ten (10) years.

(ii) pay to A.I.D. interest on the outstanding disbursed balance of the Loan Amendment and on any interest accrued thereon at the rate of two percent (2%) per annum during the grace period and three percent (3%) per annum thereafter.

(b) The development banks shall, in CFA francs (or such other currency as is legal tender in the member states of the Borrower):

(i) pay to the Borrower an amount equivalent to each development bank's share of the amount of the Loan Amendment within a period of not to exceed forty (40) years, including a grace period of not to exceed ten (10) years.

(ii) pay to the Borrower interest on the unrepaid principal and on any interest accrued thereon at a rate or rates not exceeding three and one-half percent (3½%) per annum.

2. Other Terms and Conditions

(a) Of the total amount of the Loan Amendment, Two Million United States Dollars ($2,000,000) will be earmarked for use in financing subloans only to enterprises predominantly engaged in agricultural, rural development, and/or nutrition related activities.

(b) The Borrower's repayment of the amount of the Loan Amendment will be jointly and severally guaranteed by each of the five member states of the Borrower.

(c) Based upon the justification set forth in Section G of Part V of Project Paper AID-DLC/P-1042/2, I hereby conclude, with respect to subloans in the transport sector, that exclusion of procurement from countries included in A.I.D. Geographic Code 935 would seriously impede attainment of U.S. foreign policy objectives and the objectives of the foreign assistance program. Such Code 935 procurement (other than from countries included in Code 941) shall not, however, exceed ten percent (10%) of the amount of the Loan Amendment.

(d) Except as authorized in paragraph 2(c) above, goods and services financed under the Loan Amendment shall have their source and origin in countries included in A.I.D. Geographic Code 941 and the member states of the Borrower. Not less than fifteen percent (15%) of the amount of the Loan Amendment shall, however, be used to finance goods and services of Code 941 source and origin.

(e) Based upon the justification set forth in Section C.6 of Part III of Project Paper AID-DLC/P-1042/2, the invoice value limitation on single transactions involving shelf items imported from Code 935 countries, as prescribed by paragraph 11B3, Chapter 11, AID Handbook 15, is modified as follows for purposes of the Loan Amendment:

(i) For subloans of $40,000 or less in value there will be no invoice value limitation on shelf item procurement.

(ii) For subloans [illegible] than $40,000 in value, there will be [illegible] value limitation on shelf item procurement [illegible] $3,000 per transaction.

(f) Based upon the special circumstances set forth in Section C of Part V of Project Paper AID-DLC/P-1042/2, the provisions of Section 636(i) of the Foreign Assistance Act of 1961, as amended, are hereby waived for purposes of this Loan Amendment.

(g) The amended Loan Agreement shall include a provision or provisions which will effectively preclude reloans under the Loan Amendment to development banks in any country to which the furnishing of assistance may be barred by the provisions of Section 620(a)(3) of the Foreign Assistance Act of 1961, as amended, until such time as the requirements of that Section or of Section 664 have been satisfied.

(h) The Loan Amendment shall be subject to such other terms and conditions as A.I.D. may deem advisable.

[signature]
Administrator (Acting)

6/25/75
Date

Clearances:

AFR/CWR:DShear	Date	AA/AFR:SAdams	Date
AFR/DS:PLyman	Date	PPC/DPR:Allandly	Date
SER/FM:TBlackal	Date	AA/PPC:RBirnbaum	Date
AFR/DP:RHuesmann	Date	GC:CGladson	Date
DAA/AFR:DBrown	Date		

PROJECT COMMITTEE:

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Gary Nelson, REDSO/WA
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Thomas Huntsinger, GC/AFR

GC/AFR:TAHuntsinger:jaw 6-4-75