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

PROJECT PAPER

596-0069

Proposal and Recommendations
For the Review of the
Development Loan Committee

ROCAP - Regional Rural Agribusiness

AID-DLC/P-2200

UNCLASSIFIED

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

UNCLASSIFIED
AID-DLC/P-2200
September 14, 1976

MEMORANDUM TO THE DEVELOPMENT LOAN COMMITTEE

SUBJECT: ROCAP - Regional Rural Agribusiness

Attached for your review is the recommendation for authorization of a loan to the Central American Bank for Economic Integration ("Borrower"), of not to exceed twelve and one half million United States dollars ($15,000,000) to assist in financing the United States dollar and local currency costs of a program ("Program") to provide long-term financing and technical assistance through intermediate credit institutions (ICIs) for the promotion, development and expansion of agribusiness enterprises in Central America.

This loan is scheduled for consideration by the Development Loan Staff Committee on Wednesday, September 22, 1976, at 2:00 p.m. in Room 3886 New State; please note your views are requested by close of business Monday, September 27, 1976. If you are a voting member a poll sheet has been enclosed for your response.

Development Loan Committee
Office of Development Program Review

Attachments:
Summary and Recommendations
Project Analysis
Annexes

AGENCY FOR INTERNATIONAL DEVELOPMENT

PROJECT PAPER FACESHEET

TO BE COMPLETED BY ORIGINATING OFFICE

1. TRANSACTION CODE ("X" appropriate box)
[X] Original [ ] Change [ ] Add [ ] Delete

PP

DOCUMENT CODE 3

2. COUNTRY/ENTITY
ROCAP

3. DOCUMENT REVISION NUMBER

4. PROJECT NUMBER
596-0068/19

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a. Symbol: IA
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6. ESTIMATED FY OF PROJECT COMPLETION
FY 80

7. PROJECT TITLE - SHORT (stay within brackets)
Regional Rural Agribusiness Development

8. ESTIMATED FY OF AUTHORIZATION/OBLIGATION
a. INITIAL mo. 9 yr. 76 b. FINAL FY 80

9. ESTIMATED TOTAL COST ($000 or equivalent, $1 = 1CA$)

Program Financing	FIRST YEAR FY TQ b. FX	c. L/C	d. Total	ALL YEARS e. FX	f. L/C	g. Total
AID APPROPRIATED TOTAL						
(Grant)	(N.A.)	(N.A.)	(N.A.)	(N.A.)	(N.A.)	(N.A.)
(Loan)	(6,000)	(9,000)	(15,000)	(6,000)	(9,000)	(15,000)
Other U.S. 1.						
Other U.S. 2.						
HOST GOVERNMENT CABEI	N.A.	5,000	5,000	N.A.	5,000	5,000
OTHER DONOR(S) ICIs	N.A.	5,000	5,000	N.A.	5,000	5,000
TOTALS	6,000	19,000	25,000	6,000	19,000	25,000

10. ESTIMATED COSTS/AID APPROPRIATED FUNDS ($000)

a. Appropriation (Alpha Code)	b. Primary Purpose Code	c. Primary Tech. Code	FY TQ d. Grant	e. Loan	FY 77 f. Grant	g. Loan	FY 78 h. Grant	i. Loan	ALL YEARS j. Grant	k. Loan
FN	120	150	N.A.	15,000	N.A.		N.A.		N.A.	15,000
TOTALS			N.A.	15,000	N.A.		N.A.		N.A.	15,000
11. ESTIMATED EXPENDITURES			N.A.		N.A.	1,500	N.A.	3,000		

12. PROJECT PURPOSE(S) (stay within brackets) [ ] Check if different from PID/PRP

1. To develop non-traditional agribusiness activities in Central America.
2. To improve the institutional capability of CABEI and the national ICIs to implement agribusiness activities.

13. WERE CHANGES MADE IN BLOCKS 12, 13, 14, or 15 OF THE PID FACESHEET? IF YES, ATTACH CHANGED PID FACESHEET.
[ ] Yes [X] No

14. ORIGINATING OFFICE CLEARANCE

Signature: Lawrence E. Harrison
Lawrence E. Harrison

Title: Director, ROCAP

Date Signed: mo. 0 day 3 yr. 76

15. Date Received in AID/W, or For AID/W Documents, Date of Distribution: mo. day yr.

AID 1330-4 (7-75)

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REGIONAL RURAL AGRIBUSINESS DEVELOPMENT

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PART I - Summary and Recommendations

A. Recommendations

That a loan for $15.0 million to the Central American Bank for Economic Integration (CABEI) be authorized, to be disbursed within 4 years from the date conditions precedent to initial disbursement have been satisfied. The terms of the loan would be the following: 30 years including a 10 year grace period; 2% interest during the grace period and 3% thereafter.

B. Summary Description of the Project

The project will finance agribusiness activities which provide technical assistance, credit, and/or marketing benefits to small farmers, also broadened employment opportunities. Examples of bottlenecks that may exist in current agribusiness systems which prevent small farmers from obtaining benefits include a) absence of needed production inputs such as improved seed, pesticide, etc., b) technology improvements--e.g. irrigation--which increase productivity, c) an assured market for produce--i.e. fruit and/or vegetable packing, canning, and/or processing plant, d) transportation and/or refrigerated storage facilities allowing a more timely transfer of the product to market.

The $15.0 million, to be matched by $5.0 million from CABEI, will establish a permanent revolving fund in the Bank. CABEI will relend to the intermediaries (their contribution will be $5.0 million) that will finance the selected agribusiness activities. $25 million will thus be available, in addition to the counterpart resources of entrepreneurs.

Project funds will be used to finance: a) capital equipment needed by agribusinesses, b) technical assistance for borrowers, and c) the purchase of raw materials for processing and other working capital requirements. Up to 50 agribusiness projects will be financed with the initial input of funds, and a system for continuing financing of agribusiness activities by national intermediaries will be created. This will be assured by close monitoring of the use of rollover funds.

At the Project's outset, seminars will be conducted by CABEI, with ROCAP assistance, to train ICI and CABEI technicians in the criteria to be utilized in determining sub-project elegibility and the various methodologies to be used in generating needed data.

Training received by CABEI and intermediary project managers will help assure that only those projects are selected for financing which will accomplish some or all of the following objectives: a) increase the number of small farmers producing for food processing plants, b) increase the number of rural jobs, c) increase small farmer income, d) increase small farmer productivity through the adoption of new technologies, and f) increase opportunities for salaried workers in agribusinesses.

As participating ICIs gain experience in managing agribusiness portfolios more agribusiness loans should be made, and the delinquency rate on agribusiness loans should decrease over time. CABEI, too, will increasingly be devoting its funds to agribusiness lending. Thus, C. A. institutions will be able to satisfy the increased demand for this type of lending which this project's success should help to generate.

C. Summary Findings and Conclusions

1. ROCAP has concluded that this project is appropriate for design and implementation on a regional basis, and will provide special benefits by virtue of such design: (a) Additional resources -- CABEI's initial and continuing contribution to the project as well as intermediary resources -- will be generated. (b) There are clear efficiencies which result from the use of an intermediary (CABEI) in dealing with a host of intermediaries. The alternatives -- negotiating separate loan agreements with each intermediary, or even attempting to negotiate umbrella agreements with e.g. each central bank -- are far less attractive and efficient. (c) Through the use of a central financial institution, project experiences can be shared, common pitfalls can be identified and avoided and the successes in one country may be duplicated in another. (d) The linkages between institutions and countries facilitated by the use of CABEI as a central institution may lead to multinational Central American projects, thereby further spurring economic integration in the region.

2. ROCAP has concluded that there exists a demand in Central America for the type and amount of financing proposed. The joint ROCAP-CABEI survey of financial institutions in the region, plus CABEI's own demand projections based on its experience and applications for financing from the private sector, demonstrate that the loan should be fully disbursed within a four-year disbursement period. We have concluded that the intermediaries require an adequate financial inducement (an attractive spread) to finance new or expanding agribusiness enterprises which as a condition of financing must impact significantly on our target population.

3. ROCAP has concluded that CABEI is capable of implementing this project efficiently and consistent with its purposes. CABEI's reorganization should facilitate the timely and careful review of loan applications from ICIs and should ensure the development of a consistent philosophy of project review and evaluation. CABEI management is in our view committed to the fundamental purposes of this project. It strongly desires that the project succeed in its efforts to improve the lot of the rural poor and is committed to the continuation of this effort in the years following disbursement of the loan funds.

4. There exists in each of the countries of Central America a sufficient number of capable and committed public and private intermediaries to ensure that viable sub-projects will be developed and implemented during the period of our project. ROCAP and CABEI surveyed over 50 institutions in Central America and this sifting and winnowing process has produced a list of reliable sub-borrowers.

5. ROCAP has concluded that the project can significantly impact on the welfare of the rural poor, particularly the small farmer. A special ROCAP-sponsored evaluation of agribusiness experience in Central America concluded that "financing the establishment or expansion of industrial processing activities in the Central American setting promises, with appropriate loan design and implementation, to be an apt and effective mechanism for directly benefiting the small farmer and rural poor".

6. This project has been considered by the Central American bilateral AID Missions, who have endorsed it, both in the context of the MDCC and during the loan design period when the consonance of the project with bilateral programs was explored with USAID Mission personnel.

D. Project Issues

1. Intermediary Counterpart Contribution:

One of the major problems raised by almost all the national intermediaries (hereinafter identified as ICIs) visited by the ROCAP/CABEI teams concerned the level of counterpart required from them. The 40% contribution suggested in the PRP was considered far too high; it would impose an unacceptable financial burden on the ICIs. The overall effect of the high cost of money to the ICIs (borrowed funds would make up much of their 40% project loan share) would result in loans whose interest rates to ultimate borrowers would not be sufficiently attractive. A 20% counterpart was considered more feasible and would maintain the attractiveness of the program both to the ICIs and potential agribusiness borrowers.

2. Terms to CABEI:

The most compelling argument for making this AID loan at the most concessional terms is that CABEI views agribusiness financing as a long term commitment. It is a new sector for the Bank and a separate permanent fund will be created for agribusiness financing. CABEI will commit all rollovers to agribusiness financing (for the 30 year life of the loan) utilizing the same rigorous criteria as those applied in the project to determine sub-project eligibility.

In addition, as detailed in the Financial Analysis Section, in order to assure that the project (which calls for a $5.0 CABEI contribution) does not cause losses for CABEI, the Bank needs the use of the concessional AID funds for the maximum maturity period. CABEI will be devoting its resources

to a program which offers much less of a potential profit to it than others (e.g., AID loan 010 under which most of the money was lent directly by CABEI); it will be unable to lend at more than 6%. To compensate for this limitation on this project's profitability (to CABEI), concessional terms are fully justified.

3. Loan Amount:

A conservative analysis of the potential demand for loan funds for agribusiness projects which meet AID's exceptional criteria indicates that $25 million can be effectively disbursed in the four-year project implementation period. CABEI is of the view, moreover, that this amount constitutes the minimum "critical mass" necessary to attract the interest of all the ICIs and justify the efforts CABEI must undertake to initiate and maintain this new (for it) venture.

Even receiving AID funds at concessional terms, CABEI cannot implement this program on a 1:1 basis, with the maximum 6% interest rate that can be charged by CABEI, without sustaining a loss. Given availabilities to it of low or no cost money, and given its existing commitments to use the bulk of such funds for high priority projects (many stimulated by AID), the Bank cannot provide more than $5.0 million counterpart. This will probably be a mix of low or no cost funds and high cost money. We believe that this is an ample counterpart contribution, given the interest rate limitation we impose on the Bank for this program. (The $15.0 million AID - $5.0 million CABEI formula will generate returns that have a small margin over operating costs.) In other projects where we have sought contributions on a 1:1 ratio, no comparable limitation has existed. See Financial Analysis Section, page 52.

II. Description of Project

A. Background

1. Problem Statement: In order to further the development of the CACM countries, which are predominantly agricultural, there is a need to increase the productivity of the agricultural sector, increase the employment and income of the rural agricultural labor force (including land-holding as well as landless small farmers) and achieve greater integration between the agricultural and industrial sectors. Increasing the productivity of the agricultural sector can also contribute to more equitable distribution of income.

Experience seems to be demonstrating that a systems approach on a commodity basis offers one of the most promising development strategies for increasing small farm productivity. By a systems approach we refer to an analysis of all the elements in the production, processing, and marketing of a single farm product, including farm suppliers, farmers, storage operators, processors, transport groups, wholesalers, etc., involved in a commodity flow from initial inputs to the final consumer.

ROCAP's analysis and experience* have shown that a number of agricultural products for which potential foreign markets exist are not at present economically exportable because of various deficiencies in the marketing system for the particular product. In some cases it may be lack of storage facilities; in others, refrigerating or freezing capacity; in others, transportation. The existence of a bottleneck of this kind could represent a potentially profitable investment opportunity. However, the

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*Valuable insights have been gained as a result of ROCAP's grant project with ICAITI which inter alia, stimulated the production and marketing of a variety of non-traditional crops for export.

profitability may only be apparent in the context of an integrated system.

The integrated development approach is one that might be particularly suitable for private institutions. It calls upon the institutions to ensure that the essential elements to the success of an agribusiness investment, whether in the area of production, processing, marketing, etc. are all in place, or will be in timely fashion. It requires entrepreneurial activity and the risk-taking of the innovator in addition to technical skills and knowledge of a commodity and its production and marketing system.

2. Central American Advantages: Subsequent to the DAEC meeting held in December 1975 to review the PRP, an evalution of selected agribusiness projects in Central America financed under Loans 010 (CABEI - Export and Tourism Industries), and 011 and 015 (LAAD) was conducted. The most significant finding of the evaluation was that in addition to other developmental advantages, financing the establishment or expansion of industrial processing activities in the Central American setting promises, with appropriate loan design and implementation, to be an apt and effective mechanism for directly benefiting the small farmer and rural poor. Experience under previously financed activities suggests that such projects can generate substantial direct benefits to the small farmers from whom they purchase raw materials; there are also important potential benefits to the landless or unemployed because cultivation of fruits and vegetables suitable for processing is inherently a labor intensive activity.

In addition, there is great incentive for entrepreneurs to enter into agribusiness activities because of Central America's potential of becoming a major supplier of processed fruits and vegetables to the huge U.S. market, a potential which has already started to be tapped. Central America has several advantages which enhance this possible role:

a. Geographic proximity to the U.S. enabling rapid and relatively inexpensive movement of goods;

b. Favorable soil, climate and other growing conditions permitting the production of a wide variety of fruits and vegetables in large volume without regard to the climatic/seasonal variations which limit production in the U.S.; and

c. Abundance of low cost labor.

Moreover, since U.S. buyers have indicated a willingness to purchase all of specified fruits and vegetables that Central America can produce, incentives clearly exist.

B. Detailed Description

1. Goal: The goal of the project is to improve the well-being of the rural poor. The subgoal is to increase the participation of the rural poor in the benefits to be derived from agribusiness activities.

2. Purpose: The project has a two-fold purpose:

a. To develop non-traditional agribusiness activities in Central America which provide benefits to the rural poor. We define agribusiness activities as all operations involved in the manufacture and distribution of farm supplies, processing, and distribution of farm commodities and items made from them. This encompasses all the participants in the production, processing and marketing of a single farm product, from initial inputs to sales to the final consumer. While the majority of projects financed will be in processing of non-traditional products, the financing of traditional products (other than those excluded by AID guidelines) will not automatically be eliminated from consideration. Rather, the key criterion will

be whether the project holds the potential for significant impact on the target group.

b. To improve the institutional capability of CABEI and the national ICIs to promote and finance agribusiness activities.

3. * Description: Loan funds will be channeled through CABEI for re-lending to ICIs. The ICIs will then re-lend to agribusiness activities which have been determined eligible for financing under the project. Eligibility for financing will be determined through the use of a Project Assessment Form (PAF). The PAF (see Annex III) was developed with the help of AID/Washington, LAAD and CABEI and is currently being experimented with by LAAD under Loan 596-T-015. (Thus far, LAAD has been able to generate needed data utilizing the Form to determine impact on the target group, and has not had to spend inordinate amounts of staff time to do so.)

The data requirements of the PAF focus on determining the target group impact and agribusiness systems impact of any given sub-project. (To better explain the criteria contained in the PAF, instructions for its use will be attached. This will be covered in the seminars, discussed on pp. 17-18.) The two major sections of the Form --Quantitative and Qualitative Effects Produced-- are broken down as follows:

a. Quantitative Effects Produced

1) Target Group Impact

a) Small Farmer Participation: number of small farmers selling produce to agribusiness being financed, or receiving inputs from supplier being financed, etc.

b) Employment Effects: number of jobs created both on farms and in the agribusiness itself.

c) Income Effects: salaries paid by the agribusiness and income accruing to producer from sale of product to agribusiness.

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* Information from this section (which has been reviewed by CABEI) will form the basis for the Project Description to be included in the Loan Agreement.

d) Productivity/Production: increases due to adoption of better technology, and/or more land in production.

e) Rural Development: local value added.

2) National Economic Impact: foreign exchange effect.

b. Qualitative Effects Produced

1) Agribusiness Systems Development: new technologies introduced, new or less costly production inputs, new or expanded market development, increased systems efficiency, linkages created, contribution to sector growth.

2) Rural Development: changes in quality of product, nutrition, health, education.

3) Environmental Considerations: positive or negative impact.

(For greater detail see Annex III.)

In addition, the PAF will contain two other parts critical to the usefulness of the Form as an evaluation tool. First, a statement of methodology will explain how, when, and by whom the original PAF was completed. Methods to be used for obtaining required data may vary from project-to-project. In some cases technicians in the participating ICIs may be familiar enough with a given project to complete the PAF; in other cases, the owner, manager, or technicians of the agribusiness activity may have to be consulted; and, finally, there may be some cases where small farmer participants themselves have to be interviewed (this may be especially true in trying to obtain small farmer income and production data). This statement of methodology will also elaborate how and when the project will be re-

evaluated. (In conducting the evaluations, whenever possible, data generation will include contact with members of the target group. When such contact is not possible, it will be so explained.)

Second, an explanation of the mechanisms or key elements in the project which are critical to assuring project success will be included. Examples of these elements may be marketing, the provision of technical assistance,etc.

The type of agribusiness activities that may be financed under the program can be divided into three categories:

a. Agribusinesses which contribute to improved small farm agricultural production, such as suppliers of inputs, financing of improved technologies, etc.;

b. Agribusinesses which process raw materials purchased from small producers, such as fruit and vegetable processing plants, canneries, etc.; and

c. Agribusinesses which assist in the marketing of small farmer agricultural products, such as refrigerated storage facilities, transportation, etc.

All of these activities contribute to eliminating constraints which exist in the flow of produce from farm to market, and it is possible that projects may include the financing of all three activities. There may be a few agribusiness activities, in which there are extraordinary employment generation benefits, although with little or no small farmer production participation, which may be financed. The presumption is, however, that a processing project will make important use of small farm production.

The participating ICIs will be the focal point for sub-project identification, promotion, and design, and will be responsible for completing and maintaining up-to-date PAFs. In addition, CABEI may identify projects that can be channeled through the ICIs.

To determine the ICIs that will participate, CABEI/ROCAP teams made on-site evaluations of 48 Central American credit institutions. Of these, 13 are considered to be suitable participants in the project, based upon several factors including: a) interest demonstrated in terms of willingness and ability to promote and finance projects which are consistent with the purpose, b) experience in financing similar projects in the past, and c) plans and/or projects for future financing in agribusiness activities. (A detailed description of these ICIs and possible projects for financing is contained on pages 31-45, Technical Analysis.)

Each participating ICI will appoint a project manager responsible for identifying and ultimately monitoring the sub-projects. As sub-projects are identified the project manager will apply the criteria contained in the Project Assessment Form to determine eligibility for financing under the program. This target group impact analysis, along with a financial viability and technical feasibility analysis, will constitute the ICI's application for funding to CABEI. The ICI, in conjunction with the loan applicant, will identify any technical assistance needs at all levels --ICI, agribusiness, producer-- and sources to provide it. (Possible sources of technical assistance in each C.A. country are discussed in Section III.B. pages 31-45.)

A careful analysis at this stage will enhance the possibility of achieving the project purpose, which will be measured by the following indicators: a) all loan funds are placed in up to 50 projects and 10 participating ICIs; and b) all sub-projects serve the small farmer as evidenced by the selection criteria contained in the completed PAFs. Also, at the end of the project we will be able to measure progress made toward achievement of the sub-goal by analyzing the following indicators: a) an increased number of small farmers participating in agribusiness activities (e.g. selling their produce to processors; b) an increase in the number of rural jobs (on and off farm) created; c) an increase in the income accruing to participating small farmers; d) an increase in the productivity of participating small farmers due to the adoption of new production technologies; and e) an increase in

employment opportunities in the agribusinesses financed. In addition, macro-economic indicators will assist in assessing overall economic impact. These indicators include: a) increase in national value added as a result of agribusiness activities, and b) positive foreign exchange effect produced by exports and/or import substitution.

It is not possible, of course, to develop and impose precise minimum criteria for impact, or maximum limits (size of farm, income) governing small farmer participation. However, the special evaluation conducted in March provides some useful guidelines, which shall be drawn upon in the implementation of the project:

> "As a rule of thumb, (and this may require country by country, or locale by locale adjustment) the sub-lending banks should probably require that borrower-processors agree to purchase at least 50% of their supply of each vegetable or fruit in their system, from small (i.e. less than 15 manzanas) farmers. Special concessions such as extended terms or grace periods, and possibly reduced interest rates, should be given, so as to reflect additional costs or uncertainties to the processor which this requirement may carry.
>
> Further, additional bonuses might be built in for processors which exceed the 50% target. Concessions should be also given to encourage recruitment of coop suppliers in some cases where the processor has the option of using either a coop or middle-sized growers.
>
> Whether a processor should be allowed to meet all or a part of his 50% small-farmer quota by contracting with a coop, again cannot be answered in the abstract, but must be examined in light of the circumstances of the producing locale. Certainly, where the producer has a choice of recruiting a coop of

small farmers, as compared to a large or middle-sized producer, the incentives in the loan should induce a strong preference for the coop. Where both coop and non-coop small farmer-producers can be recruited, sensitive loan management of course should aim at requiring the producer to give priority to recruiting both, while excluding the large and middle-sized producer. The flexibility of a sliding scale incentive system of terms, rates, and grace periods should be helpful for accomplishing this purpose."

Nevertheless, the eligibility of a project will in the end have to be determined on a case by case basis, in consideration of a host of relevant elements: nature of the agribusiness, impact on production vs. rural employment, patterns of land holding and land use in the region of the agribusiness, net income of farmers in the region, previous farmer experience with the crop or crops to be grown, relative poverty of the region involved, etc. We will make clear to the ICIs that we desire maximum direct participation of the target group, e.g. for processing industries, small farmers would, in most cases, comprise 30%-50% of agribusiness suppliers at a minimum.

As more funds are channeled through ICIs, their capability to manage these kinds of programs should improve. At the end of the project two indicators will suggest the degree of project success: a) ICIs will be providing technical assistance inputs or identifying sources of technical assistance for sub-borrowers; and b) to the extent that rollovers exist, they are being used for the same purposes as the original loan. Two additional indicators of improved ICI capability are: a) as more experience is gained in selecting and managing sub-projects, the delinquency rate for these activities whould decrease; and b) as projects succeed, and as ICIs gain experience in selecting viable agribusiness activities for financing, the spread necessary to induce the ICIs to lend for this type of activity may be reduced. However, because of the short disburse-

ment period, we do not expect to be able to measure significant progress on these two indicators.

CABEI's technical analysis staff will receive and review loan applications from the ICIs. On behalf of the Bank, these analysts will make the final decision on sub-project eligibility based on the criteria established in the PAF. In those cases where the Bank has doubt about project eligibility, ROCAP's assistance will be requested. However, there are certain situations in which prior ROCAP approval will be required:

a. No loan will be made to a single sub-borrower (agribusiness, coop, etc.) which exceeds $200,000 without prior approval from ROCAP. This will act as a check against financing a relatively small number of large sub-projects. However, there may be benefits from some of these sub-projects: (e.g. impact on employment, small farmer participation, etc.) that would outweigh other negative considerations related to size. For this reason, large projects will not be arbitrarily eliminated from financing at the outset, but rather receive a close review.

b. No more than one sub-loan will be made to any sub-borrower (unless the total amount of both loans is less than $100,000) without prior ROCAP approval. This allows for the possibility of underestimates of costs, or overruns on projects up to a certain size while also acting as a check against financing projects that, for one reason or another, prove not to be viable. It will allow the ICI/CABEI/ROCAP to closely examine such projects with the hope of identifying problem areas so that technical assistance can be recommended. The objective will not be to cut off funds from problem projects, but rather assist in the solution of those problems.

c. CABEI will not lend more than $2.5 million of project funds to any single ICI without prior ROCAP approval. This will prevent a large percentage of the funds from being channeled through a few ICIs and will help to maintain the regional integrity of the program.

d. ROCAP will review and approve all projects submitted by the ICIs for financing until

$2.5 million of AID funds have been committed. This will serve as a training period for CABEI and ICI personnel sensitizing them to the requirements of the PAF and what kinds of projects are eligible for financing.

4. Inputs: Contributions to the project will be made by ROCAP, CABEI and participating ICIs, consistent with the following breakdown:

	$US Millions	%
AID	15.0	60
CABEI	5.0	20
ICIs	5.0	20
T O T A L	25.0	100

Neither CABEI nor ROCAP will require any minimum contribution to total sub-project costs by a borrower. Such contribution will depend on the nature of the project, the financial capacity of the borrower, and most importantly, the lending policies of the particular ICI. In most cases, the ICIs will require a contribution, either in kind or in cash, and often up to 40% of the total project cost. In this way, the AID loan stimulates the investment of substantially more than just the inputs of the ICIs and CABEI.

CABEI/AID funds will be used to finance: a) capital goods -- e.g. plant equipment, storage facilities, transportation equipment, etc.; b) technical assistance; and c) the purchase of raw materials for processing and working capital requirements for the expansion of existing agribusinesses. The needs in each area will be determined on a project by project basis. Inputs for small farmer production (e.g. farm implements, seed, fertilizers) will also be eligible.

In addition to the participating ICIs' cash contribution for project financing, they will provide funds required for their project managers to attend a seminar which will be held to explain in detail the thesis underlying the loan and the program requirements.

A single seminar (perhaps with one or more followups) will be held to take advantage of

economies of scale and the cross fertilization that will result from the exchange of ideas among the ICIs. The 2-3 day seminar, in addition to providing more detailed information on project purpose, design and implementation, will explain the criteria to be used in determining project eligibility, utilizing the Project Assessment Form, as follows:

a. Explanation of the PAF as a response to the Congressional Mandate:

1) Detailed description of the kind of information needed;

2) Methodology to be used in obtaining the needed information (reliance on LAAD experience);

3) Elaboration of the key elements or mechanisms which may exist in any project, without which a project would not succeed --e.g. marketing, technical assistance. Emphasis will be placed on the need to record these key elements so that project performance can be tracked and better explained at later dates during the implementation period.

b. Methodology to be used in conducting yearly evaluations to up-date PAFs;

c. Information that ICIs should maintain on each sub-project.

Also, the question of technical assistance needs will be discussed. The ICIs and CABEI are acutely aware of the fact that new agribusinesses (especially for agricultural products not heretofore grown in Central America) will require considerable technical assistance. Drawing upon LAAD experience (discussed in more detail in the following section) they will be further sensitized to these problems.

CABEI will be responsible for conducting the seminar. ROCAP will play a significant role by providing needed technical expertise. (All ICIs that have been identified as possible participants agreed to the need for additional training and are willing to absorb any costs involved.)

5. <u>Outputs</u>: The outputs that will re-

sult from the above mentioned inputs are:

a. An agribusiness fund is established in CABEI.

b. There are trained personnel in CABEI and the ICIs managing the program.

c. A system for project selection is established between CABEI and the ICIs.

d. A system for the financing of agribusiness activities through the ICIs is created.

It should be noted here that the demand for loan funds has been relatively conservatively estimated; CABEI and the ICIs have agreed that the demand would support CABEI/ROCAP/ICI inputs of up to $37.5 million. ROCAP prefers, however, to move more cautiously with what is essentially a pilot effort, and would anticipate an application for a follow-on loan --if this first loan demonstrates significant impact on rural poverty and if the additional demand is apparent. Such an application could conceivably be justified by experience under this project even before the projected four year disbursement period of this loan elapses. For that matter, it is possible that funds will be exhausted before then.

C. Technical Assistance

The technical assistance needs of a particular project will be assessed by the ICI in the course of its review of an application for a loan. Of course, in many instances it will have been an active participant in the project development process, and will have identified with the borrower such needs, and the loan will have been designed to cover them. With the borrower the ICI will also assess the possible sources of such assistance; the loan documents will identify them. CABEI will review these documents to ensure that all projects are justified in this respect.

It is not possible to determine with any degree of accuracy how much technical assistance will be required. However, most ICIs evaluated felt (based upon their limited experience) that approximately 10% of total project cost would be needed for technical assistance.

There are varying degrees of capability to provide technical assistance in the ICIs that were evaluated. And, these capabilities fall in different fields -- e.g. production, management, etc. (This is discussed in more detail in Part III.B., Technical Analysis - Country Specific.) Many ICIs indicated that their staffs will have to be increased in order to properly monitor the projects financed. This is especially true because agribusiness financing is a relatively new activity for many of them, and the data collection effort required of them will be more than what they normally do in project analysis.

At the agribusiness level, LAAD's experience has given us an information base concerning the areas in

which most technical assistance will be needed. First, most of the assistance has been provided to projects during developmental and start-up phases, and later, in some cases, when problems have arisen which are beyond the capability of a project's management to successfully resolve. Most technical assistance requests have gone through LAAD-CA, and on an informal basis they call on appropriate shareholders for specific advice on specific problems.

Problem areas identified through LAAD experience include:

a) Limited knowledge of market;

b) Lack of marketing services for exports of non-traditional agricultural products; and

c) Obtaining sufficient quantities of raw materials (also identified in the agribusiness evaluation conducted in March).

Because of the pervasiveness of these problems, participating ICIs will be alerted to them during the kickoff seminars and will be expected to address them in their project analyses. Other areas in which LAAD has provided technical assistance and in which problems can be anticipated include production technology, use of fertilizers, insecticides, pesticides and fungicides, quality control, plant operating methods, and financial management. This, of course, is not an exhaustive list but serves to illustrate the range of problems that can be expected.

Technical assistance will be included as part of total project cost and will be submitted in this form to CABEI when project financing is requested. The cost will vary depending on who provides it.

There are several alternatives:

a) Provided by the ICI at no cost to the borrower if the capacity exists;

b) Provided by a public institution at no cost to the borrower -- e.g. Ministry of Agriculture, National Development Banks, etc.;

c) Provided by a consultant, private institution, or some other source on a contract basis, the cost of which would be passed to the ultimate borrower.

D. Implementation Plan

1. Intermediate Credit Institutions: Following the identification (which in many cases also involves design functions) of a project by an ICI's project manager, and the completion of a feasibility study which includes data required in the Project Assessment Form, the ICI will reach its own conclusion on a project. If approved, the loan application will be presented to CABEI to be considered for financing under the program.

The ICIs will also be responsible for identifying technical assistance needs and helping to locate appropriate sources to provide it. Over the years, Central American ICIs, through their lending activities, have acquired knowledge of public and private institutions capable of providing needed technical assistance.

Information submitted to the Bank will remain on file and will form the basis for the Bank's judgement on whether or not the sub-project is eligible for financing. If approved by CABEI, a sub-

loan agreement will be negotiated and funds will be disbursed as needed based upon the schedule presented in the feasibility study.

In order to expedite the making of a sub-loan from the ICI to the ultimate borrower, negotiations will begin as soon as possible after the ICI has made a determination to finance the sub-project. Preliminary negotiations will be undertaken while CABEI is reviewing the loan application with the understanding on the part of the ultimate borrower that funds may not be forthcoming.

As discussed in the Financial Analysis, the loans to the ICIs will bear an interest rate of 6%, providing them with an attractive spread of up to 5%, and will be for a term not to exceed 12 years.

Once a sub-project has been approved by the Bank, the ICIs will be responsible for making timely and rapid disbursements in accordance with a schedule to be included in the loan application. It will be in the interest of the ICIs to assure this because of the Bank's 3/4 of 1% commitment fee paid by the ICIs on committed, undisbursed funds.

Disbursements will be made on a reimbursement basis. The ICIs will disburse to the borrowers and thereafter seek reimbursement periodically from CABEI. CABEI in turn will seek periodic reimbursements from ROCAP, based upon evidence of disbursements to ICIs for eligible sub-projects.

During the implementation of sub-projects, the ICI project managers will maintain up-to-date files on each sub-project and will submit reports at least quarterly (in a format agreed upon by CABEI and the ICI, and approved by ROCAP) to CABEI

on each sub-project. The report will address such items as disbursements to date, compliance with loan conditions, repayments, etc. Project Assessment Forms will be up-dated on an agreed upon schedule and submitted to the Bank, facilitating periodic evaluations.

The project manager in each ICI will closely monitor each sub-project, assuring compliance with overall objectives and the sub-loan agreement. He will also assist in identifying possible problems and in locating needed technical assistance.

2. CABEI: The Bank will receive and review loan applications from the ICIs. It will be responsible for making the final determination on sub-project eligibility. (During the early stages of the project, ROCAP may need to provide assistance in determining project eligibility based upon the established criteria). For approved projects, the Bank will then negotiate loan agreements with the ICIs. CABEI will not charge more than 6% interest on any sub-loan. The term of CABEI's loan to the ICI will be the same as the term of the ICI's loan to the ultimate borrower.

Rollovers of principal will be used consistent with the original project purposes for the life of the loan -- 30 years. Monitoring by ROCAP, however, will cease as of the loan's last disbursement. However, in the event of project success, and a follow-on loan, monitoring would of course continue: longer-term evaluations of project impact would be made, and continued compliance with implementation arrangements hereunder would be sought.

CABEI will also assume responsibility for organizing and conducting the seminar to explain

the project purpose, design and implementation to the ICIs. This will be held before any disbursements are made to assure a good understanding by ICI staffs of the project and its objectives. It is ROCAP's intention to have the initial seminar conducted as soon after loan authorization as possible; there appears to be no need to wait until the loan agreement itself is fully negotiated and signed.

Using a mutually agreed upon form, the CABEI project managers will submit monthly and quarterly progress reports to ROCAP.

3. ROCAP: ROCAP will provide assistance needed during the early stages of the project and will provide expertise for the seminars. In addition, ROCAP will review and approve all project proposals submitted by ICIs until commitments reach $2.5 million. This will further educate both the ICIs and CABEI in applying the project selection criteria.

Once the program is underway, ROCAP will receive and review copies of all sub-loans entered into by CABEI to insure compliance with project objectives.

E. Evaluation Plan

1. Periodic Reviews: Joint CABEI/ROCAP reviews will be held after the disbursement of each $2.5 million of AID funds. A similar procedure has been followed under the two LAAD loans and has proven to be a valuable tool in monitoring compliance with program objectives. Topics of discussion for these reviews will include:

a) Review of the sub-projects approved during the period assuring compliance with the Mandate;

b) Performance of sub-projects in terms of impact on the target group;

c) Review of problem projects; and

d) Other areas of mutual interest (e.g. participation of additional ICIs, private sector involvement, etc.)

Project managers from participating ICIs may be invited to participate in these reviews to discuss particular projects, new ideas, and/or problems.

In addition, ROCAP's project manager and committee will be routinely reviewing project progress with CABEI. ROCAP will also assist in reviewing the methodology being used to obtain information on the target group impact of each sub-project.

2. Annual Evaluations: Baseline data, against which evaluations can be made, will be collected by the ICI project managers (in compliance with the PAFs) as part of the exercise they must undertake to determine project eligibility. This data will be carefully monitored by both the ICIs and CABEI, and the PAFs for each sub-project will be up-dated on a yearly basis and forwarded to the Bank, where they will be available to ROCAP. This information will form the basis for joint CABEI/ROCAP annual evaluations of target group impact. The PAFs will be reviewed, utilizing CABEI's information, and the data on each ongoing sub-project will be collated and translated into overall progress. This can then be compared to the verifiable indicators on the Logical Framework Matrix (attached). In addition, sub-projects will be visited on a random basis by ROCAP with the assistance of technical consultants as appropriate to determine the accuracy and reliability of the data contained in the PAFs.

In this regard it is clear that AID's interest in small farmer participation will, in many cases, be significantly greater than that of the ICI (or ultimate borrower). Thus, it will be incumbent upon AID to make special efforts to go into greater depth on evaluations than warranted by the interests of the ICIs.

Further, longer term evaluation of sub-projects and overall project impact will be facilitated if a follcw-on loan (justified by increased demand and the success of this project) goes forward. In any event, we would hope that in the years following final disbursement of this loan, special evaluation efforts can be mounted. The full impact of the loan, and sub-projects financed thereunder, will not be known for a number of years. Thus, it may be advisable for AID to conduct special, periodic evaluations in the "out years", when project impact may more fully be assessed.

3. Special Assessments: In addition to the information generated through the use of the PAFs, a more sophisticated parallel system will be developed. This system will select projects on a sample basis for more in depth data collection and analysis than can be provided from the PAF, and will require a level of effort exceeding that which can be expected from the ICIs. Also, it will require technical capabilities beyond those of the ICIs and ROCAP. With AID/W assistance, ROCAP will contract short term technical personnel to undertake this work. It will result in data which more accurately measures target group impact.

F. Conditions, Covenants, and Negotiating Status

1. Conditions Precedent to Initial Disbursement: Prior to the first disbursement or to the issuance of any commitment documents under the Loan, Borrower shall, except as AID may otherwise agree in writing, furnish to AID in form and substance satisfactory to AID:

a) An opinion of the Chief Legal Officer

of Borrower or of other counsel acceptable to AID that the Loan Agreement has been duly authorized by the Board of Directors of Borrower and duly executed on behalf of the Borrower, and that if constitutes a valid and legally binding obligation of Borrower in accordance with all of its terms;

b) A statement, duly authenticated, of the names of the person or persons holding or acting in the office(s) of Borrower and a specimen signature of each person specified in such statement;

c) A plan for the objective and comprehensive review of all sub-loans proposed to be made by Borrower, to assure that such proposed transactions are economically justified and technically sound;

d) A statement by Borrower setting forth the specific eligibility criteria (deriving from the criteria contained herein) and procedures to be followed in authorizing and monitoring sub-loans;

e) A plan for the periodic audit of sub-loans;

f) Certified copies of the corporate charter and by-laws of Borrower and all sub-borrowers;

g) Certified copies of the operating policies of Borrower, and all sub-borrowers authorized by the respective Board of Directors;

h) Evidence that the Borrower has made appropriate staffing and organizational arrangements to administer the project effectively and efficiently;

i) Evidence in writing prior to disbursement to a participating ICI that it has agreed to the project eligibility criteria outlined in the Project Assessment Form (PAF); and

j) Evidence in writing prior to disbursement to a participating ICI that it has agreed to appoint one (1) full-time project manager to

administer its projects.

2. Other Conditions: Except as AID otherwise agrees in writing, neither Borrower (CABEI) nor any sub-borrower (ICI) shall:

a) Utilize AID loan funds or any repayments of principal from sub-loans made from AID loan funds to pay administrative or operating expenses of Borrower or any sub-borrower;

b) Utilize AID funds to finance working capital except for the purchase of raw materials or for financing the expansion of an existing agribusiness;

c) Permit the use of AID funds to finance any sub-project or to make any sub-loan in excess of two hundred thousand United States dollars ($200,000), or the local currency equivalent thereof, or the combined United States dollar and local currency equivalent thereof.

In addition, as mentioned in Section II.E.1., after the commitment of two and one half million United States dollars ($2,500,000) of loan funds, and thereafter when successive commitments totalling two and one half million United States dollars ($2,500,000) have occurred, AID and the Borrower shall hold a joint review of the progress of the Program. ROCAP will review and approve all projects submitted for financing until $2,500,000 of AID loan funds have been committed.

Repayments of principal from AID funded sub-loans may be used only for those purposes for which the AID loan funds were originally made available.

The loan shall be subject to such other terms and conditions as AID may deem advisable.

III. Project Analyses

A. Technical Analysis - Capacity of CABEI

CABEI is by far the largest development banking institution in Central America. It has administered $182.5 million in previous AID loans. Its loan portfolio has grown at an average annual rate of about 27% during the last eight years. With the exception of one sub-project under Loan 001, authorized in 1961, the Bank's prior experience in dealing with ICI's as well as financing agribusiness projects began with AID Loan 596-L-004, for $10 million in 1964. This loan financed a total of 28 projects, 5 of which were agribusiness. It was under this loan that CABEI initiated its relationship with several ICIs in the region. Under AID Loan 596-L-010, ties to these and other ICIs were strengthened. This $30 million loan was signed in September 1970 and provided financing for a private sector effort to develop and expand non-traditional export industries in the CACM. With funds provided under Loan-010 and CABEI's counterpart, agribusiness projects aggregating approximately $38 million have been financed.

CABEI's recent re-organization divided the Bank into four functional departments. Overall management of this project will be the responsibility of the Director of the Department of Analysis and Supervision. This department consists of five divisions, one of which is Agriculture and Industry. The division is made up of 19 professionals in the fields of engineering, economics, business administration and agronomy. There are plans to expand it by the addition of two agronomists; this will strengthen project management capabilities. In managing the project, the Director will call on these technicians as needed.

In addition, the Bank's re-organization into functional units permits flexibility in drawing upon needed expertise from other departments--e.g. the Financial Department--in project design and implementation. In this respect, the organization

parallels AID's project committee system. One individual has principal responsibility for project implementation. Further, the system allows for the timely participation of different disciplines (e.g. financial analysis support will be provided by the Financial Department) without involving unnecessary delays that could occur by assigning one specific division, with a narrow expertise, exclusive responsibility for the project. ROCAP judges this approach to be adequate for management of this project.

B. Technical Analysis - Country Specific

This section analyzes the capabilities and readiness of Central American ICIs to participate in the program, and describes the criteria used to select them. This list is subject to modification and expansion over the project life. This section also explores the relationship of the proposed activities to the AID programs in each country, to ensure complementarity therewith.

Jointly with CABEI, ROCAP has identified 13 C.A. ICIs which appear capable of participating in this project. This assessment considered (a) the degree of interest expressed by an ICI, (b) its experience in agribusiness financing, (c) its current capacity to provide technical assistance, (d) its potential ability to augment its technical assistance capabilities, and (e) whether any special circumstances (e.g., charter, law) precludes its effective participation. The 13 institutions who satisfied these criteria are identified below.

1. Honduras: The three ICIs in Honduras that appear ready to move forward with the financing of agribusiness projects are:

- Banco Financiera Hondureña, S.A.
- Banco La Capitalizadora Hondureña, S.A. (BANCAHSA)
- Federación de Asociaciones Cooperativas de Ahorro y Crédito de Honduras (FACACH)

a. Banco Financiera Hondureña, S.A.: This financiera, established in 1964 with a $5.0 million AID loan, is rapidly expanding its operation in Honduras. Now, with five offices throughout the country, the total loan portfolio is approximately $35.0 million. This represents a growth of 26% over 1974; 35% of its lending is in the industrial sector and 14% in agriculture. Lending in both sectors increased considerably (36% and 25% respectively) over the one year period.

To date, the Financiera has had very limited experience in the financing of agribusiness activities--e.g. small programs in tobacco and corn. However, they have recently become more interested in this area and, with LAAD's participation, are financing a rice project in the Choluteca region that will have considerable impact on small farmers. The financiera is planning projects related to the financing of poultry, vegetable processing, storage warehouses, and agricultural equipment and production inputs.

Because of its small staff, the financiera admits the need to contract (and will do so, with the 5% spread) technical assistance. This assistance will be needed not only for the agribusinesses in production technology, management and marketing, but also for the financiera. Because this is a relatively new activity in which they view the risks as being quite high, the contract technicians will closely supervise and monitor the subprojects. They will assist in project implementation and help to identify possible problem areas.

b. Banco La Capitalizadora Hondureña, S.A. (BANCAHSA): BANCAHSA, with 29 offices throughout Honduras, has a loan portfolio of $25 million. Of the total portfolio, 30% is in the agricultural sector, while 40% is in the industrial sector.

To date most of BANCAHSA's financing in the agricultural sector has been for traditional products, the most important of those being coffee. They have also had considerable

experience in financing projects in the fishing industry. In response to the interest of donor agencies--e.g. AID, World Bank--to finance agri-business activities, BANCAHSA's future plans call for increased lending in this area. While several of their ideas relate to traditional crops, they are also considering the possibility of financing for fruit and vegetable crops. In this regard, a feasibility study has already been completed for the production and processing of yucca.

Like the Financiera Hondureña, BANCAHSA believes that one of the keys to project success will be the timely provision of needed technical assistance. While they have provided some in the past, they are not staffed to do so on a regular basis. It will have to be contracted, by the ultimate borrower, as part of project cost. Based on their experience they feel that approximately 10% of any sub-loan will have to go to technical assistance financing.

c. Federación de Asociaciones Cooperativas de Ahorro y Crédito de Honduras, Ltda. (FACACH): FACACH, with offices throughout Honduras, has as its purpose promoting the development of the cooperative movement, especially in the areas of savings and credit. Its sources of funds are yearly membership fees from the cooperatives, and donations, a majority of which have come from the GOH, AID, and the Banco Nacional de Fomento (BNF). With over 100 member cooperatives, its total loan portfolio in 1974 was $7.1 million. This was an increase of 52% over 1973. And, of course, the entire portfolio represents lending in the agricultural sector. FACACH does not finance any project larger than $125,000 and projects at this level have benefitted as many as 125 cooperative members in the past.

Most of FACACH's financing in the past has been for production credit. However, they have had positive results from several small agri-business ventures, among them a small coffee processing plant and a bread factory. The Federación is interested in increasing its lending in agri-

businesses, encouraging cooperatives into this area, and feels it will be able to handle some of the very small projects that might not be attractive to other banking institutions. (They are especially interested in the financing of storage facilities.)

While FACACH does have a staff of agronomists that can provide technical assistance in production problems, additional personnel will be needed to do project design and undertake feasibility studies. Also, one of the most frequent shortcomings FACACH has encountered relates to lack of knowledge about marketing. They feel that considerable assistance will be needed in assuring an adequate market for cooperatives' products. Beyond this, FACACH will need assistance to improve its capabilities in project management. This assistance will have to be contracted and can be covered by the interest rate spread.

d. Complementarity with bilateral USAID programs: While there are no current bilateral programs for agribusiness financing, the USAID will have a project which will provide funds for production credit, farm technology and technical assistance for the GOH extension services. The USAIDs "Agro-Industrial Export Development" technical assistance program (a FY 76 grant) is designed to: a) provide assistance to the small farmer in production and marketing, b) increase small farmer production for export industries and c) rationalize existing systems impacting on the Honduran export process. This project will complement the USAID/Honduras project by financing the agro-industries which purchase small farmer products for processing and export.

2. Nicaragua: The ICIs in Nicaragua that appear to be ready to move forward with agribusiness financing are:

- Banco Nacional de Nicaragua
- Instituto de Fomento Nacional (INFONAC)
- Fundación de Desarrollo (FUNDE)

a. Banco Nacional de Nicaragua: This bank is one of the largest banking institutions in Nicaragua and provides banking services in 69 offices throughout the country. The bank engages in short and medium term commercial, industrial and agricultural lending with emphasis in the field of agriculture. In the past the bank has received funds from IDB, AID, CABEI and EXIMBANK in the amounts of $20.6 million in 1973 and $20.0 million in 1974.

Of the bank's total portfolio, 54.7% is in the financing of agriculture and cattle. The bank has experience in dealing with the small farmer through its Rural Credit Program, which comprises 11.1% of its total portfolio. This program not only includes financial assistance but also technical assistance to small farmers for production, industrialization and/or marketing of agricultural products. While emphasis has been placed on the financing of traditional products such as cotton, coffee, basic grains, and sugar, some financing has been provided for the production and industrialization of non-traditional crops such as frozen vegetables, and citrus fruits.

The bank plans to continue its work in the agriculture sector and has shown interest in the financing of several agro-industrial projects, including: a) dairy products, b) pineapple production and processing, c) yucca production, and d) tomato processing.

In the past, the bank has provided technical assistance in the fields of seed selection, soil conservation, fertilization, plaque control, etc. for agricultural production. In addition, under the Rural Credit Program, it provides financial and administrative assistance to agricultural cooperatives. It is a good source of technical assistance.

b. Instituto de Fomento Nacional (INFONAC): INFONAC, established in 1953, is an autonomous agency of the GON. It is responsible

for the development of new and improved industry and agriculture particularly in those areas which can better exploit the country's material resources, significantly increase employment, save or generate foreign exchange, and otherwise serve the priority economic development goals of the nation. INFONAC's portfolio exceeded $73.0 million in 1974. Of INFONAC's total portfolio, 20% is in agriculture and 50% is in industry.

Among its activities INFONAC carries out feasibility studies, provides equity and loan financing, and offers technical assistance. Its primary sources of financing have been direct capitalization from the GON and certain revenues earmarked for INFONAC by the GON, AID, IDB, and IBRD. Increasingly, it is utilizing local private capital generated through savings deposits.

INFONAC's lending program for 1976/78 is directed at three major categories: a) agricultural development--e.g. tobacco, forestry, beef and dairy cattle, diversified crops such as fruits and vegetables, and other special projects, b) agricultural loans that provide social benefits --i.e. designed to create sources of income for small and medium farmers (cashew production, castor oil, tomato, yucca, etc.), and c) industrial loans for mining, small industry, industrial parks, and other special projects.

c. Fundacion de Desarrollo (FUNDE): A private institution that specializes in working with groups of small farmers and cooperatives, FUNDE provides financial and technical assistance for the production and marketing of small farmer products. It has specialized in the field of promotion and organization of cooperatives with the main objective of increasing the income of the small producer, encouraging savings, and creating new jobs by financing activities which were previously marginal or subsirtence in nature.

FUNDE's source of financing is mainly the private banking system, which provides

loans at very low interest rates requiring no collateral. This permits FUNDE to lend monies from the private banking system to cooperatives and groups which were not previously eligible for this type of financing. This support from the private sector has helped FUNDE to obtain grants from certain foundations and foreign institutions--e.g. Inter-American Foundation (IAF).

Primarily due to lack of adequate resources, FUNDE has provided financing only at the production level. However, with additional funds, FUNDE plans to move into the financing of industrialization in the form of small processing plants for products such as tomatoes, onions, citrus fruits and coconuts.

In addition to providing training, supervision, and administrative assistance to their sub-borrowers, FUNDE provides technical assistance in all fields of agricultural production.

d. Special Considerations: Economic conditions in which Nicaragua finds itself have created certain problems for the banking industry. Because of the unfavorable balance of payments position being experienced by Nicaragua, no public institution (guaranteed by the GON) is allowed to accept a loan (e.g. from CABEI) for less than a 12 year term. However, CABEI will be able to lend for 12 years under our proposed loan, if project conditions require such a term.

e. Complementarity with bilateral USAID programs: There are two bilateral programs in Nicaragua which can be supported by this project. First, the Mission has a $14.0 million Rural Development Sector Program forthe purpose of developing new agricultural sector planning capabilities, coordination and training mechanisms in a restructured Ministry of Agriculture; and to assist the GON to develop and operate its new Institute for Campesino Development (INVIERNO). INVIERNO will concentrate on filling the gaps between the traditional sector institutions and the rural poor and thus provide the Nicaraguan campesino with the

services he needs to improve his standard of living. In addition, USAID/Nicaragua is currently seeking approval for a $4.5 million production credit guaranty to provide risk insurance to those borrowers who are not eligible for financing because of the lack of or insufficient collateral. Both of these programs are directed toward the small farmer; one by providing credit and technical assistance and the other by making lines of credit available to those who had no access to them in the past.

3. Guatemala: Financial institutions most likely to participate are:

- Financiera Industrial y Agropecuaria, S.A. (FIASA)

- Corporación Financiera Nacional (CORFINA)

a. Financiera Industrial y Agropecuaria, S.A. (FIASA): FIASA was incorporated as a private development bank with a paid-in capital of $2.5 million. It has received two AID loans. Besides its sub-loan activities to industrial and agricultural enterprises, the bank is authorized to make equity investments and it offers financial and management services to its clientele. Its current portfolio of $11.9 million includes 16% in agriculture and 39% in industry.

FIASA has had limited experience in agribusiness financing (e.g. food processing, livestock and fishing) through loans from AID and CABEI. However, should funds become available they would be interested in: a) the financing of equipment and machinery for agribusiness, b) the cultivation and processing of highland fruits, and c) the financing of improved technology--e.g. irrigation projects.

FIASA does not provide direct technical assistance to its clients but it does have available three technical advisors who are not

members of the regular staff. The assistance they provide is charged to the clients. Projects are closely supervised to identify and avoid possible problems and to help prevent high delinquency rates. It is worth noting that FIASA works very closely with its small projects (under $50,000) in design and advises on project feasibility.

b. Corporación Financiera Nacional (CORFINA): CORFINA is a semi-autonomous government agency which began operations in 1974 for the promotion and development of industrial, mining, tourism and agro-industrial projects. Its clientele is made up of small, medium and large businesses and cooperatives.

In spite of the fact that CORFINA is only two years old, its level of activity in agribusiness has rapidly increased. The Corporación currently has nine completed studies for projects which are being promoted for financing. These include: a) cultivation and processing of castor oil, b) canning tropical fruits, c) cultivation and processing of alfalfa, d) processing of apples for juice, nectar and vinegar, and e) processing of edible mushrooms. In addition, sixty-eight other projects have been identified; seven have completed feasibility studies, seven have pre-feasibility studies, and the rest are in earlier stages of development.

CORFINA provides technical assistance to its clients at all stages. Its technical assistance unit is comprised of engineers (chemical, industrial, civil) and economists. Additional assistance required is contracted on an as needed basis. The Corporación is also in the process of developing a registry of consulting firms in the area to have available when services are needed.

c. Complementarity with bilateral USAID programs: This project will complement USAID/Guatemala's small farmer development loan which is designed to increase agricultural productivity and create alternative employment opportunities in the rural areas.

4. El Salvador: At the present time, the Fondo de Financiamiento y Garantía para la Pequeña Empresa (FIGAPE) appears to be the only ICI in El Salvador that is in a position to participate in the program. Created in 1970, it is an autonomous institution whose purpose is to resolve the problems that the small investor has in obtaining loans from the national financial system. It makes loans to small investors and acts as guarantor on loans made to small investors by public and private institutions. FIGAPE's $18.6 million portfolio (1974) is devoted primarily to industry.

FIGAPE has had limited experience in the agricultural sector, and no experience in agribusiness. Requests to finance agribusiness projects have been received; however, because of lack of funds, they have not expanded their activities into this sector. The projects for which applications have been received include honey processing, dairy products, and fruit processing into juices. Should funds become available, they would move forward into these areas.

FIGAPE does provide technical assistance to its clients. Its staff for this purpose is composed of economists, business administrators, accountants and an industrial engineer. Additional assistance will be needed in agriculture should FIGAPE participate in the program. The cost of technical assistance will be included in overall project cost and be paid by the ultimate borrower.

a. Special Consideration: Funds from this program will be competing with funds from the Central Bank's Economic Development Fund, which makes financing available to the end user at rates of 4½% to 10%. These funds are not easily available, however, and we have been assured by FIGAPE that the proposed interest rate structure of this loan is attractive to it. (See also, Financial Analysis, pages 52-53.)

b. Complementarity with bilateral USAID programs: USAID/El Salvador is preparing a FY 76 Small Farmer Development Loan which, among other objectives, seeks to increase small farmer productivity. This proposed agribusiness project could provide a market for increased production.

5. Costa Rica: The financial institutions in Costa Rica which are most likely to participate are:

- Banco Crédito Agrícola de Cartago
- Banco Anglo Costarricense
- Corporación Costarricense de Financiamiento Industrial (COFISA)
- Banco Nacional de Costa Rica

a. Banco Crédito Agrícola de Cartago: This is a state-owned bank located in Cartago with branches in San Jose, Tres Ríos and Turrialba. The bank engages in commercial, mortgage and agricultural lending. Approximately 30% ($9.0 million) of its total loan portfolio is for the financing of agriculture and cattle activities. During 1974 alone the bank made 1075 loans in the agricultural sector. These included financing in basic grains, fruits and vegetables, fibers and the purchase of agricultural equipment.

The Bank plans to continue financing activities in the agricultural sector and has indicated that should funds become available for agribusinesses, they will finance the many small and medium sized projects which are eligible by the bank's criteria. Some of these projects have already been identified and include: a) flower growing for export, b) citrus fruits, c) dairy products, and d) potato growing and processing.

LAAD is about to make a loan to the Bank for vegetable production.

The bank provides limited technical assistance to its clients. Its technical assistance staff is at present composed of 12 agronomists. The bank plans to strengthen its agricultural department and to contract services, as needed, passing the cost on to the ultimate borrowers. In addition, the bank has had good experience collaborating with the Ministry of Agriculture in the provision of technical assistance, especially for production problems.

b. Banco Anglo Costarricense: This too, is a state-owned bank, and it provides service countrywide with its twenty agencies. Its main activities are commercial, industrial, and agricultural lending. As of December 31, 1974, 50% ($34.8 M.) of its total loan portfolio was for the financing of agriculture and cattle (including credits for hunting and fishing activities), of this, $14 million, made up of 11,600 loans, were small farmer credits. Its financing includes some production processing, non-traditional agribusiness activities such as: a) processing of meat and other food products, b) vegetable growing and processing, c) poultry farming, and d) fruit production and marketing. The bank stated that demand in this sector is far greater than the availability of funds, and the bank has received many inquiries and requests for financing in this area, including a) production and marketing of flowers, b) citrus fruit processing, c) canning projects and d) rice production.

With the availability of funds, the bank plans to take an increased role in agribusiness financing, beginning with those projects mentioned above for which it has received requests.

The bank provides technical assistance at all levels to its clients in the fiels of Agriculture and cattle. Its staff is comprised of agronomists and agricultural engineers located at all twenty agencies throughout the country.

c. Corporación Costarricense de Financiamiento Industrial (COFISA): In December 1963, COFISA signed a $5 million loan with AID for 1) the expansion of industrial enterprises in Costa Rica, and 2) the improvement of its own operations. This and a follow-on AID loan helped COFISA become one of the largest private financial institutions in Costa Rica. Its main activities are manufacturing industries and commercial and agricultural lending. As of September 30, 1975, 28% ($20 million) of its total loan portfolio was for the financing of agriculture and cattle, food products processing, and the wood industry (excluding furniture manufacturing). COFISA has also financed non-traditional agribusinesses. Some of these projects, which have been quite successful, include meat processing and packing for export, rice processing and animal feed processing. However, due to lack of funds and the risk involved in these types of activities, COFISA has not financed a wider range of projects.

Nevertheless, COFISA indicated that there is great potential demand in the non-traditional agribusiness sector and they are eager to participate in the proposed program should the funds become available. Activities which they are considering for financing include: the production of ornamental plants of tropical foliage for export, industrialization of wood, and vegetable growing and processing.

The Corporación has limited personnel for providing technical assistance. They indicated that the bank's agricultural department would have to be expanded in order to provide needed technical assistance. This cost would have to be passed on to sub-borrowers.

d. Banco Nacional de Costa Rica: This is one of the largest banks in Central America. Its main objective is the development of the most productive sectors of the economy. Thus its main areas of financing include industry, agriculture and cattle. As of December 31, 1973, 26.2%

($39.0 million) and 36.5% ($54.4 million) of its total loan portfolio was for the financing of agriculture and cattle activities, respectively. Within the agriculture activities, the bank has considerable experience in the financing of production/processing of non-traditional products. Examples of projects which the Bank has financed include: a) vegetable oil and lard processing, b) tannery, c) dairy products, and d) ice production. However, a lack of funds has stalled additional financing in this sector.

Since agriculture is one of the bank's priorities, it plans to continue expanding its operations throughout the country to favor the rural areas. The bank has a considerable backlog of small and medium size projects which could be financed under the proposed program such as a fish meal plant, refrigerated warehouse, Spanish broom factory, and meat processing for export.

To administer its portfolio, the bank has a large rural credit department. Its technical assistance staff is comprised of one chemical engineer, 120 agronomists and agricultural engineers, 2 technicians to promote small industry and artesanry, and veterinarians and zootechnicians. It has over 100 offices throughout the country.

e. Special Considerations: The financial institutions in Costa Rica are concerned about exchange rate stability. The ultimate borrower will have to assume this risk, except possibly for the public institutions, which may have Central Bank help. * There is one factor making the program particularly attractive. Private financial institutions are required by law to maintain 9% of their loan portfolio in the agriculture sector. The maximum interest rate that can be charged by ICIs in this sector is 12%, while the cost of resources to the ICIs is often over this level.

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* COFISA's disadvantage may be overcome through its access to CABEI's $7.5 million counterpart, portions of which may be made available as local currency.

f. Complementarity with bilateral USAID programs: The proposed agribusiness loan complements two previous loans made by USAID/Costa Rica: a) $20.0 million Coordinated Agricultural Development Program (515-L-022) designed to improve the small farmer's income and the quality of rural life and to facilitate a more significant contribution of the small farmer sub-sector to national growth, and b) Rural Development Program (515-L-025) which was an add-on to a). These two loans represent the first stage of a comprehensive program to improve the quality of life of the small farmer by providing better facilities, enabling access to appropriate agricultural extension services and markets for products.

The institutions identified above are ready to move forward with this project, and are expected to generate a sufficient volume of satisfactory sub-projects and loan applications. However, it is hoped that during the disbursement period, other ICIs will be able to demonstrate to CABEI's satisfaction a readiness to participate.

C. Technical Analysis - Project Risk

Profitable agribusiness activities in Central America which involve the production and marketing of non-traditional fruit and vegetable products are not easy to mount. While potential long run rewards to the processor-entrepreneur are substantial, so too are the risks. This question of risk impacts significantly on loan design, interest rates, institutional capability, technical assistance needs and the need for concessional financing from AID.

The element of risk to the processor (and therefore to some extent to his lender) requires that the terms to the borrower be attractive and that ICIs receive a sufficient spread between what they borrow money from CABEI and what they lend it to the borrower at. It requires that the participating ICIs be carefully screened so as to have reasonable assurance that

they will evaluate loan applications intelligently, monitor projects carefully, and evaluate results reliably. It requires that a careful assessment of a project's technical assistance needs be made at the outset, and during the entire project implementation period. It requires, in order that the cost of money to the ultimate borrower and intermediary not be excessive, that AID provide its resources at its most concessional terms.

The special evaluation conducted in March 1976 is particularly enlightening on the question of the risk element in the types of projects to be financed hereunder.

Pertinent excerpts from that evaluation follow:

> "The experience of the firms contacted during the course of the study reaffirmed the generally-held impression that the establishment of profitable agro-business activities in the region, for non-traditional vegetable and fruit products, is immensely difficult. While potential long-run rewards to the processor-entrepreneur are substantial, so too are the risks. Indeed, virtually all of the processing sites visited (or which were discussed, but not visited) have encountered, or were encountering, formidable start-up difficulties. All have required, or will require, several years of costly operations before becoming profitable.
>
> These technological and operating difficulties are important to underscore and emphasize at the outset of this report. While they can be reduced, or minimized in degree or duration, through good management, they appear to be inescapable concomitants of investments in agro-industrial processing activities.

"Apart from exigencies and problems which normally accompany the establishment of an industrial operation in Central America, the following difficulties seem not only inherent to the processing business but appear profoundly to shape the life course, feasibility, and modus operandi of each of these entrepreneurial ventures:

(1) Protracted difficulties and delays in developing plant materials (e.g.: cauliflower, asparagus, broccoli, etc.) suitable for export and for volume production under Central American agricultural conditions; and

(2) Extended difficulties and delays in securing a reliable, high volume supply of processable materials adequate to meet demand or to maintain factory activities at a profitable level of operating capacity.

"It would seem that special consideration should be given in the design of the loan to special inducements to processors for the recruitment of small farmers in the form of: *

(1) Long grace period loans for the costs of developing plant materials;

* Split interest rates are also feasible, but more difficult to administer. Despite this drawback, the possibility of using specially soft rates, particularly to finance technical assistance to small farmers, should be investigated.

(2) Long grace period loans to defray the costs of technical assistance, supervision or extension to small farmers;

(3) Long grace period loans to defray bank guarantee charges for crop loans to small farmers; and

(4) Long grace period loans to defray the costs of fertilizers, seed, herbicides, or other supplies to small farmers.

"It is important, as well, to shape loan design to the special exigencies, difficulties and problems of sub-borrowers. Hence, provisions which disfavor premature investment in plant and equipment, while furnishing special deferred repayment treatment for genetic and plant materials experimentation and development, and for crop demonstration, technical assistance, and related inputs, are warranted as basic elements of the loan structure, quite apart from any special inducements which may be included in order to skew supplier recruitment towards the small farmer.

"There are many powerful reasons for holding down the cost of available funds to sub-lender national banks, as well as to ultimate borrower-processors.

"As to the national banks. The sub-borrower portfolio to be developed under the AID loan is a difficult, specialized, and risky one. Ideally, given the nature of the sub-borrowers and AID's purposes in making this loan,

sub-lender banks should devote considerable management time and energy to building up expertise in this highly technical lending area, and to assisting, guiding, and monitoring their processor borrowers. It is also desirable that, where feasible, these same banks become involved in the crop credit operations for supplier farmers.

Hence, the potential return to the participating national banks should be substantial enough to justify a significant degree of involvement in, and commitment to, the program. If there either are too many banks participating in this program in any given country (so that the stake of any given bank in the program is small), or if the cost of the money passed on to them by CABEI is high, it is unlikely that the desired degree of bank commitment and involvement will materialize."

D. Financial Analysis and Plan

This section analyzes the terms of the AID loan to CABEI, CABEI's counterpart contribution, the terms of the loans to the ICIs by CABEI, the projected funds (and in this regard the appropriate amount of the AID loan), and CABEI's ability to repay the AID loan.

1. Project Size: The total project will be $25.0 million, composed of $15.0 million from AID, $5.0 million in CABEI funds and $5.0 million from the participating ICIs. Of the CABEI $5.0 million it is estimated that $2.5 million will come from reflows on other loans or new paid-in capital, and $2.5 million will be borrowed from external sources.* The table below reflects all funding sources and appropriate percentages.

Source	Amount	Percentage
ROCAP	15.0 million	60
CABEI	5.0 million	20
ICIs	5.0 million	20
	25.0 million	100

In fact, the total project size will be significantly larger. ICIs tend to require borrowers to come up with counterpart themselves, in many cases up to 40% of the project cost. Adding 40% to the $25 million to be lent to agribusiness, the total project can be estimated at $41.7 million.

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* From ROCAP's point of view, the source of CABEI's counterpart is unimportant; the 6% limit on what CABEI charges the national institutions is what really counts.

The loan envisions a 30-year term, with interest at 2% during a 10-year period and 3% thereafter.

With these terms, we estimate a net profit to CABEI of approximately 2½% per annum over the 30-year life of the loan. This estimate is based on certain assumptions: that CABEI will immediately invest the full $20 million, that no bad debts will be experienced*, that 1% of annual portfolio balances will cover CABEI's administrative costs, and that annual rollovers of principal and interest will be immediately reinvested. The table below reflects our estimate:

	Effective Cost
AID Loan ($15.0 million)	1.26%
CABEI - Internal Funds ($2.5 million)	- - -
CABEI - External Borrowing ($2.5 million)	1.25%
Financing Costs	2.51%
ADD: Administrative Costs	1.00%
Program Costs	3.51%
Interest Charged to ICIs	6.00%
Profit to CABEI	2.49%

If CABEI's sub-loans contain a grace period, then cost to ultimate borrowers will increase. Of course, assumptions may vary and are reasonable subjects of debate. The above analysis, indicating a CABEI profit of about 2½%, considered in the light of CABEI's intention to maintain this fund indefinitely, and its need to borrow approximately $2.5 million at an interest cost of about 10% in order to provide a counterpart contribution of $5.0 million, supports the argument for a loan at the most concessionary rates.

* CABEI has contended, however, that a 1% bad debt reserve is called for maintaining a reserve would reduce the annual profit by the amount of annual increases to the reserve.

2. CABEI Counterpart: The contributions are scheduled at a 3:1 ratio of AID to CABEI funds over the life of the loan. This ratio is justified by the following considerations:

a. CABEI's new capital call of $85.0 million has not yet been approved by its Board of Directors. In any event it has already been largely committed for other uses. This accounts for the conservative estimate of new paid-in capital counterpart that may be available for this project.

b. Unlike loans 001, 004, and 010, where the ratio was 1:1, CABEI will not be doing any direct lending. Under the previous loans, this allowed the Bank a wide spread (usually 7-8%) to cover the cost of that element of its counterpart which was borrowed from external, higher cost sources. CABEI is committed to the continuation and expansion of those of its current activities which were stimulated by earlier concessional loans. They rightly resist robbing Peter to pay Paul, i.e., diverting substantial amounts of rollover to this newest priority.

c. These factors, added to those mentioned above (minimum profit to CABEI, cost of money, and commitment to maintain the fund indefinitely), suggest that the $5.0 million counterpart contribution is appropriate.

3. Terms to ICIs: CABEI will relend to ICIs at 6%; they in turn will relend at a maximum interest rate of 11% to the agribusiness borrowers. Subloan terms (with a 12-year maximum) and grace periods will be determined through negotiations on a project-by-project basis.

The spread of up to 5 points (11% - 6%) to ICIs is required for several reasons:

a. The ICIs will be assuming the risk in this program. CABEI's loans are backed by the full faith and credit of the borrowing public and private institutions.

b. This is a relatively new activity for many ICIs and the spread will be needed as an incentive to enter a new lending area and provide for increased staff.

c. ICIs will be required to assist in providing or locating technical assistance for the borrowers. There will be additional costs to the ICIs involved in complying with covenants concerning the PAF and the periodic updating thereof.

d. Private ICIs will be assuming any exchange rate fluctuation risks.

The 5% interest spread permitted the ICIs is nevertheless quite attractive. Many ICIs expressed a willingness to relend at rates giving them only a 2-3% spread. This would imply relending by the ICIs at approximate rates of 8-11%, which would be competitive with other resources available for similar purposes in all five C.A. countries. In addition, the 11% rate is consistent with maximum rates imposed by law in Guatemala,* Honduras, and El Salvador for financing these kinds of activities. (Rates in Costa Rica and Nicaragua are above 11%.)

4. Disbursement Schedule: ROCAP/CABEI funds are expected to be disbursed over a four-year period in accordance with the following timetable:

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* This applies only to public institutions in Guatemala.

Disbursement Schedule
(In Millions of US$)

	Total	AID	CABEI
First Year	2.0	1.5	.5
Second Year	4.0	3.0	1.0
Third Year	6.0	4.5	1.5
Fourth Year	8.0	6.0	2.0
Total	20.0	15.0	5.0

This schedule assumes a gradual annual increase in the demand for project funds with a relatively light demand in the first year of project implementation. Such an estimate cannot, at this point, be supported by clear and convincing evidence. Disbursements may be quite rapid in the first year, as ICIs develop applications for loans for projects which have been in gestation for many months. Some ICIs will adapt readily to the PAF; other won't.

The schedule, in any event, identifies the required minimum participation of CABEI for each year of the disbursement period. In the event the demand (using the first year as an example) is less than that projected, AID and CABEI will meet it on roughly a 3:1 ratio. If the demand exceeds $2.0 million, then CABEI can, but will not be obligated to, come up with its counterpart in that year according to the 3:1 ratio. In other words, while CABEI must contribute $5.0 million over the life of the project, its obligation can be met gradually, and pursuant to an annually decreasing ratio of AID funds to its funds; thus, in the final year (assuming for the moment the total disbursement projections are valid), the ratio would be 3:1. Of course, actual disbursements will not precisely reach our projections. Still, CABEI will be obligated, as the

project is implemented, to have disbursed at least the cumulative total amounts indicated on the disbursement schedule by the close of any 12-month disbursement period (assuming adequate demand).

This system ensures that CABEI's counterpart will be forthcoming in a timely manner. Further, it accommodates the possibility that there will be delays in obtaining the anticipated paid-in capital, which should make up a part of the Bank's counterpart contribution. It permits CABEI to defer until later in the project implementation period the need to obtain higher cost funds to devote to loans to ICIs at 6%. In effect, this "cuts CABEI's losses." Given the slight margin at which CABEI can implement this program profitably, this is fully justified.

5. Demand for Project Funds: There were two techniques used to verify the existence of demand for project funds: a survey of Central American ICIs, and the preparation by CABEI of a list of possible subprojects in either the promotion or feasibility stages.

A total of 48 ICIs throughout the CA region were visited to gather data relating to, among other things, levels of interest in participating in the program, prior experiences in agribusiness activities, and current financial information on each ICI. While many of the 48 ICIs visited showed interest in the project, 13 were designated as being the most likely to participate* (Annex IV.B). As stated in Part III.B. (Technical Analysis - Country Specific) of this paper, many ICIs have prior experience in the financing of agribusiness activities and are interested in participating in the program.

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* We have been able to obtain financial information on all but one of these.

While many ICIs identified areas for agribusiness financing, most were unable to furnish precise demand data. The ICI representatives repeatedly stated that they did not develop such information until they had a funding source for a project. Nevertheless, they are confident that they can develop many projects which will meet all applicable criteria. While their confidence, based on experience and knowledge, does not in itself define the dimension of the demand given the rigorous criteria we will be using, it goes a long way to support CABEI's estimates.

CABEI has prepared a list of 31 agribusiness projects totaling $30.0 million, (Annex IV. C.). This list is tentative and does not represent firm loan applications. It does, however, represent CABEI's current best estimate of demand based on information available to the Bank. The list is a product of a review of projects in the promotion or feasibility stage in CABEI's project development system. That system includes five stages: conceptualization, prefeasibility, promotion, feasibility, and financing. The projects contained in the CABEI list were consistent with the areas identified by the ICIs as being potentially financeable under this loan. The distribution by country of the 31 CABEI-identified subprojects follows:

Country	No. of Projects	Total Loan Requirements (In Millions of US$)
Guatemala	8	6.0
El Salvador	5	5.1
Honduras	4	7.0
Nicaragua	7	6.9
Costa Rica	7	5.0
Total	31	30.0

Because the loan breaks new ground, it is impossible to predict demand accurately. Because we will be using rigorous lending criteria, we have concluded that a smaller total program is more prudent. With substantial demand and demonstrated target group impact, we plan to seek a second loan.

6. CABEI's Ability to Repay: The proposed loan will be administered through the Ordinary Fund, one of four operating funds of CABEI. The current Bad Debt Reserve at CABEI totals $800,000, and is applicable in its entirety to Ordinary Fund sub-loans, since sub-loans in other funds are guaranteed either directly or indirectly by the C.A. governments. The $800,000 Bad Debt Reserve is less than 1% of the Ordinary Fund portfolio of $94.6 million. This portfolio included delinquent installments of $4.6 million relating to principal balances of $22.1 million at 6/30/75.

The factor which tends to mitigate this apparent inadequate reserve is that the bank maintains a general reserve account composed of transfer of prior year net incomes which totaled $21.1 million at 6/30/75. The Board of Governors specifically stipulated that one of the account's purposes was to protect the Bank against possible future losses resulting from the Bank's operations, and that annual transfers of income adequate to cover such potential losses should be made to this account. Thus the problem does not appear to be an inadequate bad debt reserve, but rather an apparent overstatement of net loan portfolio combined with a possible overstatement of retained earnings (general reserve). We have contacted CABEI regarding the bad debt reserve issue and have received a response pointing out the availability of the general reserve as a further guarantee for the loan portfolio.

CABEI's financial statements for the past five years along with certain selected indicators are attached as Annexes IV.D. and E. to this Section. These statements reflect a 4-year balance sheet growth of 229% and an increase of 266% in net earnings over a 5-year period. The 10-year cash flow projection, (Annex IV.A.), projects an average portfolio of $20.5 million in 1987 and total interest collections of $9.1 million during the period. Associated with this income are expenses of $6.5 million or a net profit of $2.6 million, (1.3%/year).

Under the proposed loan CABEI will rely on each ICI for repayment of its sub-loans. There will be no direct loans by the Bank to ultimate borrowers. Annex IV.B. contains basic financial information on 12 of the 13 ICIs which will most likely participate in the program. Even though many of the institutions are government fomentos, every agribusiness loan to be financed will be collaterized by at least 150% and supported by a feasibility study.

E. Social Analysis

1. Target Population: It is particularly difficult, in the context of a regional project, to define with any degree of reliable precision the target population. The definitions of rural poor and small farmer must vary from country to country and region to region. In addition, since a major portion of this project will benefit small farmers who can be reached by processing plants, there are geographic limits to the definition.

The special evaluation undertaken by Mr. Jack Heller in March 1976 attempted no precise definition of "small farmer". Nevertheless, it set rough limits of 15 manzanas (maximum) and 1-2 manzanas (minimum) as the parameters for the definition. The evaluation concluded that there is a farm size below which commercial farming seems unrealistic.

We agree, but we think the determination of viability can only be made in the context of a particular project. It may be that a particular crop can be profitably grown on a very few hectares, particularly by farmers who have previously experimented with non-traditional crops and/or who have benefited from sound technical assistance from a reliable source e.g. a processing plant prepared to buy the entire crop.

We will emphasize to CABEI and to the ICIs the significance of net income of the small farmer in evaluating the suitability of a sub-project for financing. The ICIs will ensure in the preparation of the project assessment forms that a reasonable survey of small farmer net income, and in appropriate cases wages of rural labor, is undertaken, in

order to permit a reasonable assurance that the sub-project will benefit the poor. Periodic evaluations of project progress particularly with respect to target group income, will help both to assure compliance with the objectives of this project and facilitate the development of common definitions, rough as they may be. Because the loan will finance numerous agribusiness sub-projects throughout the region, it is difficult to generalize the overall impact on the target group. The impact of any given sub-project will be a function of many variables, including the area in which the project is located, the kind of project being financed, land tenure patterns, etc. However, some general comments can be made.

As the Heller evaluation found, agricultural processing industries can be an effective mechanism for directly benefiting the small farmer and rural poor. These industries can generate substantial direct benefits, in terms of technology transfer and income, to the small farmers from whom they purchase raw materials for processing. The small producers are likely to become better businessmen. Further, because the expanded, large-volume cultivation of vegetables and fruits for processing is inherently a labor intensive activity, the expansion of these activities is almost certain to be accompanied by substantial expansion of employment opportunities.

a. Compatibility with socio-economic environment: Production patterns in Central America indicate that a large percentage of fruits and vegetables are produced by small farmers. Nevertheless, the evaluation points out the fact that the processor may choose from among several alternatives in acquiring his raw material. While it would appear to be in the processor's interest to find middle and large size farmers willing to devote land and recruit workers to

plant, cultivate and harvest the crops, the larger land-holders are reluctant to shift operations away from their lucrative, relatively uncomplicated traditional operations. Another option is for the processor to develop sources from smaller farms. In some areas this is dictated by the fact that only small farmers can be induced to shift to these new crops. In some, the choice of small farmers seems to reflect a judgment on the part of the processor that only they are prepared to give the continuing care and attention required by these crops in their planting, cultivation and harvest.

There is no evidence of a clear pattern having yet emerged in processor selection of farmers as suppliers. The most important factor is the need to develop a reliable volume supply base. This pressure seems to be more important than cost pressures.

Another aspect of the processor-farmer relationship bears special emphasis. Once the relationship has been established, both parties develop a strong mutual interest in its maintenance and continuity. Hence, once established, these relationships are likely to endure.

b. Spread effects: The object of any agribusiness is to expand its operation over time in order to take advantage of economies of scale. One of the major problems in doing this has been the inability to obtain a reliable source of volume supply. The LAAD experience indicates that it normally takes some time for a processing plant to expand to the point where it is operating at optimal scale with a reliable source of raw material. Hence, the participants in any project will increase over time, and this will assure more widespread use of any new or improved technologies that are introduced.

If we are right about the potential of processing plants to increase the income of small farmers, the demonstration effect on non-participating farmers is likely to be quick and dramatic.

c. Distribution of benefits: The Heller evaluation points out that benefits to be obtained by the rural poor are considerable. However, the urgency and criticality to the processor of building a reliable, volume supply base precludes the possibility of prohibiting use by him of large or medium-sized farmer producers. In fact, some reliance upon large producers may be the price, in some instances, which must be paid to induce processors to recruit small farmers. This points to the fact that we must balance our concern for assisting the small farmer with commercial realities. The processor will not be required to recruit producers who cannot reasonably expectto become valued partners in an enduring supplier-processor relationship.

In addition to small farmer participation, considerable rural employment will be generated. That is not to say that employment generation will be substitutable for small farmer participation as a criteria for financing any given project. Experience indicates that benefits to small farmers are relatively large (i.e. three to five times anticipated annual incomes with traditional crops) as compared to benefits to the field workers, which usually equal the minimum wage. For this reason, emphasis will be placed on projects in which small farmers participate as opposed to those in which employment creation is the primary benefit. Nevertheless, generation of employment may be so great in some cases that it will be a sufficient justification for project financing.

2. Impact on Women: This project should lead to important new employment opportunities for women. Because crops for processing are labor intensive, women in the farm household are likely to have added opportunities for productive work. At peaks of labor need (e.g. harvesting), neighboring women are also likely to be offered work.

Some kinds of agro-industries require manual skills which women often develop more than men. For example, LAAD is financing an employment-intensive seed operation in which almost all the workers are women. The same is generally true in the processing plants themselves.

F. Economic Analysis

1. Methodology, Scope and Data: Since the specific sub-projects that the AID loan will finance have not been selected at this time, it was not possible to estimate the internal rate of return, or indeed, to provide quantitative estimates of the project's impact, except by analyzing the results for a number of comparable sub-loans granted to agro-industrial enterprises in Central America in recent years. Fortunately, LAAD (Latin American Agribusiness Development Corporation, S.A.) has undertaken and provided ROCAP with its economic analysis of a number of agribusiness projects which received AID-supported LAAD loans. This data was used as the basis for projections of the expected economic impact of the present project on value added, foreign exchange earnings and employment.

The procedure we have used is to relate the incremental investment of the LAAD sub-borrower (i.e. generally food processing firms), consisting of his own capital contribution as well as funds borrowed from LAAD and other sources to: a) value added; b) additional foreign exchange earnings; and c) employment generated. In each case, we have related the incremental investment (regardless of source of funds) to the incremental impact. The ratios so obtained were then applied to the total new investment associated with the proposed loan to CABEI to obtain the effects expected from the proposed project.

This methodology, of course, relies on the estimated impact of the LAAD sub-loans, not on actual facts based on field surveys. The LAAD data is based on the best estimates of their sub-borrowers with

regard to the impact of the proposed investment on value added, foreign exchange earnings and employment, and may thus tend to err on the optimistic side, at least within the time frame contemplated. While LAAD is convinced, on the basis of its own experience, that the agricultural potential of the Central American region is enormous, they have also found that the first years of operation for new enterprises are fraught with difficulties. As a result, the favorable outcome that its customers have projected for the years 1977 or 1978 may actually materialize only two or three years later. Thus, the economic impact on GNP, employment, etc. projected below is not likely to occur until two or three years following disbursement of sub-loans.

2. Major Economic Effects

a. Projected Impact on Value Added: Data for eight representative sub-borrowers from LAAD in the food processing area are summarized in Table 1. Column 1 shows total new or incremental investment for existing firms, and total investment for new firms. It consists of resources borrowed from both LAAD and other sources and the enterprises' own contribution (additional capital or reinvested earnings). Column 2 shows additional value added expected to result from the new investment. In calculating value added, we have included part of the additional value of the agricultural raw material used by the processing plant since our aim was to measure the contribution to income of the whole food processing operation resulting from the investment, and not just the value added by the manufacturing process. The rationale for the methodology employed is explained in greater detail in footnote 1 to Table 1. The data are based on the projected balance sheets and profit-and-loss statements of the LAAD sub-borrowers.

Table 1

Projected Additional Value Added

of 8 Representative LAAD Agri-Industrial Projects

(In Thousand of Dollars)

	(1) Incremental Investment	(2) Additional Value Added[1]	(3) Incremental Capital/ Output Ratio (1) over (2)
Rico Tico Alimentos, S.A. (Production and export of cocktail snacks)	210	520[2]	.40
International Wood Products, S.A. (Production and export of food based products)	207	600[3]	.35
Conservas de Centroamérica, S.A. (Processing and regional export of fruits and vegetables)	1,110	1,000[2]	1.11
Mejores Alimentos, S.A. (Processing and regional export of fruits and vegetables)	1,811	1,325[3]	1.37
Quality Foods de Centroamérica, S.A. (Vegetable freezing and export)	888	1,000[4]	.89
Ganadería Santa Lucrecia (Cattle breeding and essential oil production)	521	250[4]	2.08
Leche y Derivados, S.A. (Pasteurization of milk)	576	1,000[4]	.58
Agrícola San Enrique (Cattle breeding and export)	480	140[4]	3.43
	5,803	5,835	.99

See footnotes on next page.

Footnotes of Table 1

1/ In calculating value added, we have included one half of the value of the agricultural raw materials purchased by the agri-business enterprises. Raw materials purchases are always deducted in their entirety when calculating value added by manufacturing. However, our intention here was not to measure value added by the manufacturing process alone, but to make allowance for value added of the whole food processing operation related to the project. We counted only half of the value of the agricultural raw material utilized on the ground that, in the absence of the particular project, the land would have been put to some alternative use, though the value of the agricultural production would have been substantially lower than it was after the processing plant went into operation. For example, in lieu of growing tomatoes for an assured market, the land might have been used for lower value crops such as corn or beans, or tomatoes might have been grown less intensively and efficiently.

2/ Total projected value added in 1978. It is a new project.

3/ Increase in value added between the pre-project annual level and the level projected for 1976, the last year for which a figure was available.

4/ Total projected value added in 1977. It is a new project, and 1977 is the last year for which a projection is available.

Column 3 shows the incremental capital-output ratio, i.e. the ratio of investment (column 1) to additional value added (column 2). Note that the weighted average for these eight enterprises is very close to 1.0. This is an extraordinarily favorable capital-output ratio since it means that, for every $1 million invested in the project, the net contribution to national income or GNP after the project has reached maturity is $1 million per year. Thus, from the social point of view, the total value of the new investment would be recovered in a single year of operation. The 1 to 1 incremental capital-output ratio suggested by this data compares with a 3 to 1 or even 4 to 1 incremental capital-output ratio generally obtained in the analysis of investment projects.

As indicated above, the data must be interpreted with caution since it represents the sub-borrowers projections rather than actual results from operations as measured by sample surveys. On the other hand, the data in Table 1 does not take into consideration the indirect impact of investment on value added, i.e. the "induced" or indirect investment in industries supplying agricultural inputs such as fertilizer, insecticides and farm tools, the indirect impact on construction activity, and the impact on industries supplying consumer goods and services that the farmer will be able to purchase with their higher incomes. To some extent, the neglect of the secondary effects and the possible over-estimate of the direct value added figures shown in column 2 are offsetting.

<u>In conclusion</u>: The available data strongly suggest that the incremental capital-output ratio will be very favorable possibly in the range of 1 to 1, though it is likely that there will be a lapse of

several years before this favorable ratio can be attained.

The factors explaining this unusually favorable ratio include Central America's suitability for the growing of high-value crops such as fruits and vegetables and the size, growth and proximity of the U.S. market.

Assuming that a 1 to 1 incremental capital-output ratio is a realistic estimate for the project, what is the total additional annual income that can be expected after the investment reaches full fruition i.. say, two to three years following disbursement of sub-loans? Total resources expected to be invested in the project are estimated as follows:

From AID	$15.0	million
From CABEI	5.0	million
From ICIs	5.0	million
Contributions by sub-borrowers	16.7 1/	million
Total Resources	$41.7	million

On the assumption of an incremental capital-output ratio of 1:1, the total contribution to annual value added of the project may eventually reach about $40 million a year.

b. Internal Rate of Return: Estimation of the internal rate of return is not possible at this time as the sub-borrowers have not yet been identified. There is no way of projecting the sales, costs and net cash inflows for this unknown group.

1/ Assuming that the sub-borrowers will be required to put up from their own resources an average of 40% of the total cost of the project.

Some generalizations can be made, however, on the basis of LAAD's experience with agro-industrial firms over the past four years.

The first two or three years of a new concern in the agro-industrial field are difficult. The management is inexperienced and may make mistakes. It will require technical assistance. The new firm's credit standing and overseas markets are not yet established. It may also have some initial difficulty in obtaining its agricultural raw material in adequate quantity and quality, and at the right time. Examination of the profit-and-loss statements of LAAD's borrowers indicates that several of them have faced financial difficulties and experienced losses in their first year or two of operations, but that the profit picture has improved rapidly thereafter. LAAD's own profit record reflects this experience: In its first year of operation (1972) LAAD reported a loss of $198,000. This was followed by profits of $49,000 in 1973, $152,000 in 1974 and $178,000 in 1975.

This experience suggests that what is needed is flexibility in credit terms as well as provision of technical assistance to sub-borrowers, particularly in the management area. Credit must be flexible in the sense that lenders should not seek to foreclose if borrower is not able to make repayments on schedule, but will renegotiate the loan to postpone repayments until such time as the firm is firmly on its feet. A few firms may go under, so that a reserve for losses is essential. However, given the excellent potential, the operation should be highly profitable to sub-borrowers as a group, and the number of bankruptcies is likely to be small. The contribution of the project to the national GNP is expected to be considerable, as noted above.

c. Contribution to Foreign Exchange Earnings: In recent years, the generation of foreign exchange earnings has assumed increasing importance for Central America. The region's current account deficit increased from about $190 million in 1973 to $815 million in 1975. A large-scale drain on the area's foreign exchange reserves was averted only by significant increases in capital inflow on both official and capital accounts, including some compensatory borrowing, which cannot be expected to continue indefinitely. Thus, the balance of payments is a constraint on investment and growth, and greater attention will have to be given to expanding the region's foreign exchange earnings.

Data relating new investment to projected additional foreign exchange earnings (including savings through import substitution) for eight of LAAD's sub-borrowers are presented in Table 2. The projected foreign exchange earnings are for an average year after the project reaches maturity and comprise both additional exports and reduced import requirements as a result of import substitution. All exports, inclusive of exports to other members of the Central American Common Market, are included on the ground that new exports from one Central American country to another are likely to substitute, in large part, for imports from outside the region.

Table 2

Projected Additional Foreign Exchange Earnings*
of 8 Representative LAAD Agri-Industrial Projects
(In Thousand of Dollars)

	Incremental Investment	Additional Annual Foreign Exchange Earnings 1/	Ratio of (2) Over (1)
Rico Tico Alimentos, S.A.	210	1,020 2/	4.86
International Wood Products, S.A.	207	680 3/	3.29
Conservas de Centroamérica, S.A.	1,110	1,320 2/	1.19
Mejores Alimentos, S.A.	1,811	3,850 4/	2.13
Quality Foods de Centroamérica, S.A.	888	1,500 5/	1.69
Ganadería Santa Lucrecia	521	300 5/	.58
Leche y Derivados, S.A.	576	0 6/	0
Agrícola San Enrique	480	200 7/	.42
Total	5,803	8.870	1.53

1/ After allowing sufficient lapse of time to obtain full benefits (i.e. 2-3 years after investment).

2/ Projected 1978 foreign exchange earnings. The whole amount of the projected 1978 earnings is treated as "incremental" since this is a new project.

3/ Calculated as the difference between projected 1976 and 1974 exports ($1,030,000 less $350,000). The 1974 figure was used as the "pre-project" level. The projection for 1976 is the last one available.

(cont'd)

* Inclusive of foreign exchange savings through import substitution.

Footnotes Table 2 (Cont'd)

4/ Difference between 1976 foreign exchange earnings projection ($4,500,000) and pre-project level ($650,000). The projection for 1976 is the last one available.

5/ Projected 1977 foreign exchange earnings. This is a new project, so that all earnings are treated as "incremental".

6/ All production is for the local market. Project was included to make sample more representative, since not all agro-business projects are foreign exchange generators.

7/ Based on 1978 projection. The real impact of this cattle breeding project will not make itself felt until the 7th year (no projection available). Take-off in this industry is slow but the impact grows in geometric progression.

Note that the projected ratios of additional annual foreign exchange earnings to incremental investment are unusually favorable. The weighted average for the eight projects listed in Table 2 is 1.5 to 1, meaning that after the project reaches full fruition, each one million dollar of investment in the base period generates $1.5 million in annual foreign exchange benefits.

Allowance must be made for the fact that this ratio is based on projections by LAAD customers that may well be over-optimistic. If the appropriate ratio used in connection with projecting the foreign exchange benefits of the present project is set within the more conservative range of 1.0 to 1.2, the contemplated new total investment of $41.7 million would generate additional annual foreign exchange earnings and savings of $40 - $50 million, still a very impressive figure.

The reason for the project's unusually high impact on foreign exchange earnings is the fact that the loan will be directed at enterprises that are largely oriented toward production for the export market. The loan will not be directed primarily at enterprises growing or processing traditional staple products (e.g. corn, beans or rice) consumed domestically, but mainly to producers and processors of fruits and vegetables which are mostly destined for the extra-regional market.

The project will not only expand foreign exchange earnings, but will also help to diversify them. Central Americans are acutely aware of their excessive dependence on exports of coffee, cotton, sugar and bananas, which together account for about three-fourths of the value of the region's total exports to the outside world. As a result, a poor crop due to adverse weather conditions, natural

disasters or lower world market prices may have a devastating effect on foreign exchange earnings, fiscal receipts and public investment outlays. The contribution of the project to the diversification of foreign exchange earnings may be just as important to Central American development as the additional exchange that it will generate.

d. Impact on Employment: Projections of the estimated number of jobs created in relation to incremental investment for six representative LAAD sub-borrowers are presented in Table 3. The estimated number of jobs created includes both the jobs created at the plant of the sub-borrower and those estimated to be generated on the farm in producing the raw material required. The estimates on job generation were provided by the LAAD sub-borrowers or were made by the LAAD staff in cases where estimates on employment generated on the farm were not available. In the latter case, the methodology used was to relate the amount of agricultural raw material estimated to be required by the processing plant to the number of acres required for its production. The latter figure was then related to the number of man-days required per acre on the basis of data provided by the 1974 Guatemala Small Farm Survey involving a sample of 774 farms.

Note that the average investment outlay required to generate one job for the six LAAD borrowers shown in Table 3 varies from $1247 to $4683. The weighted average for the six enterprises is $2256. On the basis of this figure, a total investment of $41.7 million would generate about 18,500 jobs, a rather considerable figure. Note that this figure does not include the secondary employment effects. It includes only jobs in the processing plants and on the farm. It excludes the additional job generation resulting from the production of the goods and

Table 3

Projected Job Creation for
Six Representative LAAD Agri-Industry Projects

	(1) Incremental Investment	(2) Estimated Number of Jobs Created*	(3) Investment Required per Job
Mejores Alimentos, S.A./ Agrícola de Honduras S.A.	$2,570,000	880	$2,920.45
Quality Foods de Centroamérica, S.A.	888,000	712	1,247.19
Banco Financiero Hondureño (Financing Rice Production)	2,150,000	1,148	1,872.82
Conservas de Centroamerica, S.A.	1,110,000	404	2,747.52
Banco de Crédito Agrícola de Cartago	800,000	321	2,492.21
Leche y Derivados, S.A.	576,000	123	4,682.93
Total	$8,094,000	3,588	$2,255.85

* Inclusive of jobs created in providing the agricultural raw material.

services that the recipients of the additional income will purchase, as well as any additional employment resulting from the investment generated by this additional demand. On the other hand, in the absence of the proposed project, at least part of the resources contributed to the project would have been placed in alternative uses that would also have had some impact on employment.

Note that the above analysis refers only to the first round of ICI lending. Actually, CABEI and the ICIs will be able to relend the funds several times during the period of amortization of the AID loan.

e. Pioneering Impact on New Industries: The significance of the proposed project is not adequately measured by its aggregate impact on income, employment and exports. The project will contribute to the structural transformation of the Central American economy. It is designed to enable the area to capitalize on its natural advantages, i.e. cheap labor as well as soil and climatic conditions propitious to fruit and vegetable growing. This project, as well as the two loans AID has previously made to LAAD, will hopefully help establish the basis for the development of new and important industries. Once it is shown that agro-industrial enterprises can prosper in Central America, it is expected that many more private enterprises will establish themselves in this field with financial resources obtained through private channels.

f. Impact on Target Group: While target group impact is treated principally in the social analysis section, it is worth noting here that agro-industry has significantly increased small producer income in ongoing projects with which we are familiar (e.g. LAAD-financed). It has not been uncommon for farmers who once measured their income in hundreds of dollars to now calculate in terms of thousands.

What we are really talking about is improvement in small farmer productivity.

The improvement of productivity is expected to come about through permitting the shifts of lands currently employed in inefficient low-yielding subsistence agriculture to the growing of cash crops commanding high prices in foreign markets. The potential for increasing agricultural productivity in Central America is suggested by a recent SIECA study on agricultural development. The SIECA study showed that existing agricultural yields in Central America could be increased by 2 to 4 times by using known production methods currently applied in commercial farming and by 3.5 to 7.7 times using the most advanced technology applied on a pilot basis at experiment stations.

Add to this the substantially higher returns implicit in the kinds of crops that are produced for processing, and income increases from hundreds to thousands become easily understandable.

ANNEXES

I. Statutory Checklist

II. ROCAP Response to DAEC PRP Approval Cable

III. Project Assessment Form

IV. Financial Tables

- A. 10-Year Cash Flow Projection
- B. Selected C.A. Credit Institutions -- Financial Data
- C. Illustrative List of Agribusiness Projects for Financing
- D. CABEI audited Combined Balance Sheet
- E. CABEI Audited Combined Income Statements
- F. Summary Cost Estimates and Financial Plan
- G. Costing of Project Outputs/Inputs

V. Logical Framework Matrix

VI. PERT

VII. PPT

VIII. Mission Director's Certification

IX. Draft Authorizing Document

CHECKLIST OF STATUTORY CRITERIA

In the right-hand margin, for each item, write answer or, as appropriate, a summary of required discussion. As necessary, reference the section(s) of the Capital Assistance Paper, or other clearly identified and available document, in which the matter is further discussed. This form may be made a part of the Capital Assistance Paper.

The following abbreviations are used:

FAA - Foreign Assistance Act of 1961, as amended.

FAA, 1973 - Foreign Assistance Act of 1973.

App. - Foreign Assistance and Related Programs Appropriation Act, 1974.

MMA - Merchant Marine Act of 1936, as amended.

BASIC AUTHORITY

1. FAA § 103; § 104; § 105; § 106; § 107. Is loan being made ?

a. for agriculture, rural development or nutrition;	The project will focus on agriculture and rural development by emphasizing sub-loans which focus on increasing the production, income and/or employment of the project population.
b. for population planning or health;	No.
c. for education, public administration, or human resources development;	No.

d. to solve economic and social development problems in fields such as transportation, power, industry, urban development, and export development;	The project will concentrate on problems in agribusiness from producer to consumer. One such problem is the transportation of agricultural products from producer to market. In addition, subprojects with high export potential will be financed.
e. in support of the general economy of the recipient country or for development programs conducted by private or international organizations.	The funds provided through this loan will make possible an expansion and diversification of exports, and in general, an increase of economic activity throughout the region.

COUNTRY PERFORMANCE

Progress Towards Country Goals

2. FAA § 201 (b) (5), (7) & (8); § 208

A. Describe extent to which country is:

(1) Making appropriate efforts to increase food production and improve means for food storage and distribution.	A major goal of the C.A. countries, voiced by the Ministers of Agriculture, is self-sufficiency in basic grains production. The countries are making increased efforts in this area through projects which increase food production and means for storage and distribution.
(2) Creating a favorable climate for foreign and domestic private enterprise and investment.	Through a restructured CACM and other means, the C.A. countries are making positive efforts to create a favorable climate for private investment, both on a national and regional basis.
(3) Increasing the public's role in the developmental process.	The CACM countries have been working to increase the public's role in the development process. The Ministers of Agriculture have decided to concentrate on small farmers in an effort to achieve self-sufficiency in basic grains.

(4) (a) Allocating available budgetary resources to development.	The C.A. countries have been allocating considerable available budgetary resources to both national and regional development.
(b) Diverting such resources for unnecessary military expenditure (See also Item No. 20) and intervention in affairs of other free and independent nations.) (See also Item No. 11).	No C.A. country is diverting resources for unnecessary military expenditures, nor is any C.A. country intervening in other countries' affairs.
(5) 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.	All C.A. countries are making progress toward respect for the rule of law, freedom of expression and of the press, and recognition of the importance of individual freedom, initiative, and private enterprise as is witnessed by the absence of press and other censorship and the encouragement of initiative and private enterprise in agriculture, industry and housing. Some progress is being made in political reforms such as tax collection improvements and land tenure arrangements.
(6) Willing to contribute funds to the project or program.	CABEI is contributing $5.0 million of its own funds to the project for a 3:1 relationship between AID and CABEI funds.
(7) Otherwise responding to the vital economic, political, and social concerns of its people, and demonstrating a clear determination to take effective self-help measures.	The re-structured Central American integration movement is an effective response to the vital economic, political, and social concerns of the people in the region and to its development problems; this loan in particular will provide opportunities for self-help.
B. Are above factors taken into account in the furnishing of the subject assistance?	Yes.

Treatment of U.S. Citizens and Firms.

3. 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?

There is no evidence of any such debt owed to a U.S. citizen by a Central American Government.

4. FAA § 620 (e) (1). If assistance is to a government, has it (including government 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?

There is no evidence that any such action has been taken by any Central American Government or their agencies.

5. 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,

No Central American country has taken any such action.

a. has any deduction required by Fishermen's Protective Act been made?

N/A

b. has complete denial of assistance been considered by A.I.D. Administrator? N/A

Relations with U.S. Government and Other Nations

6. 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?

C.A. countries do not furnish assistance to Cuba, nor do they allow ships or aircraft under their flags to carry cargo to or from Cuba. (In 1974 Honduras imported 10,000 tons of sugar from Cuba because it could not meet its domestic consumption needs. The USDA concurred with this one time purchase.)

7. 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?

N/A

8. FAA § 620 (d). If assistance is for any productive enterprise which will compete in the United States with United States enterprise, is there an agreement by the recipient country to prevent export to the United States of more than 20% of the enterprise's annual production during the life of the loan?

The assistance is not for an enterprise that will compete in the U.S. However, if a problem arises with respect to any proposed sub-project, it will be dealt with in accordance with policies in effect at this time.

9. FAA § 620 (f). Is recipient country a Communist country?

No Central American country is a Communist country.

10. FAA § 620 (i). Is recipient country in any way involved in (a) subversion of, or military aggression against, the United States or any country receiving U.S. assistance, or (b) the planning of such subversion or aggression?	No Central American country is in any way involved in the activities listed.
11. 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?	No Central American country has permitted such action.
12. FAA § 620 (l). If the country has failed to institute the investment guaranty program for the specific risks of expropriation, in convertibility or confiscation, has the A.I.D. administration within the past year considered denying assistance to such government for this reason?	All Central American countries have signed investment guaranty agreements with the U.S. and have instituted the program.
13. 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?	No Central American country furnishes goods, or permits ships or aircrafts under its flag to carry goods, to North Vietnam.
14. FAA § 620 (q). Is the government of the recipient country in default on interest or principal of any A.I.D. loan to the country?	No Central American country is in default for payments due under any AID Loan.

15. FAA § 620 (t). Has the country severed diplomatic relations with the United States? If so, have they been resumed and have new bilateral assistance agreements been negotiated and entered into since such resumption?	No Central American country has severed diplomatic relations with the U.S.
16. FAA § 620 (u). What is the payment status of the country's U.N. obligations? If the country is in arrears, were such arrearages taken into account by the A.I.D. Administrator in determining the current A.I.D. Operational Year Budget?	All Central American countries are current in their U.N. obligations.
17. FAA § 481. Has the government of recipient country failed to take adequate steps to prevent narcotics 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 U.S. Government personnel or their dependents, or from entering the U.S. unlawfully?	All Central American Governments have enacted laws prohibiting the use, sale and transportation of such narcotic drugs, and have been cooperative with U.S. authorities in the control of international narcotics traffic.
18. FAA 1973 § 29. If (a) military base is located in recipient country, and was constructed or is being maintained or operated with funds furnished by U.S., and (b) U.S. personnel carry out military operations from such base, has the President determined that the government of recipient country has authorized regular access to U.S. correspondents to such base?	N/A

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Military Expenditures

19. FAA s 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 is to be coordinated with the Bureau for Program and Policy Coordination, Regional Coordinators and Military Assistance Staff (PPC/RC).)	No Central American country spends an excess amount of its country's budget or foreign exchange reserves for military equipment. No Central American country has purchased sophisticated weapon systems.

Conditions of The Loan

General Soundness

20. FAA s 201 (d). Information and conclusion on reasonableness and legality (under laws of country and the United States) of lending and relending terms of the loan.	The proposed terms and conditions of the Loan are legal under Central American and U.S. laws and reasonable for Central America at this time.
21. FAA s 201 (b) (2); s 201 (e) Information and conclusion on 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 proposed project appears to be both economically and technically sound, and there are strong assurances that the funds will be used in sound manner.
22. FAA s 201 (b) (2). Information and conclusion on capacity of the country to repay the loan, including reasonableness of repayment prospects.	There appears to be an excellent capacity on the part of CABEI to repay the loan. Moreover, the loan is guaranteed by the Member Countries.

23. FAA s 201 (b) (1). Information and conclusion on availability of financing from other free-world sources, including private sources within the United States.	No other free world financing appears to be available for this project.
24. FAA s 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 United States of the assistance?	The financial and other plans necessary to carry out the assistance have been obtained together with a reasonably firm estimate of the cost to the U.S. of the assistance.
25. FAA s 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 purpose of loan?	No further legislative action will be required within the Central American countries for accomplishment of the purposes of the Loan.
26. FAA s 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?	The Mission Director has so certified.

Loan's Relationship to Achievement of Country and Regional Goals

27. FAA s 207; s 113 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)	The Loan will support and directly encourage economic, political and social development through the promotion of all phases of agribusiness (producer to consumer) systems. Goals (a), (b), (c), (e) and (f) will be emphasized through the projects carried out and the resulting economic development of the region.

(e) other important areas of economic, political, and social development, including industry; free labor unions, cooperatives, and Voluntary Agencies; transportation and communication; planning and public administration; urban development, and modernization of existing laws; or (f) integrating women into the recipient country's national economy.

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

The project is regional in nature and is being executed and coordinated on a regional basis.

29. FAA § 201 (b) (4). Information and conclusion on activity's relationship to, and consistency with, other development activities, and its contribution to realizable long-range objectives.

The activity is closely related to and consistent with other development activities and will directly contribute to the long-range objectives of the CACM.

30. FAA § 201 (b) (9). Information and conclusion on whether or not the activity to be financed will contribute to the achievement of self-sustaining growth.

The activity will directly contribute to the achievement of self-sustaining growth for the five countries by building CACM agribusiness and non-traditional export potential.

31. FAA § 209:
Information and conclusion whether assistance will encourage regional development programs.

This assistance will directly encourage regional development programs through increased economic and fiscal stability in the CACM.

32. FAA s 111. Discuss the extent to which the loan will strengthen the participation of urban and rural poor in their country's development, and will assist in the development of cooperatives which will enable and encourage greater numbers of poor people to help themselves toward a better life.

The agribusiness activities financed to a great extent will be located in rural areas and will concentrate on increasing the participation of the rural poor. As increased production is needed by processing plants, cooperatives will be encouraged so that production and productivity can be increased.

33. FAA s 201 (f). If this is a project loan, describe how such project will promote the country's economic development taking into account the country's human and material resources requirements and relationship between ultimate objectives of the project and overall economic development.

The project will promote (1) the production of non-traditional agricultural products; (2) employment of the rural poor; (3) income of the rural poor; (4) exports and therefore; foreign exchange earnings; and, (5) value added in agriculture.

34. FAA s 281 (a). 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 Loan will directly contribute to assuring maximum participation in the task of economic development through the promotion of greater numbers of agribusiness activities in the private sector and of greater public participation in them.

35. FAA s 281 (b). 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 program clearly recognizes the particular needs, desires and capacities of the people of the region and indirectly supports and furthers the other goals.

36. FAA § 201 (b) (3). In what ways does the activity give reasonable promise of contributing to the development of economic resources, or to the increase of productive capacities?

The establishment of agribusiness activities will increase both the development of economic resources and the productive capacities by financing heretofore unexplored resources--flowers, sesame, pepper, honey, etc.--and all small farmers to shift their land from inefficient, low-yielding subsistence agriculture to the growing of cash crops commanding high prices in foreign markets.

37. FAA § 601 (a). 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 of industry, agriculture and commerce; and (f) strengthen free labor unions.

The loan will directly serve to encourage the flow of international trade and aid private initiative, and will indirectly further efforts of the countries to attain the other goals.

38. FAA § 619. If assistance is for newly independent country, is it furnished through multilateral organizations or plans to the maximum extent appropriate?

N/A

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

39. FAA § 201 (b) (6). 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

The Loan will have little effect on the U.S. economy; no effect on areas of labor surplus; and will be furnished in a manner consistent as possible with improving the U.S. balance of payments position.

and assistance are furnished in a manner consistent with improving the U.S. balance of payments position.

40. FAA § 202 (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 Loan funds will go to intermediate credit institutions through CABEI. The intermediate credit institutions will use the funds to finance private enterprises.

41. 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).

Through improved economic and financial stability in the region, the Loan will encourage increased U.S. private trade and investment, and the services of U.S. private enterprise.

42. 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?

Any engineering or professional services financed under the Loan may be provided by U.S. firms or their affiliates.

43. FAA § 602. Information and conclusion whether U.S. small business will participate equitably in the furnishing of goods and service financed by the loan.

U.S. Small Business will be ensured the opportunity to participate equitably in the furnishing of goods and services under the Loan.

44. FAA § 620 (h). Will the loan promote or assist the foreign aid projects or activities of the Communist-Bloc countries?

No.

45. 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.

Such technical assistance as may be financed under the Loan will be contracted from private enterprise, or provided at no cost by the intermediate credit institutions or public agencies.

Loan's Compliance with Specific Requirements

46. FAA § 110 (a); § 208 (c). In what manner has or will the recipient country provide assurances that it will provide at least 25% of the costs of the program, project, or activity with respect to which the Loan is to be made?

The Borrower will provide, out of its own funds, at least 25% of the costs of the project. This provision will be included in the Loan Agreement.

47. FAA § 112. Will loan be used to finance police training or related program in recipient country?	No.
48. FAA § 114. Will loan be used to pay for performance of abortions or to motivate or coerce persons to practice abortions?	No.
49. FAA § 201 (b). Is the country among the 20 countries in which development loan funds may be used to make loans in this fiscal year?	N/A
50. FAA § 201 (d). Is interest rate of loan at least 2% per annum during grace period and at least 3% per annum thereafter?	Yes.
51. FAA § 201 (f). If this is a project loan, what provisions have been made for appropriate participation by the recipient country's private enterprise?	Private enterprises financed will be required, consistent with ICI's policies, to make a counterpart contribution. Sub-loan agreements will so provide.
52. FAA § 604 (a). Will all commodity procurement financed under the loan be from the United States except as otherwise determined by the President?	There will be no commodity procurement financed under the Loan.

53. FAA § 604 (b). What provision is made to prevent financing commodity procurement in bulk at prices higher than adjusted U.S. market price?	There will be no bulk commodity procurement financing under the Loan.
54. 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 United States on commodities financed by the loan?	Yes.
55. FAA § 604 (e). If offshore 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?	There will be no offshore procurement of any agricultural commodities financed under the Loan.
56. FAA § 604 (f). If loan finances a commodity import program, will arrangements be made for supplier certification to A.I.D. and A.I.D. approval of commodity as eligible and suitable?	There will be no commodity importing financed under the Loan.
57. 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.	There will be no procurement financed under the Loan and U.S. Government excess personal property will not be needed.

58. FAA s 611 (b); App. s 101. If loan finances water or water-related land resource 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?

The Loan will not finance a water or water-related land resources construction project or program.

59. FAA s 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?

Any construction contracts financed under the Loan will be required, through the Loan Agreement, to be let competitively to the maximum extent possible.

60. FAA s 612 (b); s 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 United States are utilized to meet the cost of contractual and other services

CABEI is making a substantial contribution to the project. No U.S.-owned foreign currency is available for this project.

61. App. s 113. Will any of loan funds be used to acquire currency of recipient country from non-U.S. Treasury sources when excess currency of that country is on deposit in U.S. Treasury?

No.

62. FAA s 612 (d). Does the United States own excess foreign currency and, if so, what arrangements have been made for its release?

No.

63. FAA s 620 (g). What provision is there against use of subject assistance to compensate owners for expropriated or nationalized property?	The Loan Agreement will preclude such use of funds.
64. FAA s 620 (k). If construction of productive enterprise, will aggregate value of assistance to be furnished by the United States exceed $100 million?	N/A
65. FAA s 636 (i). Will any 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 transaction?	No.
66. App. s 103. Will any loan funds be used to pay pensions, etc., for military personnel?	No.
67. App. s 105. If loan is for capital project, is there provision for A.I.D. approval of all contractors and contract terms?	The Loan Agreement will provide for such approval.
68. App. s 107. Will any loan funds be used to pay UN assessments?	No.

69. App. s 108. Compliance with regulations on employment of U.S. and local personnel. (A.I.D. Regulation 7).	Will comply.
70. App. s 110. Will any of loan funds be used to carry out provisions of FAA s s 209 (d)?	No.
71. App s. 114. Describe how the Committee on Appropriations of the Senate and House have been or will be notified concerning the activity, program, project, country, or other operation to be financed by the Loan.	The subject loan will require Congressional notification for financing in FY 1976.
72. App. s 601. Will any loan funds be used for publicity or propaganda purposes within the United States not authorized by Congress?	No.
73. MMA s 901. b; FAA s 640 C.	
(a) 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.	No commodity procurement will be financed under the Loan.
(b) Will grant be made to loan recipient to pay all or any portion of such differential as may exist between U.S. and foreign-flag vessel rates?	N/A

74. Section 30 and 31 of PL 93-189 (FAA of 1973). Will any part of the loan be used to finance directly or indirectly military or paramilitary operations by the U.S. or by foreign forces in or over Laos, Cambodia, North Vietnam, South Vietnam, or Thailand? No.

75. Section 37 of PL 93-189 (FAA of 1973); App. s. 111. Will any part of this loan be used to aid or assist generally or in the reconstruction of North Vietnam? No.

76. App. s 112. Will any of the funds appropriated or local currencies generated as a result of AID assistance be used for support of police or prison construction and administration in South Vietnam or for support of police training of South Vietnamese? No.

77. App. s 604. Will any of the funds appropriated for this project be used to furnish petroleum fuels produced in the continental United States to Southeast Asia for use by non-U.S. nationals? No.

ROCAP RESPONSE TO DAEC PRP APPROVAL CABLE

The following paragraphs relate to paragraphs so numbered in the DAEC cable (State 23265) which followed the PRP review:

A. Sub-Project Criteria: Criteria which will be used in determining sub-project eligibility were developed in conjunction with CABEI and LAAD, and with important inputs from the Heller evaluation. LAAD has been experimenting with the Project Assessment Form and has had positive results in generating needed data. This issue is further discussed in Part II, Project Description, pages 10-12, and the Project Assessment Form can be found in Annex III.

B. Regional Character of Project: The benefits to be derived from approaching the project on a regional basis include the following: 1) the agribusiness fund which is created is greater because of CABEI's counterpart (and the resources required of the ICIs), than a bilateral project would be, thus increasing the amount available for lending, and 2) channeling funds through a regional institution allows resources to flow to areas of highest demand, something which might not otherwise take place by designing bilateral projects.

C. Incentives for ICIs: The interest rate spread being offered to the ICIs provides adequate incentive for their participation in the project. A further discussion of this can be found in Part III, D, Financial Analysis and Plan, pages 50-58

D. Technical Assistance: Technical Assistance needs and possible sources are discussed in Section II, C, Project Description, pages 20-22 and Section III, B, Technical Analysis -- Country Specific, pages 31-45.

E. Sub-Project Eligibility: Consistent with the DAEC's conclusions, eligibility for financing under the project has been kept flexible. A project submitted by a qualified ICI need only comply with the criteria established (see Annex III, Project Assessment Form).

F. Use of Rollover: Beyond the covenant of the Loan Agreement which requires rollovers to be used for the same purposes as the original loan, no further requirements are being imposed. CABEI has committed itself to sustain the program throughout the 30 year maturity period.

G. Benefit Distortion: The criteria for project eligibility address this issue and it will be re-emphasized at the seminar planned for CABEI and all participating ICIs.

H. Interest Rates: The 5% spread being offered to the ICIs is attractive to them and does not conflict with laws controlling interest rates. Guatemala,* El Salvador and Honduras have the lowest rate imposed by law -- 11%. The ICIs may not under the terms of AID's loan lend at a higher rate. There is, here, the possibility that the criteria which are to apply to projects eligible for financing hereunder will cause project funds to be insufficiently competitive with other available funds in these countries. However, project funds will be lent for terms up to 12 years; we expect the terms,

---

* This applies only to public institutions in Guatemala.

as well as the fact that other institutions may not wish to lend to higher risk ventures with their funds (which cost them more than 6%), to ensure a continued demand. This issue is examined in Part III, D, Financial Analysis and Plan, pages 50-58.

I. Level of Analysis: An analysis of ICIs by country, and of relevant bilateral AID programs, is found in Part III, B, Technical Analysis - Country Specific, pages 31-45.

J. Environmental Impact Statements: This has been imposed as a consideration in the eligibility criteria (see Annex III, Project Assessment Form) and will be emphasized in the Seminar attended by CABEI and the ICIs.

K. Nutritional Impact: This too has been imposed as a consideration in the eligibility criteria (see Annex III, Project Assessment Form) and will be emphasized in the seminar attended by CABEI and the ICIs.

L. Logical Framework Matrix and Project Description Narrative: These have been revised per DAEC recommendations (see Annex V).

PROJECT ASSESSMENT FORM

I. Name and Description of Proposed Project

A. Company Name and Owners

B. Country and Area Located

C. Type of Activity

	Existing Situation (Before funding of project)	Projections (Based on following project years) 1	2	3	Actual Results (at end of each year of operation) 1	2	3
II. Effects Produced - Quantitative							
A. Target Group Impact							
1. Small farmer participation							
a. Total No. of farmers who own or have control of land that are participating							
b. No. of participants by total farm size							
1) 0-5 hectares (or equivalent)							
2) 6-20 hectares (or equivalent)							
3) 21-10 hectares (or equivalent)							
4) over 10 hectares (or equivalent)							

2. Employment Effects (worker years based on 275 worker days/year/job

   a. Approximate rate of unemployment in area

   b. New jobs created by this project on the farm (not including farmers who are owners or controllers of land)

   c. New jobs created by this project off the farm--i.e. in the plant, etc.

3. Income levels

   a. Salaried employees

      1) Average for geographic area in which project is located

         (a) Paid to farm labor

            (1) men
            (2) women

         (b) Paid to off-farm labor

            (1) men
            (2) women

      2) Offered by project (agri-business, or farm labor)

         (a) Paid to farm labor

            (1) men
            (2) women

         (b) Paid to off farm labor

            (1) men
            (2) women

b. Farmer income attributable to the project by total farm size

1) 0 - 5 hectares (or equivalent)

2) 6 - 20 hectares (or equivalent)

3) 21 - 50 hectares (or equivalent)

4) Over 50 hectares (or equivalent)

4. Productivity - New farm production technologies; especially for farmers owning or controlling less than 20 hectares (or equivalent). First explain the technology:

a. Yields

b. Rates of adoption: of those farmers participating in the project what percent have adopted the new technology, broken down by the following farm sizes (demonstration effect):

1) 0 - 5 hectares (or equivalent)

2) 6 - 20 hectares (or equivalent)

3) 21 - 50 hectares (or equivalent)

4) Over 50 hectares (or equivalent)

5. Development

1. Produced by exports 2. Saved by import substitution 3. Spent abroad on imported equipment, supplies, and/or profits					
	Existing Situation (before funding of project)	Projected Changes			Actual Results (after first year of operations)
II. Effects Produced - Qualitative A. Agribusiness Systems Development 1. New agribusiness technologies introduced (list and explain) 2. New inputs created (or made available) by agribusinesses, or offered at lower prices (list and explain) 3. New or expanded market development (explain) 4. New non-traditional product development (list and explain) 5. Increased systems efficiency; removal of constraints/bottlenecks (explain) 6. Linkages created in development of systems; backward/forward; vertical integration (explain) 7. Contribution to medium/longer term industry or sector growth (explain)					

B. Rural Development 1. Changes in quality of produce as result of agribusiness (explain) 2. Changes in nutrition level of poor (explain) 3. Changes in health resulting from changes in nutrition (explain) 4. Impact on education (explain) C. Environmental considerations; explain positive and/or negative impact of proposed project.			

III. Financial Viability; demonstrate (with appropriate supporting data to be attached with loan application) viability of proposed project

IV. Evaluation; eligibility of project vis-a-vis above described criteria

ANNEX IV A

AGRIBUSINESS PROJECT
TEN YEAR CASH FLOW PROJECTION
(In Thousands US$)

	1 1977-78	2 1978-79	3 1979-80	4 1980-81	5 1981-82	6 1982-83	7 1983-84	8 1984-85	9 1985-86	10 1986-87
Beginning Balance	-----	35	141	132	204	365	391	422	455	490
Funds Derived From:										
Interest Collections	60	241	546	975	1,225	1,242	1,264	1,289	1,315	1,343
CABEI Counterpart	500	1,000	1,500	2,000	-----	-----	-----	-----	-----	-----
AID Loan	1,500	3,000	4,500	6,000	-----	-----	-----	-----	-----	-----
Principal Collections	-----	-----	-----	200	805	1,820	3,268	4,200	4,321	4,305
Total Availability	2,060	4,276	6,687	9,307	2,234	3,427	4,923	5,911	6,091	6,138
Funds Used For:										
Admin. Expenses	10	40	91	162	204	207	211	215	219	224
Interest Exp. CABEI External	--	-----	125	244	231	219	206	154	181	169
Interest Exp. AID Loan	15	60	135	240	300	300	300	300	300	300
Principal Amortization CABEI	--	-----	63	125	125	125	125	125	125	125
Principal Amortization AID	--	-----	-----	-----	-----	-----	-----	-----	-----	360
Sub-Loans From CABEI Counterpart	500	1,000	1,500	2,000	-----	-----	-----	-----	-----	-----
Sub-Loans From AID Funds	1,500	3,000	4,500	6,000	-----	-----	-----	-----	-----	-----
Sub-Loans From Rollovers	-----	-----	-----	200	805	1,820	3,268	4,200	4,321	4,305
Sub-Loans From Earnings	-----	35	141	132	204	365	391	422	455	490
Total Utilization	2,025	4,135	6,555	9,103	1,869	3,036	4,501	5,456	5,601	5,973
Ending Balance	35	141	132	204	365	391	422	455	490	165
Average Portfolio at End of Year	1,000	4,017	9,106	16,242	20,410	20,695	21,073	21,479	21,918	22,390

Note:
See Assumptions Following Page.

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ANNEX IV.A.
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ASSUMPTIONS

1. CABEI will borrow $2.5 million for 20 years from external commercial sources at 10% interest, and will draw down $1.25 million the third year and $1.25 million the fourth year.

2. All drawdowns and principal collections by CABEI are immediately reinvested.

3. CABEI administrative costs will be 1% of average portfolio.

4. CABEI loans to ICIs will average 8 years at 6% including a 3-year grace and 5-year repayment period.

5. AID will lend $15.0 million to CABEI for 30 years including a 10-year grace period at 2% and 3% thereafter.

6. Net income for each year is invested the following year.

Selected Central American Credit Institutions
Financial Data
($000's)

As of	Institution	Balance Sheet: Assets	Balance Sheet: Liabilities	Balance Sheet: Capital	Income Statement: Revenues	Income Statement: Expenses	Income Statement: Profit (Loss)
	Guatemala						
12/31/75	FIASA	16,269	13,171	3,098	1,434	1,074	360
12/31/75	CORFINA	7,320	1,205	6,115	483	431	52
	Honduras						
12/31/74	FACACH	2,942	2,290	652	358	357	1
12/31/73	BANCASA	48,100	45,300	2,800	5,250	4,500	750
	El Salvador						
12/31/74	FIGAFE	19,817	18,301	1,516	1,205	835	370
	Nicaragua						
12/31/74	Banco Nacional de Nicaragua	267,876	237,088	30,788	23,525	22,319	1,206
12/31/75	FUNDE-INDE	758	497	261	497	559	(62)
12/31/74	INFONAC	112,929	97,786	15,143	12,171	14,642	(2,471)*
	Costa Rica						
12/31/75	COFISA	28,673	24,709	3,964	3,311	2,711	600
12/31/74	Banco Crédito Agrícola de Cartago	41,758	36,887	4,871	3,032	2,810	222
12/31/75	Banco Nacional de Costa Rica	379,538	348,422	31,116	29,551	28,427	1,124
12/31/74	Banco Anglo de Costa Rica	103,658	98,080	5,578	7,972	7,173	799

* Loans to this ICI are 100% guaranteed by the Government of Nicaragua.

ILLUSTRATIVE LIST OF AGRIBUSINESS PROJECTS FOR FINANCING
(Thousands of U.S. $)

	Total Investment	Outside Investment	Potential CABEI Participation
GUATEMALA			
Castor Oil	3,367	1,367	2,000
Asparagus	1,000	400	600
Fruit Processing	1,167	467	700
Flowers	350	170	180
Tomatoe Processing	3,200	1,280	1,920
Tropical Fruits	160	70	90
Vegetables	538	218	320
Rubber Production and Industrialization	333	133	200
Total	10,115	4,105	6,010
EL SALVADOR			
Cashew Nuts	5,020	1,020	4,000
Asparagus	1,000	400	600
Melons, Prod. Processing	430	230	200
Vegetables	270	150	120
Fresh Lemons	286	136	150
Total	7,006	1,936	5,070
HONDURAS			
African Palm Oil	3,000	1,150	1,850
Castor Oil	5,000	2,000	3,000
Pinapple	4,000	2,000	2,000
Sesame Seed Processing	350	170	180
Total	12,350	5,320	7,030
NICARAGUA			
Cashew Nuts	2,500	1,000	1,500
Castor Oil	5,833	2,333	3,500
Vegetables	450	200	250
Fresh Lemons	1,120	450	670
Pinapple	1,946	1,156	790
Ipecacuanha	150	60	90
Sesame Seeds	150	70	80
Total	12,149	5,269	6,880
COSTA RICA			
Cacao	3,700	1,500	2,200
Flowers, Cut Fresh	700	300	400
Vegetables	275	155	120
African Palm Oil	3,152	1,362	1,790
Flower Export	140	60	80
Macadamia Processing	620	250	370
Spices	85	35	50
Total	8,672	3,662	5,010
TOTAL FOR CENTRAL AM.	50,292	20,292	30,000

C A B E I
AUDITED COMBINED BALANCE SHEET
FY 70/71 to FY 74/75
(000's Omitted)

ASSETS	BALANCE AT JUNE 30 1971	1972	1973	1974	1975
Cash in Banks	$ 1,586	$ 2,503	$ 2,141	$ 655	$ 454
Temporary Investments	14,796	23,190	23,516	28,561	33,331
Loans Outstanding	121,885	156,490	187,964	223,324	278,355
Other Loans	---	---	830	835	872
Compensating Loans	6,321	7,418	9,283	13,025	16,008
Accrued Interest & Comm. Receivable	3,003	4,924	5,765	8,131	10,395
Land, Equipment & Fixtures (Net)	630	724	775	1,087	1,149
Invest. Proj. of Great Reg. Significance	163	204	216	222	209
Other Assets	1,321	1,671	1,431	1,065	2,007
TOTAL ASSETS	$ 149,705	$ 197,124	$ 231,921	$ 276,905	$ 342,780
LIABILITIES, EQUITY & RESERVES					
Liabilities					
Short-Term Bank Loans	$ ---	$ 231	$ 678	$ 7,461	$ 7,651
Accrued Int. & Commissions Payable	754	963	1,055	1,487	2,024
Accrued Expense & Accts. Payable	122	344	293	174	327
Long-Term Debt	104,854	142,517	164,781	188,418	236,199
Compensating Loans	6,321	7,418	9,283	13,025	16,008
Provision for Fluctuation Changes	---	62	254	1,932	2,153
TOTAL LIABILITIES	$ 112,051	$ 151,535	$ 176,344	$ 212,497	$ 264,362
Equity					
Paid-in Capital	$ 27,500	$ 32,000	$ 37,500	$ 41,000	$ 47,500
Donated Surplus	2,165	2,165	2,165	2,165	2,203
General Reserve	5,144	7,989	11,424	15,463	21,143
Retained Earnings	2,845	3,435	4,488	5,780	7,572
TOTAL EQUITY	$ 37,654	$ 45,589	$ 55,577	$ 64,408	$ 78,418
TOTAL LIABILITIES AND EQUITY	$ 149,705	$ 197,124	$ 231,921	$ 276,905	$ 342,780
SELECTED INDICATORS					
Rate of Earnings on Total Capital Employed	1.9%	1.7%	1.9%	1.9%	2.2%
Rate of Earnings on Equity	7.6%	7.5%	8.1%	8.3%	9.7%
Debt to Equity Ratio	2.78	3.13	2.98	3.04	3.11
Average Loan Receivable Balance	$ 101,789	$ 139,188	$ 172,227	$ 205,644	$ 250,839

C A B E I
AUDITED COMBINED INCOME STATEMENTS
FY 70/71 to FY 74/75
(000's Omitted)

	Year Ended June 30					Totals 1971-75	
	1971	1972	1973	1974	1975	Amount	%
INCOME							
From Loans							
Interest	$ 5,878	$ 8,429	$ 10,754	$ 12,573	$ 16,132	$ 53,766	78.70
Commit. Fees	622	564	610	811	1,127	3,734	5.47
Serv. Charges	133	186	157	262	407	1,145	1.67
	$ 6,633	$ 9,179	$ 11,521	$ 13,646	$ 17,666	$ 58,645	85.84
Investments	997	1,026	1,442	2,353	3,021	8,839	12.94
Other Sources	18	54	150	325	286	833	1.22
TOTAL INCOME	7,648	10,259	13,113	16,324	20,973	68,317	100.00
EXPENSE							
Borrowing	$ 2,638	$ 4,127	$ 5,247	$ 7,023	$ 9,290	$ 28,325	41.46
General Administration	2,194	2,565	3,228	3,407	3,897	15,291	22.38
Prov. for Bad Debts	---	150	150	150	---	450	.66
Other	(29)	(17)	---	413	214	581	.85
TOTAL EXPENSE	$ 4,803	$ 6,825	$ 8,625	$ 10,993	$ 13,401	$ 44,647	65.35
NET INCOME	$ 2,845	$ 3,434	$ 4,488	$ 5,331	$ 7,572	$ 23,670	34.65
INDICATORS - PROFIT STRUCTURE							
% of Ave. Loans Rec.							
Income from Loans	6.5%	6.6%	6.7%	6.6%	7.0%		
Other Income	1.0	0.8	0.9	1.3	1.3		
Borrowing Exp.	(2.6)	(3.0)	(3.0)	(3.4)	(3.7)		
G&A Expense	(2.1)	(1.9)	(2.0)	(1.9)	(1.6)		
NET INCOME	2.8%	2.5%	2.6%	2.6%	3.0%		

SUMMARY COST ESTIMATE AND FINANCIAL PLAN
(US$ 000)

PROJECT PAPER

Source	AID FX	AID LC	CABEI LC	ICI's LC	Total
Use					
Subprojects	5,500	8,000	4,500	4,500	22,500
Tech. Asst.*	500	1,000	500	500	2,500
Total	6,000	9,000	5,000	5,000	25,000

* Technical Assistance requirements are estimated at 10% of project costs based on interviews with ICIs and CABEI personnel. See page 20 for a detailed discussion of this item.

NOTE: Our best estimate is that $6.0 million of the AID loan will finance dollar imports from the U.S.: $500,000 of Technical Assistance and $5.5 million in equipment. The remaining funds will finance local currency expenditures, such as construction, installation and working capital.

AID 1020-25 (3-70)

PROJECT DESIGN SUMMARY
LOGICAL FRAMEWORK

Life of Project:
From FY 1976 to FY 1980
Total U.S. Funding $15 million
Date Prepared: 6/10/76

Project Title & Number: ROCAP: Regional Rural Agribusiness Development 596-0068

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
Program or Sector Goal: The broader objective to which this project contributes:	**Measures of Goal Achievement:**		**Assumptions for achieving goal targets:**
Goal To improve the well being of the rural poor.	1. Health improvements are noted in rural poor due to better income and more nutritional products consumed.	1. Reports from agribusinesses	1. Increased income in rural areas will result in better diets
Sub-goal To increase the participation of the rural poor in the benefits to be derived from agribusiness activities	1. Increase in the supply of commodities made available to the target group.	1. ICI reports and information from agribusiness	1. The production of non-traditional agricultural products will continue to be a priority in CA
	2. Increased number of small farmers participating in agribusiness activities (e.g. selling their produce to processors).	2. Project data kept by ICIs and CABEI	2. CA regional economies will promote the development of agribusiness activities that enjoy high labor intensivity.
	3. Increased income accruing to participating small farmers.	3. Project data kept by ICIs and CABEI	3. Small farmers are willing and able to move into non-traditional agriculture.
	4. Productivity increases due to adoption of new technologies by small farmers.	4. Project data kept by ICIs and CABEI	
	5. Increase in the number of rural job jobs (on and off farm) created.	5. Project data kept by ICIs and CABEI	
	6. Production increases due to adoption of new technologies by small farmer.	6. Project data kept by ICIs and CABEI	
	7. Increased salaries for those working in agribusiness as salaried employees.	7. Project data kept by ICIs and CABEI	
Project Purpose:	**Conditions that will indicate purpose has been achieved: End of project status.**		**Assumptions for achieving purpose:**
1. To develop non-traditional agribusiness activities in CA which provide benefits to the rural poor.	1a. All loan funds placed in up to 50 projects and 10 participating ICIs. 1b. All sub-projects serve the small farmer as evidenced by the selection criteria in the completed PAFs.	1a. CABEI reports 1b. Completed PAFs	1. To the extent needed, crop production credit is available from other sources.
2. To improve the institutional capability of CABEI and national ICIs to promote and finance agribusiness activities.	2a. CABEI is providing required technical assistance to both ICIs and sub-borrowers. 2b. ICIs are providing technical assistance inputs or identifying sources of technical assistance for sub-borrowers. 2c. To the extent that followers exist they are being used for the same purposes as the original loan.	2a. CABEI records 2b. ICI records 2c. ICI and CABEI records	

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ANNEX V
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AID 1330-5 (9/79)

PROJECT DESIGN SUMMARY
LOGICAL FRAMEWORK

Project Title & Number: _____

Life of Project:
From FY _____ to FY _____
Total U.S. Funding _____
Date Prepared: _____

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
Outputs:	**Magnitude of Outputs:**		**Assumptions for achieving outputs:**
1. Agribusiness fund established in CNNEI	1. Funds exist in each participating FCI (totalling $25.0 million including CNNEI funds and ICI counterpart).	1. CNNEI records	1. Financing in the agriculture sector will be of increasing priority to the Bank and ICIs.
2. Trained personnel in CNNEI and the ICIs managing the program.	2. At least 2 CNNEI project managers and 75 from CA ICIs have received training.	2. List of personnel that have received training from both CNNEI and ICIs.	
3. A system for project selection established between CNNEI and the ICIs.	3. N/A	3. CNNEI records	
4. A system for the financing of agribusiness activities through the ICIs is created	4. N/A	4. ICI records	
Inputs:	**Implementation Target (Type and Quantity)**		**Assumptions for providing inputs:**
	Years		
	1 2 3 4		
AID $25.0	1.5 8.0 6.5 6.0	1. Disbursement records	1. Funds will be made available on a timely basis
CNNEI 5.0	.5 2.0 1.0 2.0		
ICIs 5.0	.5 2.0 1.5 2.0		
Total 25.0 *	2.5 12.0 9.0 10.0		

* Of the $25.0 million fund, approximately 10% will be used to finance technical assistance. In addition, the participating ICIs will pay any costs related to their staff attending a seminar in which the program is more fully-outlined along with the responsibilities of each individual ICI.

PERT ACTIVITIES

No.	Description	Action
0	Starting Point (PP approved)	
0-1	Prepare and sign Loan Agreement (15 July 76).	ROCAP-CABEI
1-2	Finalize terms of reference for projects to participate in program. (31 July 76).	CABEI
1-3	Assign the five representatives in CABEI's regional offices responsible for pre-selecting projects submitted by ICIs based upon eligibility criteria. (31 July 76).	CABEI
0-4	Prepare training, including didactic materials for CABEI representatives. (31 July 76).	CABEI
2-5	Contact preselected ICIs and inform them of the start of program and of the training necessary for their participation. (15 Aug. 76).	CABEI
4-6	Conduct training for CABEI representatives. (15 Aug. 76).	CABEI/ROCAP
5-7	Selection of at least one project manager by each participating ICI. (31 Aug. 76).	ICIs
6-8	Make necessary arrangements and conduct training for ICIs project managers. (15 Sept.76).	CABEI-ROCAP
1-9	Make field trip to evaluate progress. (15 Sept.76).	ROCAP
8-10	Identify and promote projects to be included in program. (15 Oct. 76).	CABEI-ICIs
10-11	Assist in the preparation of eligibility applications from ultimate borrowers. (30 Oct. 76).	ICI

No.	Description	Action
10-12	Prepare and submit the first progress report including a list of sub-projects scheduled to be disbursed during the following 6 mos. (30 Oct. 76).	CABEI
11-13	Obtain and process eligibility applications from ultimate borrowers. (15 Nov. 76).	ICIs
9-14	Make field trip to evaluate progress. (15 Nov. 76).	ROCAP
13-15	Undertake and present to CABEI a feasibility study for each project under consideration. (31 Dec. 76).	ICI
15-16	Begin negotiations for loan with ultimate borrower. (15 Jan. 77).	ICI
16-17	Analize for approval each feasibility study submitted. (31 Jan. 76).	CABEI
12-18	Submit a quarterly progress report including a list of sub-projects scheduled to be disbursed during the following 6 months. (31 Jan. 76).	CABEI
17-19	Prepare and sign a contract with ICI for approved loans. (15 Feb. 77).	CABEI/ICI
14-20	Make field trip to evaluate progress. (15 Feb. 77).	ROCAP
19-21	Prepare and sign a contract with the ultimate borrower. (28 Feb. 77).	ICI/Ultimate Borrower
21-22	Disburse funds according to conditions established. (31 Mar. 77).	CABEI
13-22	Disbursements may begin for any projects previously approved after conditions precedent scheduled for Nov. 15, 1976 have been met. (31 Mar. 77).	

No.	Description	Action
18-23 23-25 25-34	Submit a quarterly progress report including a list of sub-projects scheduled to be disbursed during the following 6 months. (30 April 77), (31 July 77), (31 Oct. 77).	CABEI
20-24 24-26 26-36	Make field trip to evaluate progress. (15 May 77), (15 Aug. 77), (7 Oct. 77).	ROCAP
10-27	Continue to identify and promote projects which support up to $2 million in loans. (15 Sep. 77).	CABEI-ICIs
11-28	Continue to assist in the preparation of eligibility applications from ultimate borrowers. (22 Sep. 77).	ICI
13-29	Continue to obtain and process eligibility applications from ultimate borrowers. (30 Sep. 77).	ICI
15-30	Continue to undertake the necessary feasibility studies to support up to $2 million in loans. (7 Oct. 77).	ICI
16-31	Continue negotiations for loans with ultimate borrowers. (15 Oct. 77).	ICI
17-32	Continue to analyze for approval feasibility studies submitted which support up to $2 million in loans. (15 Oct. 77).	CABEI
19-33	Continue to prepare and sign contracts with ICI for approved loans. (30 Oct. 77).	CABEI/ICI
21-33	Continue to prepare and sign contracts with ultimate borrowers. (30 Oct. 77).	ICI
22-35	Continue to disburse loans up to $2 million. $1.5 million from ROCAP funds, and $ .5 million from CABEI funds. (7 Nov. 77).	CABEI

No.	Description	Action
35-37	Undertake first annual evaluation. (15 Nov. 77).	ROCAP
29-38 38-45 45-52	Continue to identify and promote projects to be included in the program. Also assist in the preparation of eligibility applications from ultimate borrowers and process them. (15 Oct. 78), (15 Oct. 79), (15 Oct. 80).	CABEI-ICI
31-39 39-46 46-53	Continue to undertake and present to CABEI feasibility studies and negotiate for loans with ultimate borrowers. (22 Oct. 78), (22 Oct. 79), (22 Oct. 80).	ICI
33-40 40-47 47-54	Continue to analize for approval each feasibility study submitted and prepare and sign contracts with ICI for ultimate borrowers. (30 Oct. 78), (30 Oct. 79), (30 Oct. 80).	CABEI-ICI
35-42	Continue to disburse loans for $4 million more to total $6 million. $ 4.5 million from ROCAP funds and $1.5 million from CABEI funds. (7 Nov. 78)	CABEI
42-44	Undertake annual evaluation. (15 Nov. 78).	CABEI-ROCAP
42-49	Continue to disburse loans for $6.0 million more to total $12.0 million. $ 9.0million from ROCAP funds and $3.0 million from CABEI funds. (7 Nov. 79).	CABEI
49-51	Undertake annual evaluation. (15 Nov. 79).	CABEI-ROCAP
49-56	Continue to disburse loans for $8.0 million more to total $20 million. $15.0million from ROCAP funds and $5.0 million from CABEI funds. (7 Nov. 80).	CABEI
34-41 41-48 48-55	Continue to submit quarterly progress reports including a list of sub-projects scheduled to be disbursed during the following 6 months. (30 Oct. 78), (30 Oct. 79), (30 Oct. 80).	CABEI

No.	Description	Action
36-43 43-50 50-57	Continue to make field trips. (7 Nov. 78). (7 Nov. 79). (7 Nov. 80).	ROCAP
56-58	Undertake final evaluation and prepare end-of-project report.	ROCAP

OUTPUTS

1. Trained personnel in CABEI and ICIs managing the program.

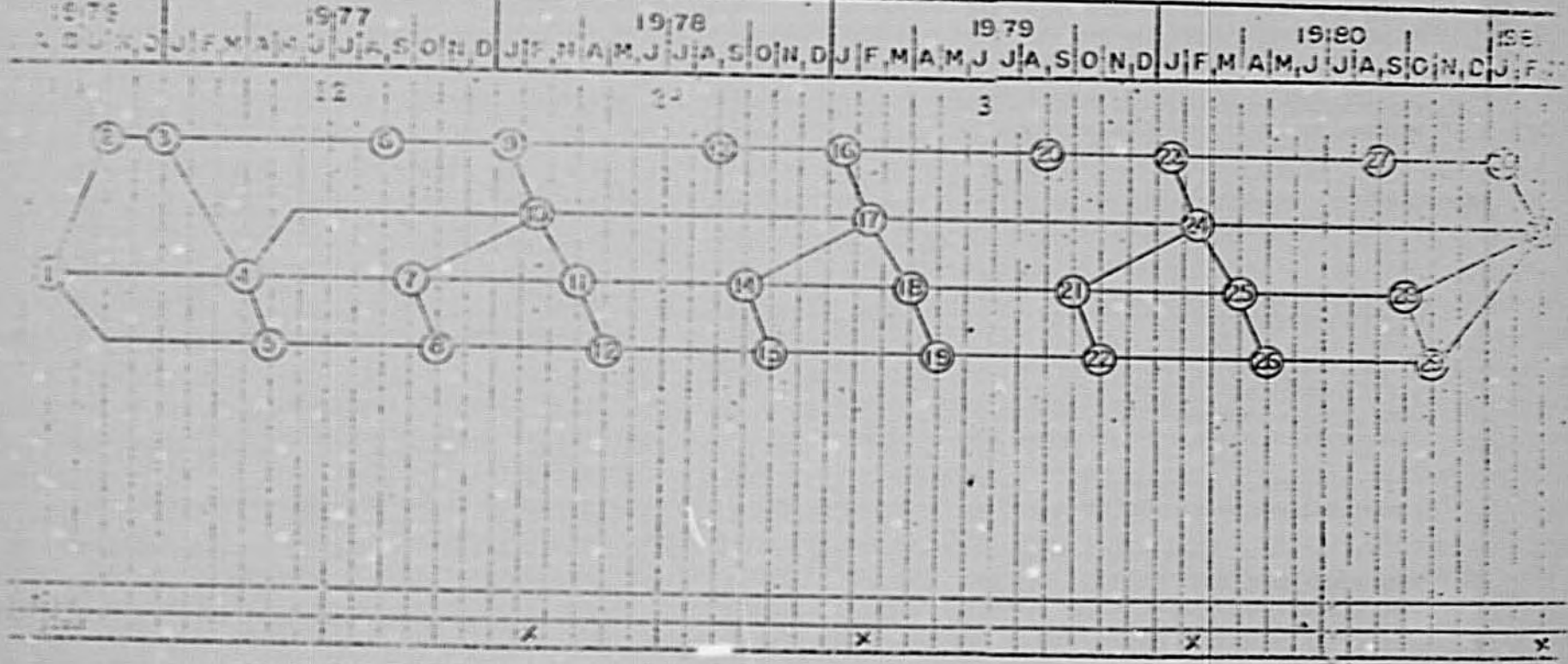
2. System for project selection established between CABEI and the ICIs.

3. An agribusiness fund is established in CABEI.

4. A system for the financing of agribusiness through the ICIs is created with at least 30 projects financed.

   a) At least 3 projects financed
   b) At least 6 more projects financed totalling 9
   c) At least 9 more projects financea totalling 18
   d) At least 12 more projects financed totalling 30

CASEI AGRIBUSINESS LOAN



PROJECT PERFORMANCE NETWORK

Country: ROCAP	Project No.:	Project Title: CABEI AGRIBUSINESS LOAN	Date: 5/13/76	/x/ Original / / Revision	Approv:

CPI OBJECTIVE

1. 9/1/76 Loan agreement signed between ROCAP and CABEI.

2. 11/1/76 At least 2 CABEI project managers and 15 other from CA ICIs have received training and are managing the progra... (CABEI Action)

3. 12/15/76 Assistance in the preparation of eligibility applications has been given to final borrowers and at least three applications have been processed. (ICIs Action).

4. 3/1/77 Two quarterly reports have been received at ROCAP including disbursement projections for the following 6 months. (CABEI Action).

5. 4/1/77 At least two field trips to evaluate progress have been made by ROCAP personnel.

6. 9/1/77 Contracts with a least 3 ultimate borrowers have been signed. (ICIs and CABEI Action).

7. 10/1/77 At least two additional quarterly progress reports have been received at ROCAP including disbursement projections for the following 6 months. (CABEI Action).

8. 11/1/77 At least two additional field trips to evaluate progress have been made by ROCAP personnel.

9. 1/15/78 $2 million in loans have been disbursed. $1.25 million from ROCAP fund, and $0.75 million from CABEI-ICIs fund. (CABEI-ICIs Action).

10. 2/15/78 First formal evaluation has been conducted. (CABEI-ROCAP Action).

11. 4/1/78 Two additional quarterly progress reports have been received at ROCAP including disbursement projections for the following 6 months. (CABEI Action).

12. 5/1/78 At least two additional field trips to evaluate progress have been made by ROCAP personnel.

13. 9/1/78 Contracts with at least 6 more ultimate borrowers have been signed. (ICIs Action).

14. 10/1/78 Two additional quarterly reports have been received at ROCAP including disbursement projections for the following 6 months. (CABEI Action).

15. 11/1/78 At least two additional field trips to evaluate progress have been made by ROCAP personnel.

16. 1/15/79 $4 million more in loans have been disbursed totaling $6 million. $3.75 million from ROCAP funds and $2.25 million from CABEI-ICI funds. (CABEI-ICIs Action).

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Country: ROCAP	Project No.:	Project Title: CABEI AGRIBUSINESS LOAN	Date: 5/13/76	/x / Original / / Revision	Apprvd:

CPI NARRATIVE

17. 2/15/79 — A second formal evaluation has been conducted.

18. 4/1/79 — Two additional quarterly progress reports have been received at ROCAP, including disbursement projections for the following 6 months. (CABEI Action).

19. 5/1/79 — At least two additional field trips to evaluate progress have been made by ROCAP personnel.

20. 9/1/79 — Contracts with at least 9 more ultimate borrowers have been signed.

21. 10/1/79 — Two additional quarterly progress reports have been received at ROCAP including disbursement projections for the following 6 months. (CABEI Action).

22. 11/1/79 — At least two additional field trips to evaluate progress have been made by ROCAP personnel.

23. 1/15/80 — $6.0 million more in loans have been disbursed, totaling $12.0 million. $7.5 million from ROCAP funds and $4.5 million from CABEI-ICIs funds.

24. 2/15/80 — A third formal evaluation has been conducted.

25. 4/1/80 — Two quarterly reports have been received at ROCAP including disbursement projections for the following 6 months.

26. 5/1/80 — At least two additional field trips to evaluate progress have been made by ROCAP personnel.

27. 9/1/80 — Contracts with at least 12 more ultimate borrowers have been signed.

28. 10/1/80 — At least two quarterly reports have been received at ROCAP including disbursement projections for the following 6 months.

29. 11/1/80 — At least two additional field trips to evaluate progress have been made by ROCAP personnel.

30. 1/15/81 — $8.0 million more in loans have been disbursed totaling $20 million. $12.5 million from ROCAP funds and $7.5 million from CABEI-ICIs funds.

31. 3/1/81 — Final evaluation has been completed and end project report completed.

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ANNEX VIII

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

I, Lawrence E. Harrison, the principal officer of the Regional Office for Central American Programs ("ROCAP"), having taken into consideration, among other things, the satisfactory record of the Central American Bank for Economic Integration ("CABEI") in the maintenance and utilization of the funds made available to CABEI under previous loans, do hereby certify that in my judgment CABEI has the financial, technical and human resource capabilities to effectively maintain and utilize the funds to be provided to CABEI by the United States of America under the terms of the proposed Loan No. 596-0068 for regional rural agribusiness development. This Loan will channel funds through CABEI for re-lending to intermediate credit institutions that will, in turn, finance agribusiness activities which will offer significant benefits for the rural poor.

Based upon the implementation record of other CABEI loans and the planning which has gone into this proposed loan, CABEI can be expected to provide the necessary technical and human resources to effectively administer the subloans and utilize the funds to be provided hereunder. The Bank will also provide substantial funds for the Project. CABEI continues to demonstrate to my satisfaction its awareness of its ongoing responsibilities for the efficient implementation of AID loans.

Lawrence E. Harrison
Director, ROCAP

6/14/76
Date

LOAN AUTHORIZATION

Provided from: FAA Section 103 Funds
CABEI: Regional Rural Agribusiness Development

Pursuant to the authority vested in the Deputy U.S. Coordinator, Alliance for Progress, 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 Central American Bank for Economic Integration ("Borrower"), of not to exceed twelve and one half million United States dollars ($15,000,000) to assist in financing the United States dollar and local currency costs of a program ("Program") to provide long-term financing and technical assistance through intermediate credit institutions (ICIs) for the promotion, development and expansion of agribusiness enterprises in Central America. The loan shall be subject to the following terms and conditions:

1. Interest and Terms of Repayment:

Borrower shall repay the loan to the Agency for International Development ("A.I.D.") within thirty (30) years from the date of the first disbursement under the loan, including a grace period of not to exceed ten (10) years. Borrower shall pay to A.I.D. in United States dollars on the disbursed balance of the loan interest at the rate of two percent (2%) per annum during the grace period and three percent (3%) per annum thereafter.

2. Other Terms and Conditions:

(a) Goods, services (except for ocean shipping) and marine insurance financed under the loan shall

have their source and origin in countries of Central America or in countries included in Code 941 of the A.I.D. 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 A.I.D. Geographic Code Book, excluding the countries of Central America.

(b) 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 the first disbursement or to the issuance of any commitment documents under the Loan, Borrower shall, except as A.I.D. may otherwise agree in writing, furnish to A.I.D. in form and substance satisfactory to A.I.D.:

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

(ii) A statement, duly authenticated, of the names of the person or persons holding or acting in the office(s) of Borrower and a specimen signature of each person specified in such statement;

(iii) A plan for the objective and comprehensive review of all sub-loans proposed to be made by Borrower, to assure that such proposed transactions are economically justified and technically sound;

(iv) A statement by Borrower setting forth the eligibility criteria and procedures to be followed in authorizing and monitoring sub-loans;

(v) A plan for the periodic audit of sub-loans;

(vi) Certified copies of the corporate charter and by-laws of Borrower and all sub-borrowers;

(vii) Certified copies of the operating policies of Borrower, and all sub-borrowers authorized by the respective Board of Directors;

(viii) Evidence that the Borrower has made appropriate staffing and organizational arrangements to ensure the efficient administration of the project;

(ix) Evidence in writing that each participating ICI has agreed to the project eligibility criteria outlined in the Project Assessment Form (PAF); and

(x) Evidence in writing that each participating ICI has agreed to appoint one (1) full-time project manager to administer its projects.

(d) Except as A.I.D. otherwise agrees in writing, neither Borrower (CABEI) nor any sub-borrower (ICI) shall:

(i) Utilize AID loan funds or any repayments of principal from sub-loans made from A.I.D. loan funds to pay administrative or operating expenses of Borrower or any sub-borrower;

(ii) Utilize AID funds to finance working capital except for the purchase of raw materials or for financing the expansion of an existing agribusiness;

(iii) Permit the use of AID funds to finance any sub-project or to make any sub-loan in excess of two hundred thousand United States dollars ($2,000,000), or the local currency equivalent thereof, or the combined United States dollar and local currency equivalent thereof.

(e) After the commitment of two and one half million United States dollars ($2,500,000) of loan funds, and thereafter when successive commitments totalling two and one half million United States dollars ($2,500,000) have occurred, AID and the Borrower shall hold a joint review of the progress of the Program.

(f) ROCAP will review and approve all projects submitted for financing until two and one half million United States dollars ($2,500,000) of AID funds have been committed.

(g) Repayments of principal from AID funded sub-loans may be used only for those purposes and pursuant to the same general procedures for which the AID loan funds were originally made available.

(h) The loan shall be subject to such other terms and conditions as AID may deem advisable.