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UNITED STATES INTERNATIONAL DEVELOPMENT COOPERATION AGENCY
AGENCY FOR INTERNATIONAL DEVELOPMENT
Washington, D. C. 20523

CARIBBEAN REGIONAL

PROJECT PAPER

CARIBBEAN FINANCIAL SERVICES CORPORATION

Loan Number: 538-W-024
538-K-025
Project Number: 538-0084

AID/LAC/P-154

AGENCY FOR INTERNATIONAL DEVELOPMENT

PROJECT DATA SHEET

1. TRANSACTION CODE: A (A = Add, C = Change, D = Delete)

Amendment Number

DOCUMENT CODE: 3

2. COUNTRY/ENTITY: REGIONAL DEVELOPMENT OFFICE/CARIBBEAN

3. PROJECT NUMBER: 538-0084

4. BUREAU/OFFICE: LAC 05

5. PROJECT TITLE (maximum 40 characters): CARIBBEAN FINANCIAL SERVICES CORPORATION

6. PROJECT ASSISTANCE COMPLETION DATE (PACD): MM DD YY 12 31 87

7. ESTIMATED DATE OF OBLIGATION (Under 'B.' below, enter 1, 2, 3, or 4)

A. Initial FY 83 B. Quarter 4 C. Final FY 88

8. COSTS ($000 OR EQUIVALENT $1 =)

A. FUNDING SOURCE	FIRST FY B. FX	FIRST FY C. L/C	FIRST FY D. Total	LIFE OF PROJECT E. FX	LIFE OF PROJECT F. L/C	LIFE OF PROJECT G. Total
AID Appropriated Total						
(Grant)	(400)	( )	(400)	(400)	( )	(400)
(Loan)	(7,200)	(4,800)	(12,000)	(7,200)	(4,800)	(12,000)
Other U.S. 1.						
Other U.S. 2.						
Host Country						
Other Donor(s)		2,000	2,000		2,000	2,000
TOTALS	7,600	6,800	14,400	7,600	6,800	14,400

9. SCHEDULE OF AID FUNDING ($000)

A. APPROPRIATION	B. PRIMARY PURPOSE CODE	C. PRIMARY TECH. CODE 1. Grant	C. PRIMARY TECH. CODE 2. Loan	D. OBLIGATIONS TO DATE 1. Grant	D. OBLIGATIONS TO DATE 2. Loan	E. AMOUNT APPROVED THIS ACTION 1. Grant	E. AMOUNT APPROVED THIS ACTION 2. Loan	F. LIFE OF PROJECT 1. Grant	F. LIFE OF PROJECT 2. Loan
(1) DA	730	810		-	-	400	8,000	400	8,000
(2) ESF	730	-		-	-	-	4,000	-	4,000
(3)									
(4)									
TOTALS						400	12,000	400	12,000

10. SECONDARY TECHNICAL CODES (maximum 6 codes of 3 positions each)

11. SECONDARY PURPOSE CODE

12. SPECIAL CONCERNS CODES (maximum 7 codes of 4 positions each)

A. Code

B. Amount

13. PROJECT PURPOSE (maximum 480 characters)

Establish a private sector development finance institution to provide term financing and other financial services not traditionally available to private sector productive enterprises in the English-speaking Caribbean.

14. SCHEDULED EVALUATIONS

Interim MM YY 03 85 MM YY 09 87 Final MM YY

15. SOURCE/ORIGIN OF GOODS AND SERVICES

[ ] 000 [x] 941 [x] Local [x] Other (Specify) 935

16. AMENDMENTS/NATURE OF CHANGE PROPOSED (This is page 1 of a ______ page PP Amendment.)

17. APPROVED BY

Signature: William B. Wheeler

Title: WILLIAM B. WHEELER, DIRECTOR

Date Signed: MM DD YY 06 14 83

18. DATE DOCUMENT RECEIVED IN AID/W, OR FOR AID/W DOCUMENTS, DATE OF DISTRIBUTION: MM DD YY

AID 1330-4 (8-79)

CARIBBEAN FINANCIAL SERVICES CORPORATION

PROJECT PAPER

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PROJECT AUTHORIZATION

Name of Country: Caribbean Regional

Name of Project: Caribbean Financial Services Corporation

Number of Project: 538-0084

Number of Loan: 538-W-024

1. Pursuant to Sections 531 and 106 of the Foreign Assistance Act of 1961, as amended, I hereby authorize the Caribbean Financial Services Corporation project for the Caribbean Region involving planned obligations of not to exceed Twelve Million United States Dollars ($12,000,000) in loan funds ("Loan") and Four Hundred Thousand United States Dollars ($400,000) in grant funds ("Grant") over a one-year period from date of authorization, subject to the availability of funds in accordance with the AID OYB/allotment process, to help in financing foreign exchange and local currency costs for the project. No funds authorized hereunder shall be obligated until AID has received evidence, satisfactory to AID in form and substance, that the Caribbean Financial Services Corporation ("CFSC") has been duly organized and incorporated under the laws of Barbados, and that the CFSC has taken all corporate and legal action required under the laws of Barbados to operate as an intermediate finance institution. The planned life of the project is four years and five months from the date of initial obligation.

2. The project ("Project") consists of the establishment of a private sector development finance institution to provide term financing and other financial services not traditionally available to private sector enterprises in the English-speaking Caribbean.

3. The Project Agreement, which may be negotiated and executed by the officer to whom such authority has been delegated in accordance with AID's regulations and delegations of authority, shall be subject to the following essential terms, conditions and covenants, together with such other terms and conditions as AID may deem appropriate.

(a) Interest Rate and Terms of Repayment

The CFSC shall repay the Loan to AID in U.S. Dollars within twenty (20) years from the date of first disbursement of the Loan, including a grace period of not to exceed ten (10) years. The CFSC shall pay to AID in U.S. dollars interest from the date of first disbursement of the Loan at the rate of (i) two percent (2%) per annum during the first ten (10) years, and (ii) three percent (3%) per annum thereafter, on the outstanding disbursed balance of the Loan and on any due and unpaid interest accured thereon.

(b) Source and Origin of Commodities, Nationality of Services (Loan)

Except as provided in section 3(h) below, commodities financed by AID under the Loan shall have their source and origin in Barbados or in countries included in AID Geographic Code 941, except as AID may otherwise agree in writing. Except as provided in Section 3(h) below and except for ocean shipping, the suppliers of commodities or services shall have Barbados or countries included in AID Geographic Code 941 as their place of nationality, except as AID may otherwise agree in writing Ocean shipping financed by AID under the Loan shall be financed as set forth in section 3(h) below.

(c) Source and Origin of Commodities, Nationality of Services (Grant)

Commodities financed by AID under the Grant shall have their source and origin in Barbados or in the United States, except as AID may otherwise agree in writing Except for ocean shipping, the suppliers of commodities or services shall have Barbados or the United States as their place of nationality, except as AID may otherwise agree in writing. Ocean shipping financed by AID under the Grant shall be financed only on flag vessels of the United States, except as AID may otherwise agree in writing.

(d) Conditions Precedent to Disbursement for Lending Activities (Loan)

Prior to any disbursement under the Loan, or to the issuance by AID of documentation pursuant to which disbursements of Loan funds for lending activities will be made, the CFSC shall, except as AID may otherwise agree in writing, furnish to AID, in form and substance satisfactory to AID:

(1) Evidence of subscribed capital of not less than $2.0 million and paid-in capital of not less than $1.0 million;

(2) Evidence of the establishment of a working office, including evidence that the Managing Director is actively employed and that the CFSC has employed the staff required to carry out its operations;

(3) A statement setting forth the basic organizational policies and operational guidelines of the CFSC, including specific lending criteria; and

(4) Evidence that the CFSC has all necessary incorporated powers and priviledges required for effective implementation of the Project.

(e) <u>Conditions Precedent to Disbursement for Discounting (Loan)</u>

Prior to any disbursement under the Loan, or to the issuance by AID. of documentation pursuant to which Loan funds for discounting will be made available, the CFSC shall, except as AID. may otherwise agree in writing, furnish to AID., in form and substance satisfactory to AID.:

(1) Evidence that the CFSC has employed the staff required to carry out the discounting program;

(2) A duly authorized detailed statement setting forth the criteria and procedures that the CFSC will follow in reviewing, administering and monitoring the discounting program; and

(3) A projected two-year operating plan and budget for the discounting program and a model agreement illustrating the basic legal framework for the discounting program.

(f) <u>Condition Precedent to Disbursement for Direct Lending or Other Financial Services (Loan)</u>

Prior to any disbursement under the Loan, or to the issuance by AID of documentation pursuant to which disbursement of Loan funds for direct lending or other financial services will be made, the CFSC shall, except as AID may otherwise agree in writing, furnish to AID, in form and substance satisfactory to AID, a duly authorized detailed plan for (a) the periodic audit of sub-loans and (b) a projected two year operating plan and budget for direct lending and/or other financial services.

(g) <u>Special Covenants</u>

The CFSC shall covenant that, except as AID may otherwise agreed in writing, it will

(1) Not incur any indebtedness which would be accorded a position superior to the Loan;

(2) Use reflows of principal and interest in a manner which will achieve the purposes and objectives of the Project;

(3) Not amend or modify its corporate charter and/or by-laws or other incorporating instruments without prior approval of AID;

(4) Not incur short or long-term liabilities other than mutually agreed upon concessional assistance, which cause the debt/equity ratio of the CFSC to exceed six to one (6/1) during the first five years, seven to one (7/1) during years six and seven, and eight to one (8/1) thereafter.

(5) Request AID's prior approval of the Managing Director and any changes in the Managing Director.

(h) Waivers

(i) Ocean shipping financed by AID under the Loan shall, except as AID may otherwise agree in writing, be financed only on flag vessels of countries included in AID Geographic Code 899. This waiver requires that the supplier provide written certification on freight invoices as to non-availability of U.S. flag carriers.

(ii) To the extent set forth in this section, commodities financed by AID under the Loan shall have their source and origin in countries included in AID Geographic Code 935, except as AID may otherwise agree in writing, and the suppliers of commodities or services shall have countries included in AID Geographic Code 935 as their places of nationality, except as AID may otherwise agree in writing. The provisions of this section shall be applicable to procurements utilizing not to exceed $4,000,000 in Economic Support Funds and not to exceed $1,000,000 in development assistance funds.

M. Peter McPherson
Administrator

July 20, 1983
Date

Clearances:
GC:RDerham ____ Date ____
GC/LAC:RBMeighan ____ Date ____
AA/PPC:JBolton ____ Date ____
AAA/LAC:MDBrown ____ Date 7/28
LAC/CAR:JHoltaway ____ Date 7/28

GC/LAC:GMWinter:nhd 7/27/83 29241 0017d

I. SUMMARY AND RECOMMENDATIONS

A. Recommendations

The AID Regional Development Office/Caribbean (RDO/C) recommends authorization of a loan of $12,000,000 and a grant of $400,000 to assist in establishing and capitalizing the Caribbean Financial Services Corporation (CFSC).

B. Project Summary

The Borrower/Grantee will be the Caribbean Financial Services Corporation, a private sector-owned development bank that will operate in the English-speaking Caribbean (principally Barbados, and the Less Developed Countries of Antigua, Belize, Dominica, Grenada, Montserrat, St. Kitts/Nevis, St. Lucia and St. Vincent). CFSC will be incorporated in Barbados. Its core investor group includes some of the Caribbean region's most influential business leaders. Its creation at their initiative responds to their perception of the most critical constraints to the growth of the productive private sector in the region. In addition to Caribbean firms, shareholders in CFSC will consist of the major multi-national commercial banks currently operating in the region.

The CFSC project is the centerpiece of RDO/C's private sector strategy as articulated in the Caribbean Basin Initiative Implemenation Plan. While other elements of that plan address constraints to private sector growth such as training, identification of investment opportunities, and attraction of foreign investment, the proposed project will fill a clear and vital need in the financing of productive investment.

The goal of the project is to stimulate expansion of the productive private sector in the English-speaking Caribbean, thereby creating employment, income and foreign exchange earnings. Its purpose is to establish a private sector development finance institution to provide term financing and other financial services not traditionally available to private sector enterprises in the English-speaking Caribbean.

To achieve the goal and purpose of the project will consist of the following elements:

- -- incorporation and capitalization of CFSC;
- -- discounting of loans made by commercial banks to the productive private sector;
- -- direct lending to eligible enterprises; and
- -- other innovative services not currently available in the region to support private sector growth.

By the end of the project, CFSC will have assisted in establishing or expanding at least fifty enterprises in agro-business, manufacturing, tourism and/or service firms directly and substantially benefitting those productive sectors.

C. Project Issues

The issues presented in the PID Approval Cable (Annex A) were focused principally on an earlier mixed public/private approach to responding to the Region's private sector financing needs, the Caribbean Investment Corporation (See Section II.B.4 for a discussion of the evolution of the project design). Many of the issues, therefore, are not primarily applicable to the proposed Project. However, several general issues continue to be key to the success of the project. These are referenced below:

1. Foreign Exchange Risk: Convertibility and devaluation risks are discussed in Section IV.F.

2. Equity: The amount and structure of equity is discussed in Section IV.C. and IV.F.

3. Management: The management structure of CFSC and the composition of its Board of Directors is outlined in Section IV.F.

4. AID Procurement Rules: The application of AID source rules and shipping provisions could undermine the financial viability of CFSC. Specific waiver requests are discussed under Section VI.E.

D. Project Participants

1. Mission Project Committee

Arthur Warman, Private Sector Advisor
Donald Harrison, Economist
Ted Carter, Regional Legal Advisor
Richard Finley, Deputy Controller
Peter Bittner, LAC/DR

2. Mission Review Committee

William Wheeler, Director
Ted Morse, Deputy Director
Terrence Brown, Chief, Development Resources
Terrence Liercke, Chief, Program Office

3. Consultants

Humberto Esteve, A. D. Little, Inc.
Carlos Torres, A. D. Little, Inc.
Robert Wagner, A.D. Little, Inc.
Nicholas Holland, A. D. Little, Inc.
George Ferris, Ferris & Company

II. BACKGROUND AND RATIONALE

A. Background

1. Economic Structure of the English-speaking Eastern Caribbean

The English-speaking countries of the Caribbean consist of Trinidad and Tobago, Jamaica, Barbados, Guyana, the Less Developed Countries (LDCs) of Antigua and Barbuda, Belize, Dominica, Grenada, Montserrat, St. Kitts/Nevis, St. Lucia, St. Vincent and the Grenadines, and a number of small dependencies of the United Kingdom.

The focus of CFSC's direct lending during its initial operations and all of its rediscounting will be in the LDC states of the English-speaking Caribbean and Barbados. The larger states of Trinidad and Tobago, Jamaica and Guyana therefore are not specifically included in this economic background discussion for this reason.

The LDCs and Barbados are small economes which suffer from diseconomies of scale in producing for domestic markets. Opportunities for import substitution are limited and most growth strategies are concentrating on export promotion, particularly in agro-industry and manufacturing. To date, these states have relied heavily on marketing a few primary products such as sugar and bananas to protected markets abroad. In addition to their susceptability to the vagaries of the weather, reliance on a very few products in a limited number of foreign markets makes these economies highly vulnerable to the economic fluctuations of the developed countries.

To move away from this vulnerability, most islands have placed increasing importance on the growth sectors of tourism, agro-industry and manufacturing. The emergence of positive public sector support for the development of private enterprise has been a significant factor in facilitating this shift in a number of countries.

2. Role and Growth of Agro-Industry, Manufacturing and Tourism

Growth in these small economies over the past decade has been set back in various degrees by (a) the massive OPEC oil price hikes of 1973-74 and the ensuing global recession, (b) a series of natural disasters, (c) the continued decline in European budgetary support for the region, and (d) most recently, the strengthening of the U.S. dollar against European currencies and the Canadian dollar (the Region's traditional trading currencies). Nonetheless, manufacturing, agro-industrial development and tourism are playing an increasingly important role in the economies of the English-speaking Caribbean.

Manufacturing and agro-industry are now making a significant contribution to GDP in all states, except Grenada. In 1981, the sector's contribution to GDP exceeded 5 percent in all states (excluding Grenada) with the figure ranging as high as 14 percent (St. Vincent). In most states, manufacturing's share of GDP was higher in 1981 than in 1976. In Antigua and St. Vincent, manufacturing's and agro-industry's share in GDP had doubled. These sectors also are having a significant impact on employment in the English-speaking Caribbean. For instance by 1980, the sectors accounted for more than 10,000 jobs in the LDC's. While the numbers in themselves are not large, they are significant for countries whose populations are so small. Moreover, for the English-speaking Caribbean the sectors are providing a sizable proportion of the new employment opportunities. Lastly, they are having a substantial positive effect on the islands' balance of payments. By 1981, for instance, manufacturing and agro-industry earned almost $170 million in foreign exchange for Barbados and the LDCs, treble the amount generated in 1976.

Although tourism is still relatively unimportant in several states, the sector is assuming increasing significance in the region as a whole. For example, Barbados, Antigua and St. Lucia place high priority on the development of tourism. In addition to their natural beauty, most countries have provided requisite economic infrastructure, including airports capable of handling wide-bodied aircraft and good road systems. The states also have a variety of high quality tourist accommodations. The importance of the sector is indicated by the sector's contribution to total output. For example, in Barbados and Antigua, tourism is now the most important productive sector, contributing 13 and 12 percent of GDP, respectively. In St. Lucia and St. Kitts, the sector is a moderately important contributor to GDP. On the other hand, the sector still furnish less than 5 percent of GDP in Dominica and St. Vincent. For all the region's states, tourism contributes significantly to total foreign exchange earnings, ranging from 19 percent in Dominica to 71 percent in Montserrat.

3. Role of the Private Sector

To reverse the overall downward trend of the region's economy, sustainable increases in employment and production must be achieved. Since the productive sector is predominately in the hands of the private sector and productive employment can most effectively be created by the private ownership of the means of production, the Caribbean private sector has a key role to play in promoting increased economic growth.

There is a general consensus that propects for private sector growth in the region are positive, particularly in agro-industry, manufacturing and tourism. A successful program of expanding productive private sector investment in these sectors will increase employment and overall economic production as well as increase tax revenues which in turn will permit governments to maintain adequate levels of infrastructure investment and social services.

In addition to growth potential, the climate for increasing private sector investment is promising. With limited exception, the political environment in the English-speaking Caribbean has become very positive and Caribbean political leaders are looking to the private sector as a principal source of economic expansion.

The Caribbean private sector must be able to respond to the new opportunity which confronts it. This will require the private sector to move away from its trading company/distributive sector image and pursue higher-risk ventures manufacturing for export, agro-industry and tourism. While U.S. firms can play a role in stimulating private sector expansion in the Caribbean, the Caribbean private sector itself must commit its financial resources, organizational ability, and management skills to the growth of the region.

B. Project Rationale

1. Constraints to Expansion of the Productive Private Sector

The Caribbean Group for Cooperation in Economic Development convened a Task Force on Private Sector Activities in 1980 which determined that despite some differences in the development strategies of Caribbean Group countries, the private sector must be relied upon to provide a large proportion of the additional production and employment needed for the economic and social development of the region. The Task Force identified constraints to further growth of the private sector that coincide with later studies by the World Bank, USAID, and others. The major ones identified include: (a) financing, (b) human resources, (c) uncertain investment climate, (d) governmental and regional policies, (e) deficiencies in physical infrastructure, and (f) marketing.

(a) Financing

Although the English-speaking Eastern Caribbean is reasonably well endowed with financial institutions, these institutions have concentrated on credit to the distributive trades and commerce rather than on providing development or merchant banking services. At present, several states face an acute shortage of liquidity which is affecting private sector activity adversely.

For larger enterprises, the most serious financial problem is the need for longer term financing and venture capital for equity investments. For smaller scale enterprises, a broader range of problems exists which deny access to and inhibit effective utilization of financial resources. These include: (a) provision of longer-term financing; (b) technical assistance in developing projects; (c) supplemental equity financing; and (d) a mechanism to reduce the perceived high risk of lending to smaller enterprise.

(b) Human Resources

The shortage of entrepreneurial, managerial and technical talent as well as skilled labor is one of the most important obstacles to private sector development. This in part is a consequence of out-migration. A traditional education system that does not prepare individuals for the job opportunities that do exist also is responsible. Upgrading and expanding the availability of managerial and technical training is necessary at all levels. Entrepreneurship is even more scarce than managerial or skilled manpower. Partly as a legacy of the colonial era, strong entrepreneurial traditions do not appear to be present in most of the English-speaking Caribbean countries. Although there are numerous small traders and artisans, economic activity in the modern business sector tends to be concentrated in a few firms, largely in commerce. As a result, competition is limited.

For the most part, labor unions in the region are responsible and wage patterns are attractive to foreign investors. However, because of the strong links that have been forged between the labor unions and the dominant political parties, the unions do exert considerable influence. For instance, pressures for wage increases in excess of productivity gains have eroded the competitiveness of some industries, especially sugar.

(c) Uncertain Investment Climate

The "investment climate" is a complex combination of objective "incentive" factors, and more subjective "confidence" factors. To the extent there is a lack of confidence, it seems to be related in most countries not to present policies and practices, but to fears that these policies may change for the worse in the future. In some countries, the lack of clearly articulated economic policies is a negative factor. Also, governments and politicians may fail to express their development strategies in ways that show a sophisticated understanding of the role and requirements of the private sector, giving rise to the feeling, whether justified or not, that public commitment to the private sector may be most expedient and therefore reversible.

Contributing to an uncertain investment climate is the limited participation of private business sector management. Modern business is concentrated among a few firms or individuals. Moreover, in several countries governments have assumed a role in the economy in excess of their management capacity. Thus, bureaucratic obstacles become interwined with political or social relationships so that systems and procedures for transactions such as granting of licenses or other privileges may be inconsistent or exclusive.

(d) Government and Regional Policies

Most countries have encouraged investment by foreign entrepreneurs. Nonetheless, the role of government in the economy in some instances has proven to be a significant impediment to private sector activity. Private sector development is impeded when legislation designed to encourage economic growth is administered in slow and sometimes obstructive ways as a result of bureaucratic inefficiency or even hostitility. Frequently, the approval of applications for work permits or benefits is reserved for too high a level in the government, where the volume of responsibility resting on a few individuals leads to long delays. In other cases, there is overlapping, unclear, and inconsistent jurisdiction by more than one agency and poor coordination between them.

(e) Economic Infrastructure

The basic economic infrastructure in the English-speaking Caribbean, for the most part, is in place. However, private sector growth, especially manufacturing and processing, will require rehabilitation or expansion of existing infrastructure, including electricity, transportation, factory space, and services such as water and sewerage. Natural disasters, most notably hurricanes, and budget stringencies have contributed to a serious disrepair of existing infrastructure in nearly all the LDCs.

(f) Marketing Limitations

According to many analysts, marketing is among the most serious constraints to economic development in the region. The major problem is one of volume. While small size would mean that their output would not disturb markets in large developed countries, East Caribbean states, including Barbados, have difficulty achieving economies of scale. In addition, there is limited access to information on the state of external markets, alternative production techniques, and warehousing facilities, among other items. Often given their severe financial difficulties, governments do not have sufficient resources to undertake increased marketing efforts. Also, foreign exchange difficulties in some states such as Guyana and Jamaica have precluded their use as a market outlet for Eastern Caribbean exports.

An additional constraint is the region's unreliable sea transport system which links the countries both regionally and extra-regionally. Frequently, problems such as erratic and inconsistent shipping inhibit private sector investment in export-oriented activities.

2. RDO/C Private Sector Strategy

To overcome the constraints outlined above which inhibit the growth of all segments of the productive private sector, the Mission has developed a broad strategy to stimulate employment, generate higher levels of income, and expand investment and production. Working within the framework of the Caribbean Basin Initiative and in conjunction with the indigenous business community, national governments and other donor or USG agencies as appropriate, the Mission is undertaking to implement a private sector development strategy that broadly encompasses the following:

- Seeking commitment and mobilization of Caribbean private sector resources which, together with USAID and other donor assistance, can address the principal constraints to growth;

- Creating or expanding opportunities which involve the U.S. private sector with its Caribbean counterpart to stimulate increased investment, enlarge markets, and facilitate the transfer of managerial and technical skills;

- Undertaking such regional or country specific initiatives that will support private sector growth utilizing both aid and non-aid tools of development; and

- Encouraging and facilitating coordination of other donor and USG agencies involved in development of the region's private sector.

The proposed project will address directly the financial constraints to private sector growth in this region. Before discussing the nature of these constraints in more depth and the alternatives considered for addressing them, the following summarizes the Mission's response to the other major constraints discussed above in terms of current or planned project activities.

(a) Human Resources Development

Several current and planned activities are focussed on the critical problem of human resources development, most importantly the current project with the Caribbean Association of Industry and Commerce (CAIC) and the proposed FY 83 grant to the Barbados Institute of Management and Productivity (BIMAP).

Through its training office, CAIC is conducting short courses and seminars in a broad range of topics (upgrading skills of first line supervisors, exporting furniture into the U.S. market, application of U.S. customs and tariffs to manufacturers) at their headquarters in Barbados and in their member countries.

Courses are developed in response to the expressed needs of member Chambers of Commerce and manufacturers associations as well as interests expressed by private firms. RDO/C anticipates continuing its program of assistance to CAIC in 1983, including its training operations.

The proposed project with BIMAP will provide over $2 million of assistance in the area of training to the private sector in Barbados and the LDC's. An innovative aspect of the BIMAP program will be the provision of assistance to specific enterprises using the organizational development approach. BIMAP, in colaboration with the firm, will prepare an overall diagnosis of its management, training and other problems and offer a package of in-plant training, seminars for management, short-term training in the Region or the U.S. for individuals within the firm and inputs of U.S. technology into the firm's production process if appropriate.

(b) Uncertain Investment Climate and Government Policy

While the overall climate for private sector development has improved substantially, broadening the dialogue between public and private sector leaders at the regional and national level, remains an important objective. Again, CAIC is playing a catalytic role in expanding this dialogue and making it effective. While AID funds are not involved directly, CAIC has become a strong voice for the regional private sector in dealing with national government and regional institutions. For example, its efforts to bring together the region's garment manufacturers to discuss the serious problems of that industry has led to consultations between the Caribbean Common Market Secretariat and representatives of the industry aimed at resolving problems created by public policy.

We expect CAIC to continue to expand its influence in this area.

(c) Economic Infrastructure

On-going regional projects such as the factory shells program with the Caribbean Development Bank under the Employment/Investment Promotion II Loan, and the LDC portion of the Caribbean Development Facility I Loan again to CDB have contributed to the region's infrastructure in support of private sector growth.

Beginning in FY 82, RDO/C embarked on specific bilateral projects in the LDC's which in part also address problems related to infrastructure. The $9.6 million grant to Dominica (to reconstruct its principal east-west road) and a grant totalling $7.65 million to St. Lucia and St. Vincent (to rehabilitate various segments of their road network) are addressing transportation constraints. A $9.7 million loan/grant to Antigua will significantly increase the quality and improve the rehability of water supply in that country.

In FY 84 and beyond, additional projects are planned in the area of private sector infrastructure support (industrial estates, warfs, utilities) and energy.

(d) Marketing Limitations

The area of market development is critical in the Region. Two AID-financed projects, the Caribbean Project Development Faclity (CPDF) and the Project Development Assistance Program (PDAP) are, among other activities, helping expand markets and attract new industry.

The CPDF under the sponsorship of the International Finance Corporation and with support from a number of donors including AID, is focussed on assisting firms develop bankable projects. Working out of Washington, D.C., CPDF works with firms in the Caribbean to refine project ideas and assist them to structure projects for presentation to financial institutions. Identification of marketing and product opportunities are among its areas of emphasis.

PDAP is being implemented through an RDO/C contract with the firm of Coopers and Lybrand. The project includes major emphasis on the attraction of new investors to the LDC's and Belize, including enclave industries with established export markets and developing indigenous industries to exploit existing regional and extra-regional markets. The efforts of the PDAP contract are now beginning to bear fruit in terms of new enterprises established, prospects identified, and markets assessed.

While the above is by no means a complete list of the range of projects within the RDO/C portfolio which address the major constraints inhibiting private sector growth (see the Mission's Caribbean Basin Implementation Plan for a more complete analysis), it does illustrate the steps which are being taken in areas outside the parameters of this proposed project with CFSC. In addition, several of these projects will directly support CFSC's activities as discussed below.

3. Financial Constraints to Private Sector Growths

Analytical work subsequent to the 1980 private sector task force report has further defined the nature of the financial constraints to private sector growth, particularly in the LDC's. The major assessment with done by the firm of Arthur D. Little under contract to RDO/C.

As part of the project development process a market survey was conducted by Arthur D. Little, Inc. to determine the potential demand for the financial services that the CFSC might offer. As the priority focus of the Mission's private sector strategy is on Barbados and the Eastern Caribbean LDCs, the market survey was conducted in six territories: Antigua, Barbados, Belize, Dominica, St. Kitts/Nevis and St. Lucia. The market survey attempted to identify more specifically the financial constraints that today limit the development of the English-speaking Caribbean's productive private sector. The three most binding constraints are outlined below.

(a) Liquidity

Absence of liquidity in the financial system is a recurrent problem in many of the countries of the Eastern Caribbean. By policy, most foreign commercial banks operating in the region try to minimize their net country exposure by funding local loans exclusively with local deposits, thereby tying growth in credit to domestic deposit growth. Currently, through internal policy constraints the ability of the commercial banks to move funds from territories with excess liquidity to those with liquidity shortages is limited. As deposit growth slows, often due to slow growth of the domestic economy and to some extent flows abroad, some banks will allow their loan to deposit ratios to climb, while others will accumulate a back-log of commitments awaiting funding or will simply turn away loan applicants. During periods of tight liquidity, the tendancy is for the commercial banks to allocate available funds first to their larger, established borrowers and lastly to new applicants or new projects. Large public sector borrowings also have diverted savings away from private investment.

(b) Loan Term

Like the liquidity constraint, the reluctance of the commercial banks to commit to loan terms beyond three years is linked to the nature of the deposit funds locally available. The average term of deposit of all types in the region is under one year. Banks are seldom willing to assume the liquidity risk associated with funding a long term loan with short term deposits may leave them illiquid if deposits rates decline in the future. By making loans on a demand basis through overdraft financing, banks maintain the flexibility to rapidly adjust their assets in response to changes in their liabilities. This lack of term funds makes it difficult, and frequently impossible, for entrepreneurs to finance capital intensive projects in agro-industry and manufacturing, or projects with lengthy pre-start up periods.

(c) Collateral Requirements

There are two collateral issues: (1) what banks consider as acceptable collateral, and (2) the amount of collateral required to secure a loan.

Generally, the commercial banks in the region are unwilling to accept working capital assets (inventories and accounts receivables) as sole collateral for working capital loans, and often will require a full debenture on a firm's fixed and floating assets as security. Further, specialized equipment may be considered unsuitable (or alternatively may be severely undervalued as collateral) because of the difficulties associated with liquidating the assets within the limited market of the region in the event of default.

Because of the conservative values the banks assign to their borrowers pledgeable assets, and in part because of the banks' desire for 100% security or more, the loan to collateral ratios in the region tend to be quite low. In Belize, for example, the average loan to value ratio in the commercial loan portfolio was estimated to be between 30% and 50% (i.e. $2.00 in assets pledged to secure each $1.00 of loan). This situation limits borrowing for both expansion of existing businesses as well as for the establishment of new projects, and is further aggravated by the banks' slow pace in sharing collateral with other leaders on a parri passu basis.

4. Project Background

Throughout 1981 and 1982, the Mission worked closely with key private sector leaders to develop an effective and responsive instrument for addressing the financial constraints inhibiting private sector development. Two alternatives were debated at length: (a) revitalization of the existing Caribbean Investment Corporation (CIC) primarily through its conversion to private sector ownership and (b) establishment of a fully private-sector owned regional development finance institution.

For reasons of political sensitivity and the advantages offered by the existing charter of CIC, the private sector opted initially to explore the CIC alternative. CIC was established in 1973 as a joint venture between regional member states of the Caribbean Common Market (CARICOM) and the region's private sector. Sixty percent of equity was provided by governments and forty percent by the private sector. Established with authorized capital of $5.7 million, the objective of CIC was to provide a source of investment capital in the Eastern Caribbean LDCs. In carrying out that objective, the institution made financing available through equity investments, loans and third party guarantees.

Initially, CIC undertook to aggressively finance activities in the LDCs, funded by the borrowing of $1.26 million from the Caribbean Development Bank (CDB) and of $1 million European units of account from the European Investment Bank in addition to its equity. Through mismanagement questionable equity investments and too high a percentage of its portfolio in equity investments by December, 1980, CIC had become a moribund institution, while the development needs of its target countries continued to grow.

In May, 1981, the LDC Governors of CIC concluded at its Annual General Meeting that it was important to keep CIC as a separate financial institution and, further, agreed to accept the principal of private sector control. Working with the Mission through 1981 and early 1982, the region's private sector developed a program for revitalization of CIC. At the June, 1982, Annual General Meeting, the private sector, as represented by the Caribbean Association of Industry and Commerce (CAIC), presented an RDO/C supported program for restructuring CIC into a viable, for-profit financial institution. Agreement to convert CIC to private sector control and management could not be reached, however, and shortly thereafter, verbal support for establishing a totally private sector owned and managed institution was forthcoming from many of the region's governments. With this the private sector continued its efforts to develop a means whereby long-term productive sector financing could be developed.

Throughout the remainder of FY 1982 and into early FY 1983, the private sector, with support of several Mission financed activities, continued to examine the financial needs of the productive private sector that were not being met through the existing commercial and developmental banking institutions and how these needs could best be met. The outcome of these efforts has been the expressed desire by the region's private sector to develop a new institution, the Caribbean Financial Services Corporation, to provide longer-term financing and other non-traditional financial services.

III. PROJECT DESCRIPTION AND ELEMENTS

A. Goal and Purpose

The goal of this Project is to stimulate expansion of the productive sector in the Eastern Caribbean, thereby creating employment, income and foreign exchange earnings. The purpose of the project is to establish a private development finance institution to provide term financing and non-traditional financial services to private sector enterprises in the English-speaking Caribbean.

B. Statement of Objectives

In order to meet the goal and purpose stated above, the CFSC project has as its objective, the development of a number of financial services which will support the creation of new productive, private sector enterprises, as well as the expansion of existing productive sector businesses. These services will consist of providing the following to productive private sector companies in agro-industry, manufacturing, tourism and any service industry supportive of those three sectors:

(a) Discounting of term loans made by other private financial institutions in the region;

(b) Direct term lending; and

(c) Provision of other financial services not currently available in the Region.

These three activities, along with the initial establishment of the CFSC, form the elements of the project.

C. Project Elements

1. Creating the CFSC

The CFSC will be incorporated under the Barbados Companies Act of 1982 and the proposed Caribbean Financial Services Corporation Act of 1983. The CFSC Act will provide the Corporation substantial benefits and will permit it to operate both as an off-shore bank and as a development bank in Barbados (the draft CFSC Act is attached as Annex VII). By the time of incorporation, it is expected that a substantial portion of the $2.0 million in private sector equity will be subscribed. It is expected that equity will be fully paid in by December, 1983.

The core investor group, with the equity pledges and proxies in hand, will constitute itself as the initial Board of Directors and select a chairperson. Following acceptance of equity pledges, the first step of the Board will be to contract a project coordinator to act as a temporary managing director of CFSC and pursue the selection of permanent managing director and staff. The project coordinator in collaboration with the Board will proceed to develop policy objectives and guidelines, an appropriate business plan, operational and administrative procedures, accounting and management information systems, and credit analysis and monitoring systems.

The Managing Director will be chosen and actively employed by October 30, 1983, and the development of policies, plans, procedures and systems will be complete by December 31, 1983. Due to the projected time it will take to hire a managing director, develop policies and operational procedures, and begin identification of prospective sub-borrowers, the CFSC should initiate operations in January, 1984.

To assist in the critical start-up period of CFSC, AID grant funds will be used to: (a) contract a project coordinator; (b) carry out a search for a qualified Managing Director, and (c) provide technical assistance in establishing the basic operational procedures of CFSC.

(a) Project Coordinator

During the period from execution of the Project Agreement to the coming on board of the Managing Director, a number of critical events must be initiated if lending is to start by

January, 1984. Day-to-day operations such as establishing an office, receiving and accounting for equity payments, coordination of satisfaction of AID's conditions precedent, oversight of the development of the operational procedures of the bank, etc. must be managed from the outset. The problem of managing the start-up events is compounded by the geographic dispersion of the Board of Directors and the probability that the Chairman of the Board will not reside in Barbados. Given experience in other countries and the particularly complex issues which will face the CFSC before it begins lending, six person-months of consultant services will be provided to perform this function.

(b) Executive Search

It is probable that a qualified Managing Director will not be found within the Eastern Caribbean. An intensive search overseas for a Caribbean national living abroad or an expatriate to manage CFSC therefore in called for. The contracting of assistance from a firm with executive search experience will facilitate this effort.

(c) Operational Procedure

Technical assistance will also be required to help CFSC design operating and administrative procedures, accounting and management information systems, and credit analysis and monitoring guidelines. Up to three person-months of assistance estimated to undertake this work.

2. Financial Services

The project elements described below are the specific financial services to be undertaken by the CFSC. The services to be provided will in all cases be made available only to privately owned manufacturing companies, agro-industrial companies, tourism facilities, and any service companies directly and substantially benefitting the first three groups. Where analysis shows the potential borrowers to be of similar financial risk, lending decisions will be influenced by other criteria such as employment of women and unskilled workers, the level of added domestic value, the amount of net foreign exchange earned, overall employment generation and geographic location. However, the CFSC will explore all potential opportunities, choosing those which fit its own defined parameters concerning deployment of assets, risk levels, and return on equity.

In general, the CFSC will operate both the discount program and make direct loans in amounts of up to 15% of its equity base. In order to keep administrative expenses at sensible levels, as a matter of operational policy the CFSC will carefully examine the mix of loan portfolio most suitable for its development. The appropriate dollar level of activity for each "Other Financial Services" will have to be determined as those services are developed. As a matter of policy, the CFSC will attempt to charge fees and keep interest rates at the highest reasonable levels consistent with the type and size of the market which they elect to serve. The uniqueness of the loan terms which CFSC will offer, coupled with the provision of other financial services not presently being offered in the marketplace, justify these fees and higher rates.

(a) Discounting of Term Loans

Initial financial operations of the CFSC will be term lending of discounted loans made by other private financial institutions operating in the region. Starting with discounting will enable CFSC to achieve several basic objectives, including, meeting a clearly identified unmet demand for term financing, responding to the serious liquidity crisis which exists in several countries, reaching smaller enterprises than CFSC could normally reach, and providing CFSC the necessary cash flow to ensure financial viability during initial operation.

The CFSC will discount a projected total of $6.0 million initially, consisting of $4.3 million A.I.D. loan funds and reflows generated through its discount program. Loans will be limited to enterprises in the Eastern Caribbean LDCs, Belize and Barbados. The commercial risk and the servicing of the sub-loans will remain with the originating financial institution, and the foreign exchange risk will be assumed by the ultimate borrower. To ensure that only a few very large loans do not utilize all the available funds, a limit of 15% of CFSC's accumulated equity has been set as the maximum sub-loan size.

Commencing CFSC operations with a large staff would increase the likelihood of operating losses during the early years, affecting the CFSC's long term profitability and efficacy. Allowing the CFSC to place a portion of its available capital into a discount program provides an avenue for rapidly investing in earning assets with significantly less effort and risk. This will allow the CFSC to gradually develop its skills to meet the market demand through direct lending and provision of other financial services, while still meeting the project's goal and purpose of assisting private sector development in the near term.

It is anticipated that the CFSC will enter into umbrella agreements with each participating financial institution, which will define the mechanism for discounting the loans. The actual discount rate will be negotiated on a case by case basis but the orginating lender is expected to receive a yield of 4% to 5% for originating, servicing, and taking the commercial risk on the loans.

Private sector financial institutions have indicated that if they are able to obtain a secure source of long term funds, they would be very interested in originating longer term loans for productive sector customers. Their interest, however, is predicated upon (a) their ability to avoid additional country risk exposure, (b) a mechanism which guarantees the commitment of funds for the full term of the sub-loans, (c) a relatively rapid approval process based on the type of information they normally develop for their own credit approval procedurees, and (d) reporting requirements which are not burdensome, and which use the financial information generated from their normal monitoring process.

The discount program will have to be structured so that neither the CFSC nor the intermediary financial institution take a direct foreign exchange rate or convertibility risk. To the extent that local monetary authorities will guarantee convertibility and limit the exchange risk, those will be apportioned to them. In this regard, a minimum condition of lending for each currency area will be that monetary authorities provide convertibility guarantees to CFSC. The remainder of the foreign exchange risk must rest with the ultimate borrower, which highlights the need for careful analyses by participating institutions as to the ability of the customer to absorb such a risk under varying scenarios.

Grant financed technical assistance will be provided to help CFSC establish the legal framework for the discounting program and to help develop the mechanics of the systems to be used.

(b) Direct Lending

The project will undertake direct term-lending activities in the English-speaking Caribbean. Initially, using US$6.7 million of the A.I.D. loan, direct lending activities will take place in the Eastern Caibbean LDCs, Belize, and Barbados. Lending activities could be expanded to include Jamaica and Guyana provided that convertibility of currencies can be ensured and that market conditions are favorable. The case of Guyana is further complicated by its current arrearages in payment to A.I.D. Under the terms of Section 620q, no lending activities therefore will be initiated. Generated reflows and any other non-A.I.D. sources of financing may be used for direct lending activities in Trinidad and Tobago. Over time, the CFSC will develop a portfolio of direct term-lending which will grow to be the major source of business activity for the institution.

The maximum amount of credit to any one borrower will be limited to an amount equal to 15% of the equity capital of the CFSC. Given the long term nature of this direct lending portfolio, CFSC will charge commitment and/or loan closing fees, in addition to interest charged at a premium over commercial bank rates. This is feasible in light of the very high up-front charges which commercial banks and confirming houses (inventory lenders) in England have been able to obtain in the Caribbean, and is warranted by the higher risk associated with term lending.

CFSC will have to make a major effort to fully develop its direct lending portfolio as the market will not be as rapidly accessible as the discounting market. To accomplish this initially CFSC will make use of resources such as USAID's Project Development Assistance Program, the Caribbean Project Development Facility (see below for a detailed discussion) and contacts with other financial and business groups within the region. The procedures for analyzing, originating, monitoring and collecting repayments for these loans will be developed by CFSC staff with initial assitance of external consultants.

The CFSC will not itself directly accept a foreign exchange rate risk by lending greater volumes in currencies than it has sources of those currencies. The borrower will be required to accept the foreign exchange risk. In the case of the USAID loan proceeds, the CFSC will lend these resources only to companies which have a secure source of foreign earnings or the ability to otherwise access foreign funds, coupled with the financial stength to absorb some devaluation of local currencies.

(c) Other Financial Services

As a distinct sub-set of direct lending, CFSC will also undertake an examination of the potential for providing other financial services such as leasing, warehouse bonding, inventory financing, etc., for the productive private sector which are either not presently being provided or are not being supplied in sufficient amounts through acceptable mechanisms. As services are identified which CFSC can provide at a reasonable profit, it will develop and market these services while limiting its credit risk to 15% of equity capital. It will charge fees as well as premium interest rates for the facilities. Up to $1.0 million in A.I.D. loan funds will initially be used. Expanding the offering of other financial services to Trinidad will occur through the use of equity and generated reflows.

Because of the need for in depth studies of the market for the services, it will take some time before these new activities are actually in operation. However, by the fourth year of operation initial, outstandings are estimated to be at least $1.0 million and by the tenth year CFSC will generate at least one third of all new business from other financial services, with outstandings equalling about 16% of the total portfolio.

At the present time, the productive private sector is keenly interested in any service which would allow higher leverage of collateral than is allowed by traditional financial institutions in the region. Inventory and receivable financing, which would specifically and more fully utilize assets which are given relatively little collateral weight under the present financial systems, or equipment leasing which would allow higher leverage on the value of a specific piece of equipment, would both meet the need for better leverage. Before a final decision can be made on these types of activities, however, the legal hurdles and the risks of using these types of collateral must be well understood, and procedures designed to sufficiently protect against the risks.

Venture capital financing is also of interest to the private sector, but careful consideration must be given to the problems of interim cash flow to the CFSC from such investments, as well as their ultimate disposal. While CFSC must proceed with great care in this area, debt financing with equity "kickers" can be a source of additional income to CFSC and address equity financing issues. It is one approach to reaping the financial rewards of backing somewhat more risky but potentially highly profitable investments.

Other services which will be explored include export financing, guarantees of debt from other institutions, syndication of loans to other financial organizations in order to pool funding resources, cash managment services, financial advisory services, and any other financial services which serve to assist the growth of the productive private sector, and which can be provided at a reasonable profit to the CFSC without unduly straining the organization's capabilities.

AID grant financed technical assistance will be used to ensure that the market for particular services, including tax and other legal implications, is well understood before the decision is made to proceed, and that the services offered are properly designed.

3. Relationship to AID and Other Donor Activities

As discussed above, RDO/C is implementing a broad strategy of assistance to the productive private sector. Several on-going or proposed projects will support CFSC's operations or be able to assist CFSC clients as discussed below.

(a) Support for Identification of Investment Opportunities

(i) Project Development Assistance Program (PDAP)

Under PDAP, Coopers and Lybrand has established resident long-term advisors in Belize, St. Kitts/Nevis, Antigua, Dominica, St. Lucia, St. Vincent and Barbados and has in place a world-wide network to identify and attract investors to the Region. The resident advisor also work closely with the indigenous private sector in developing investment project ideas, exploring markets for existing products and undertaking short-term feasibility studies of investment possibilities. These activities, along with PDAP's U.S.-based investor search operation should create a pipeline of possible private sector investment opportunities. This pipeline will extend well beyond the PACD of the PDAP contract in December, 1984.

Using PDAP's work, CFSC should be able to expand its direct lending operations much more quickly and with significantly less internal resources than otherwise would be the case. Indeed, PDAP advisors are looking to the creation of CFSC as a possible answer to the problems of finding suitable financing for projects they are developing.

(ii) Caribbean Project Development Facility (CPDF)

CPDF also will be of assistance to CFSC in the identification of potential investment opportunities. Working on a somewhat larger scale than PDAP (in terms of the indigenous private sector), CPDF has identified several project opportunities in the Eastern Caribbean (e.g. soap manufacturing and processing of municipal waste for energy production in Barbados, ethanol production in St. Kitts). With the creation of CFSC, CPDF will have in place a financing institution to which it can refer clients and projects.

In this regard, it is important to note that the director of CPDF, in his presentation to the Caribbean Group for Cooperation in Economic Development meeting in May, 1983, strongly argued for the creation of CFSC as filling a clear financial void in the Region. Based on CPDF's work to date, sound investment project possibilities are either being improperly structured from a financial perspective or are not being financed because of the limitations of private sector investment financing in the region.

(b) Support for Client Enterprises

Management and technology problems are frequently cited as constraints to the growth of individual firms. Improving the quality of a client's accounting system, providing technical assistance in some aspect of its production systems or market, etc., may be critical elements contributing to financial success. While a bank cannot provide these services, ability to refer clients (or include funds for the cost of assistance as part of a financial package) will be important. Among the sources of firm-level assistance supported through other AID-financed projects are:

(i) Barbados Institute of Management and Productivity (BIMAP)

BIMAP will be able to offer firms broad assistance, including training, management and technology assistance, using an organizational development approach. It also will be able to provide specific training/counselling services on a less intensive basis in areas such as accounting, inventory control, management systems, etc. One of the criteria to be established for the selection of firms to receive assistance under the proposed BIMAP project will be a referal by CFSC.

(ii) Caribbean Association of Industry and Commerce (CAIC)

In addition to general interest seminars, CAIC has established a Technical Assistance Fund to respond to specific requests from firms with technical problems. Unlike BIMAP (who will offer these services only in conjunction with an overall package of assistance), CAIC will be able to provide quick responses to specific requests for help in areas such as productive line problems, purchases of equipment, etc.

(iii) International Executive Service Corps (IESC)

The IESC will be a third source of assistance to CFSC clients. The type of services they offer is becoming well known in the area and it will be an important resource.

IV. PROJECT ANALYSES

A. Summary Technical/Market Analyses

In early 1983, in order to estimate the nature and level of demand for the financial services, market surveys were conducted by the firm of Arthur D. Little, Inc. in six territories of the Eastern Caribbean: Antigua, Barbados, Belize, Dominica, St. Kitts/Nevis, and St. Lucia. This work revised and up-dated that done earlier in its study of the revitalization of the Caribbean Investment Corporation. While the project activities will in time apply to other English-speaking Caribbean countries, the survey was limited to these countries for the following reasons:

- Given market constraints, particularly foreign exchange issues, Jamaica and Guyana were excluded.

- Trinidad and Tobago was excluded since AID funds will not be eligible for lending in that country.

- Several small LDC's were excluded since their share of any market would be relatively minor.

Through interviews with local financial institutions, monetary authorities, government ministries, business associations and local representatives of USAID's Project Development and Assistance Program, the interview teams developed preliminary estimates of the potential demand for qualified, productive private sector borrowers for Discounting, Direct Lending, and Other Financial Services over the next three years.

These initial estimates were later refined by the interview teams to (1) temper estimates felt to be over-optimistic or unrealistic; (2) eliminate potential double-counting of market demand reflected in the estimates of two or more lenders within the same market; and (3) eliminate what was felt to be unsustainable demand. Though a subjective process, the refinements to the preliminary demand estimates were based on familiarity with local credit markets and the economic conditions prevailing in each territory. These refinements reduced the demand figures by roughly 50% in each year. The range-estimates for Barbados, the LDCs and Belize appear below.

ESTIMATED DEMAND FOR FINANCIAL SERVICES (ADJUSTED)

(new annual demand, in U.S.$ million)

	Year 1	Year 2	Year 3
Barbados	0.5 - 2.5	0.5 - 2.5	0.5 - 3.0
LDC's	3.5 - 5.8	3.1 - 4.9	2.7 - 4.5
Belize	0 - 2.0	2.0 - 4.0	2.0 - 4.0
Total	4.0 -10.3	5.6 -11.4	5.2 -11.5

No attempt was made to adjust these figures upward to reflect the potential additional demand of other Caribbean territories, or demand which may be created by the introduction of these financial services. The ranges of the estimates reflect a variety of uncertainties. In Belize and Barbados, for example, other commercial bank discounting facilities, similar to that proposed to the CFSC, are now coming on stream with AID resources in Belize and IBRD funds in Barbados. These discount facilities will preempt some of the demand for CFSC funds, both direct and discounted.

The lower ends of these adjusted gross demand range estimates, which are conservative estimates of the primary demand for these financial services, were further revised to produce projected annual loan disbursements for the CFSC. The primary market estimates were also reduced by 10% in the second year and 20% in the third year to reflect the unwillingness or inability of some potential borrowers to bear the foreign exchange risks of a dollar denominated obligation. No foreign exchange adjustment was made to the first year, as it was assumed that the CFSC would be servicing only a small portion of the total market demand due to its initial institutional constraints.

These institutional constraints arise because much of the energies of the staff will be primarily devoted to prospecting for new business and establishing the discounting mechanism during the first year. Though the CFSC could immediately staff-up to fully meet demand in the first year, this strategy could create an unwieldy or unmanageable organization, particularly for a new manager.

Given these concerns, disbursements of $3.0 million are projected for the first full year of operations, increasing to $5.9 million in the second and $6.5 million in the third year. Using the third year as a starting point, projected loan disbursements for years four through ten were estimated for each of the three major markets (Barbados, the LDCs and Belize), for each type of credit, by term; Discounting, short and long term; Direct Lending, short and long term; and Other Financial Services. The projected distribution of loan disbursements by type was based on the results of the market survey, though as a matter of financial strategy, discounting was phased out in favor of direct lending beginning in year five. From the third year, the last year of survey data, through year ten, real growth in disbursements of all types net of an assumed annual average rate of 8%. The projections appear below.

ANNUAL LOAN DISBURSEMENTS - BASE CASE

(US$ million)

YEAR	1	2	3	4	5	6	7	8	9	10
DISCOUNTING	2.4	3.9	3.3	2.8	1.6	1.2	1.2	0	0	0
DIRECT LENDING	0.6	2.0	2.7	3.4	4.8	6.2	7.2	8.4	9.2	10.0
OTHER	0	0	0.5	1.0	1.6	2.0	2.7	3.3	4.0	4.8
TOTAL	3.0	5.9	6.5	7.2	8.0	9.4	11.1	11.7	13.2	14.8

B. Summary Organizational/Institutional Analysis

The summary analysis below outlines the fundamental aspects of the CFSC orgnization. A fully institutional organizational analysis is presented in Annex VI.

The CFSC will be a privately owned, for profit institution, providing loans and other financial services to the productive private sector in the English speaking Caribbean. It will be capitalized with equity equal to at least $2 million, to be paid in by the time it commences operations. The voting control of the company will be in the hands of the indigenous private sector. The remainder will come from the major multi-national banks operating in the region. (Negotiations are in process with Chase Manhattan, CITICORP, Barclays, Royal Bank of Canada, Bank of Nova Scotia and the Canadian Imperial Bank of Commerce). There will be no other limit on the amount of stock which may be owned or controlled by any one person or group, but it is ultimately expected that the ownership will be broadly spread throughout the region. Stock will be issued in small denominations (face value of $100) to facilitate broad ownership. The CFSC will obtain the remainder of its funding needs from a term loan from USAID, term borrowings from other sources, retained earnings and additional paid in capital as required to remain within debt to equity limitations. If feasible, it will also take any type of demand or time deposits from large institutional sources such as the insurance companies.

The CFSC will be incorporated in Barbados. Special legislation will be used (the Caribbean Financial Services Act of 1981) to provide it the range of authority required to operate throughout the Region and provide special tax concessions. It will be headquartered in Barbados and will establish representation elsewhere only when justified by the level and type of business. Barbados was selected due to the receptivity on the part of the Barbados Government to the creation of the CFSC, the operational flexibility such commitment is allowing and due to the fact that Barbados is a key financial center for the region.

It is expected that the CFSC will have an initial Board of Directors of no more than ten, chosen primarily from highly qualified business persons from the region, although it may include selected people from outside the region whose expertise might be key to the success of the organization. The Board will be responsible for the hiring of the Managing Director and the approval of policy objectives and guidelines.

The Managing Director of the CFSC will sit on the Board as a regular member and will oversee the creation of an operating CFSC, the initiation of the discounting program, and will perform the initial work on the other financial services program. The Chief

Loan Officer will have the primary responsibility for the development of the direct lending program, including the administrative, credit analysis and monitoring procedures.

The CFSC will also form a loan committee which will have the final responsibility for credit policy and lending decisions. It will initially be staffed by the Managing Director and Chief Loan Officer, along with at least three members of the Board of Directors.

After approximately two years of operation, an additional person may be hired to assist the Chief Loan Officer, and one person may be employed to head the other financial services.

Thereafter, staff growth will be commensurate with the level and type of demand for CFSC services. The company will always attempt to operate with the minimum staff but of the highest quality.

C. Financial Analysis

1. Introduction

Although economic and other external factors will effect the CFSC's future performance, its level of success will be most dependent on the ability of its management to shape an organization that can profitably position itself to cope with an ever changing business environment. The company will first have to develop a market for its financial services which will be of a size and quality sufficient to support its operations. Second, the gross spread (gross income from loans less interest expense) on its loan and discount portfolio must be high enough to cover administrative expenses and the provisions for loan losses while still producing a profit. Third, administrative expenses must be tightly controlled without either increasing risk due to under-management of investments, or forcing a shift toward lower risk lending where the return to the company and developmental effect on the business community may both be reduced.

2. The Base Case

The base case analysis represents conservative projections regarding the initial ten-year performance of the CFSC. It is based on conclusions which have been drawn as a result of the market study and previous experience with private development finance institutions. A financial simulation model was used to project the CFSC's operations under the base case scenario, and to perform sensitivity analyses to quantify the financial impact of changes in key variables. The model is described in Annex VI.C. The key variables include;

- Loans and discount funds disbursed in each year;

- The interest rate applicable to the AID loan;

- The interest rate and fees applicable to the loan and discount portfolios;
- The provision for loan losses and actual charge off rates applied to the direct lending portfolios;
- The interest rate on other long term debt;
- The maximum level, draw down period and repayment period of the AID loan;
- Administrative expenses;
- Taxes;
- Dividends paid;
- Annual debt to equity limitations.

A discussion of the major assumptions used in developing the base case appears below. However, as real market conditions change over time in ways that cannot be predicted, it would be expected this institution will analyze these new opportunities, and modify its operations in response to these changes.

3. Base Case Assumptions

(a) Loan Portfolios

Table 1 provides a breakdown of the annual loan disbursements by category in each of the ten projection years. These lending volumes are based on adjusted market estimates, explained in Section IV.A, and reflect both the organizational constraints faced by any start-up operation and the assumption that the foreign exchange risk will be borne by the borrowers. These estimates represent realistic and achievable lending volumes given the assumptions of the organizational analysis and the market considerations.

TABLE 1

ANNUAL LOAN DISBURSEMENTS - BASE CASE

(Millions of US$)

LDCS	Year: 1	2	3	4	5	6	7	8	9	10
Discounting										
o Short Term (1 year term)	0.8	0.9	0.9	1.2	1.2	0.8	0.8	0	0	0
o Long Term (1 year grace 5 year Term)	1.6	1.7	1.6	0.8	0	0	0	0	0	0
- Direct Lending										
o Short Term (1 year Term	0	0.2	0.4	0.6	0.8	1.0	1.6	2.0	2.0	2.0
o Long Term (1 year grace 6 year term	0.3	0.8	1.0	1.2	1.6	2.0	2.0	2.4	2.8	3.2
SUB-TOTAL:	2.7	3.6	3.9	3.8	3.6	3.8	4.4	4.4	4.8	5.2
BELIZE										
- Discounting										
o Short Term (1 year term)	0	0.9	0.4	0.4	0.4	0.4	0.4	0	0	0
o Long Term (1 year grace, 5 year term)	0	0.4	0.4	0.4	0	0	0	0	0	0
- Direct Lending										
o Long Term (1 year grace, 6 year term)	0	0.5	0.8	0.8	1.2	1.6	2.0	2.0	2.0	2.4
SUB-TOTAL:	0	1.8	1.6	1.6	1.6	2.0	2.4	2.0	2.0	2.4
BARBADOS										
- Direct Lending										
o Long Term (1 year grace, 6 year term)	0.3	0.5	0.5	0.8	1.2	1.6	1.6	2.0	2.4	2.4
OTHER FINANCING SERVICES										
o Short Term (1 year rollover)	0	0	0.5	1.0	1.6	2.0	2.7	3.3	4.0	4.8
TOTAL:	3.0	5.9	6.5	7.2	8.0	9.4	11.1	11.7	13.2	14.8

(d) Long-Term Debt

The base case assumes a 4% interest rate on the $12 million USAID loan with a total term of 20 years and 10 year grace period on the principal repayments. The total may be drawn down over a period not to exceed four years.

The base case assumes that other long-term debt will be made available to this institution as needed at an average interest rate of 7%. Our use of this rate is not meant to suggest that future funds will be made available at 7%, rather the rate was chosen as a compromise between the USAID concessional rate of 4%, and the 12%-14% rates which private sector lenders or institutional black demand deposits would likely charge for term loans to a successful financial institution of this sort. Sub-loans funded at a 7% marginal rate provide little additional net income to the CFSC, given the assumed average on-lending rate. CFSC borrowings which carry a higher marginal fund rates will have a negative impact on net income, if CFSC lending rates remain as assumed.

(e) Taxes

Under the proposed CFSC Act of 1983, the CFSC will not pay corporate income tax until its income and profits exceed $5 million on an annual basis. Although taxes will likely be levied on dividends paid, corporate income taxes are not included in these analyses.

(f) Fee Income

Fee income of 1% on the annual disbursements made through the Other Financial Services component of the project is used for purposes of the base case analysis.

(g) Dividends

All earnings are retained to provide funds to support the growth of the loan portfolio.

(h) Debt to Equity Limitations

During their first five years of operations, the CFSC will be limited to a maximum debt of equity ratio of 6:1. In later years, as the institution gains operating experience and establishes a record of performance, the allowable leverage will increase to 7:1 in years six and seven and 8:1 thereafter.

4. Base Case Analysis

The balance sheets, income statements, and funds flow analysis figures are presented in Tables 2, 3 and 4. Gross loans reach a level of almost $12 million by the end of the fourth year,

TABLE 2
CARIBBEAN FINANCIAL SERVICES CORPORATION
PROJECTED BALANCE SHEET
1984 THROUGH 1993
U.S. DOLLARS
BASE CASE

YEAR	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
CURRENT ASSETS										
CASH	25750	26667	43917	50496	64390	74177	77434	91950	105778	119588
FIXED DEPOSITS	1367539	1957054	2153070	1426119	51304	0	0	0	0	0
INTEREST RECEIVABLE	41423	113368	199539	267855	314055	362182	428762	496791	567526	646188
TOTAL CURRENT ASSETS	1434712	2097088	2396525	1744471	429749	436359	506196	588740	673304	765776
LOAN PORTFOLIOS										
DISCOUNTING	2000000	4370000	5451250	5643750	4076250	2358750	1300000	150000	0	0
DIRECT LENDING	600000	2430000	4408707	6574424	9445746	12851856	15916527	18817121	21468913	24021763
FINANCIAL SERVICES	0	0	500000	1000000	1592486	1983551	2667719	3250784	3917690	4679375
OTHER	0	0	0	0	0	0	0	0	0	0
TOTAL GROSS LOANS	2600000	6800000	10359957	13218174	15114482	17194157	19884246	22217905	25386603	28701138
LESS RESERVE FOR LOSSES	12000	60600	150600	270520	426619	622157	846550	1090115	1350247	1630213
TOTAL NET LOANS	2588000	6739400	10209357	12947654	14687863	16572000	19037696	21127790	24036356	27070926
TOTAL ASSETS	4022712	8836488	12605882	14692125	15117612	17008359	19543892	21716530	24709660	27836702
CURRENT LIABILITIES	27875	68856	116011	136932	152195	169489	199956	236447	275555	321640
LONG TERM DEBT										
USAID LOAN#1	2627298	6810578	10336801	12000000	12000000	12000000	12000000	12000000	12000000	12000000
USAID LOAN#2	0	0	0	0	0	0	0	0	0	0
OTHER LONG TERM DEBT	0	0	0	0	0	1417170	3295849	4758160	6975162	9235813
TOTAL LONG TERM DEBT	2627298	6810578	10336801	12000000	12000000	13417170	15295849	16758160	18975162	21235813
TOTAL LIABILITIES	2655173	6879434	10452812	12136932	12152195	13586659	15495805	16994607	19250717	21557453
STOCKHOLDERS EQUITY										
PAID IN CAPITAL	1500000	2000000	2000000	2000000	2000000	2000000	2000000	2000000	2000000	2000000
RETAINED EARNINGS	-132461	-42946	153070	555193	965417	1421700	2048087	2721923	3458943	4279249
TOTAL EQUITY	1367539	1957054	2153070	2555193	2965417	3421700	4048087	4721923	5458943	6279249
TOTAL LIABILITIES AND EQUITY	4022712	8836483	12605882	14692125	15117612	17008359	19543892	21716530	24709660	27836702

CARIBBEAN FINANCIAL SERVICES CORPORATION
PROJECTED INCOME STATEMENT
1984 TO 1993
U.S. DOLLARS
BASE CASE

YEAR	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
OPERATING INCOME										
FIXED DEPOSITS	106539	149607	184956	161064	66484	2309	0	0	0	0
DISCOUNTING	100000	318500	491063	554750	486000	321750	182938	72500	7500	0
DIRECT LENDING	42000	212100	478710	768819	1121412	1560832	2013787	2431355	2820022	3184347
FINANCIAL SERVICES	0	0	37500	112500	194436	268203	348845	443888	537636	644780
OTHER	0	0	0	0	0	0	0	0	0	0
FEE INCOME	0	0	5000	10000	16000	20000	27000	33000	40000	48000
TOTAL OPERATING INCOME	248539	680297	1197228	1607133	1884332	2173094	2572570	2980743	3405158	3877127
INTEREST EXPENSE										
USAID LOAN#1	60000	222092	376212	446736	480000	480000	480000	480000	480000	480000
USAID LOAN#2	0	0	0	0	0	0	0	0	0	0
OTHER LONG TERM DEBT	0	0	0	0	0	49601	164956	281890	410666	567384
TOTAL INTEREST EXPENSE	60000	222092	376212	446736	480000	529601	644956	761890	890666	1047384
NET OPERATING INCOME	188539	458115	821016	1160397	1404332	1643493	1927614	2218853	2514492	2829743
OTHER EXPENSES										
PROVISION FOR LOAN LOSSES	12000	48600	98000	152320	221432	297085	372014	441622	508141	574381
ADMINISTRATIVE EXPENSES	309000	320000	527000	605954	772676	890124	929212	1103395	1269330	1435057
TOTAL OTHER EXPENSES	321000	368600	625000	758274	994108	1187210	1301227	1545017	1777471	2009438
INCOME BEFORE TAX	-132461	89515	196016	402123	410224	456283	626387	673836	737021	820306
TAXES	0	0	0	0	0	0	0	0	0	0
NET INCOME	-132461	89515	196016	402123	410224	456283	626387	673836	737021	820306
SOURCES AND USES OF WORKING CAPITAL										
SOURCES OF WORKING CAPITAL										
OPERATIONS	-132461	89515	196016	402123	410224	456283	626387	673836	737021	820306
PROVISION FOR LOAN LOSSES	12000	48600	98000	152320	221432	297085	372014	441622	508141	574381
PAID IN CAPITAL	500000	500000	0	0	0	0	0	0	0	0
INCREASE IN LONG TERM DEBT	2627298	4183280	3526223	1663199	0	1417170	1878678	1462311	2217002	2260651
TOTAL SOURCES	3006837	4821395	3820239	2217642	631656	2170539	2877080	2577769	3462163	3655337
USES OF WORKING CAPITAL										
NET INCREASE IN LOANS PLACED	2600000	4200000	3567957	2890617	1961641	2181222	2837710	2531716	3416708	3608950
DIVIDENDS PAID	0	0	0	0	0	0	0	0	0	0
TOTAL USES	2600000	4200000	3567957	2890617	1961641	2181222	2837710	2531716	3416708	3609950
NET CHANGE IN WORKING CAPITAL	406837	621395	252281	-672975	-1329985	-10683	39369	46053	45456	46387

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TABLE 4

CARIBBEAN FINANCIAL SERVICES CORPORATION
BASE CASE

YIELD ANALYSIS::BASED ON AVERAGE GROSS LOANS AND FIXED DEPOSITS

YEAR	INTEREST INCOME	INTEREST EXPENSE	PROVISION EXPENSE	NET OP. INCOME LESS PROVISION	ADMINISTRATIVE EXPENSE	NET INCOME
1984	10	2.4	.5	7.1	12.4	-5.3
1985	10.7	3.5	.8	6.4	5	1.4
1986	11.3	3.5	.9	6.8	5	1.8
1987	11.8	3.3	1.1	7.4	4.5	3
1988	12.6	3.2	1.5	7.9	5.2	2.8
1989	13.4	3.3	1.8	8.3	5.5	2.8
1990	13.9	3.5	2	8.4	5	3.4
1991	14.2	3.6	2.1	8.4	5.2	3.2
1992	14.3	3.7	2.1	8.4	5.3	3.1
1993	14.3	3.9	2.1	8.3	5.3	3

RATIO ANALYSIS

YEAR	RETURN ON ASSETS *	RETURN ON EQUITY *	DEBT TO EQUITY	RESERVES TO GROSS LOANS
1984	-5.3	-11.2	1.9	.5
1985	1.4	5.4	3.5	.9
1986	1.8	9.5	4.9	1.5
1987	2.9	17.1	4.7	2
1988	2.8	14.9	4.1	2.8
1989	2.8	14.3	4	3.6
1990	3.4	16.8	3.8	4.3
1991	3.3	15.4	3.6	4.9
1992	3.2	14.5	3.5	5.3
1993	3.1	14	3.4	5.7

* NOTE: BASED ON AVERAGE BALANCES

Table 5

Modified Balance Sheet as a Result of 2% AID Loan During Grace Period and Escrow Accounts

Current Assets	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
Fixed Deposits (New Figures)	1,370,674	2,076,514	1,479,852	2,015,731	944,781	1,224,690	1,585,752	1,979,266	2,408,200	2,875,738
Stockholders Equity										
Reserve Account (is Created in Addition to Capital and Retained Earnings)	3,135	119,460	326,782	589,612	893,477	1,224,690	1,585,752	1,979,266	2,408,200	2,875,738

Table 6

Modified Income Statement as a Result of 2% AID Loan During Grace Period and Escrow Account

Operating Income	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
Fixed Deposits (New Figures)	106,674	154,886	204,172	200,526	130,349	93,522	121,022	153,514	188.933	227,538
Interest Expense										
USAID Loan #1 (Reduced Because Interest Rate is 2% Rather Than 4% as in Base Case)	30,000	111,046	188,106	223,368	240,000	240,000	240,000	240,000	240,000	240,000
Other Expenses										
Payments to the Fund (Additional Expense to the Reserve Fund)	3,135	116,325	207,322	262,830	303,865	331,213	361,062	393,514	428,934	467,538

The volume of lending for Other Financial Services will be determined by future market conditions and the opportunities that they present, as well as by policy decisions of CFSC management. It is conservatively assumed in the base case analysis that CFSC will not be able to begin offering of any other financial services until the third year. By the fifth year twenty percent of all new lending of operations is projected to originate from other financial services, increasing every year until approximately one third of all new lending is handled through this component. These estimates are based on qualitative impressions gained during the market survey, coupled with the proposed policy of CFSC to emphasize, where feasible, Other Financial Services.

(b) Interest Rates

The interest rates used in the base case are based on the existing interest rate structure in the region. A constant interest rate scenario has been used for purposes of this analysis, and the rate structure assumes a 12% commercial bank prime with average lending at prime plus 2%.

Discounting is assumed to yield an average of 10% to the CFSC. This rate is based on the current market rate to the average customer of prime plus 2% or 3% (14-15%) and would therefore provide a 4-5% gross spread to the financial institutions participating in the discount program. Direct Lending by the CFSC has been set at an average rate of 14% in line with current market rates, although higher rates may be feasible. The Other Financial Services component has been set to provide an average interest yield of 15%, reflecting the potentially higher delivery costs and risks of this program. Short-term fixed deposits placed by the CFSC are projected to earn 9% per year, based on available local fixed deposit rates.

(c) Provision for Loan Losses

Provision for loan losses has been set to 2% of the year-end loan balances before the write-off of bad debts in the Direct Lending and Other Financial Services portfolios. Two-thirds of the provision in any given year is written off two years later and taken as an actual loss.

No direct provision has been applied against the discount program, reflecting the fact that financial institutions particpating in the program assume all the credit risk. However, the total reserves are of a level to provide sufficient protection against losses in discounting, albiet unlikely. The 2% provision on the Direct Lending and Other Financial Services portfolios is a melded rate as it is expected that the latter, by its nature, will consist of somewhat higher risk investment.

when the USAID loan is fully drawn down. Thereafter, time deposits, earnings, and other long term borrowings are used to support the growth of the loan portfolio. The Discounting program peaks at approximately $5.6 million by the end of the fourth year, declining thereafter as a matter of policy. Direct Lending exceeds $9.0 million by the end of the fifth year and the Other Financial Services portfolio, which begins in the third year at a $500,000 level, is projected to reach almost $2 million by the end of the sixth year, or almost 10% of total outstanding gross loans. Other Financial Services represent over 15% of the total outstanding loans by the end of the tenth year.

Under the assumptions of the base case, the CFSC would be profitable from the second year forward. Net income increases in every year although the growth rate slows temporarily in the fifth year due to a combination of factors, including a rising average cost of funds from additional long-term debt, relatively high administrative expenses during the transition from discounting to direct and creative financing, and higher provisions for loan losses associated with this transition.

The yield analysis in Table 4 clarifies the basic results of the CFSC operations. Interest income is equal to 14.3% of the average total earning assets in 1993, the tenth year. Gross interest income is reduced by an average interest expense of 3.9% (as a percentage of total investments), provision for losses equal to 2.1% and adminstrative expenses of 5.3% for total expenses of 11.3% on average outstanding investments. As the non-interest expenses total 7.4%, any additional lending funded by outside borrowings at 7% must bear an earnings rate of at least 14.4% (assuming no increase in the normal level of provision and administrative costs associated with the investments) or the impact on net income will be negative. This has obvious implications for management in terms of the pricing of services to customers, and the control of commercial risk and administrative costs associated with the services.

Reserves for loan losses as a percentage of average earning assets increases in every year, reaching a level of 5.9% by the tenth year, which is reasonable for this type of operation. It should be noted that in the early years, the reserves to average investments figure is low as a result of provisions being taken only against the direct and creative portfolios. The reserves to investments computation includes discounting, which declines as a percentage of total investments in later years. Because discounting involves only minimal CFSC credit risk as the participating institutions assume the credit risk, a more meaningful measure or the adequacy or reserves is the level of reserves versus Direct Lending and Other Financial Services, which exceeds 3% by the third year. This should be adequate unless credit analyses are of poor quality or economic disaster strikes the region.

CFSC's return on equity reaches a peak of 17.1% during the fourth year of operations and then declines, again reflecting the transition from low cost discounting to direct and other financing, and the introduction of outside financing at 7%. Return on equity falls slightly in the last three years of the analysis due primarily to the complete phase out of the discounting program, as well as a steadily rising average cost of funds and falling debt to equity ratio. Because all earnings are retained in the base case scenario actual leverage never exceeds 5:1 despite the fact that some of the CFSC initial equity is used to cover losses in the first year of operations. The resulting low debt to equity ratios directly affect the return on equity levels which are achieved.

After the tenth year of operation, beyond the scope of this analysis, actual results will depend on a number of factors. USAID concessionary financing will begin to be paid off, and must be replaced with outside borrowings unless the total portfolio size is reduced. The higher the cost of the additional borrowings over the 4% USAID rate, the greater the negative effect on CFSC operations, unless there is an increase in the pricing of loans and services, or other sources of fee income can be found.

5. Sensitivity Analyses[1/]

Sensitivity analyses were conducted on the terms of the AID Loan, the projected lending volumes, adminstrative expenses, market interest rates, the provision for loan losses and dividends. The results of these analyses are discussed below.

(a) USAID Loan

Two separate sensitivity analyses were performed in regard to the USAID Loan. In the first analysis, the grace period on the USAID Loan was reduced to five years with the balance then being paid off in a 15-year period using the annuity method. In the second analysis, the interest rate on the USAID loan was raised to 5%.

(i) 5 Year Grace Period:

The reduction of the grace period on the principal repayments from ten years to five years has a negative impact on the project beginning in its sixth year of operations. In that year return on equity reaches 13.8%, below the 14.8% realized in the base case. The negative impact increases through the tenth year where the return on equity falls to 12.6% versus 14.0% in the base case. This decline in returns is a result of increased borrowings from other sources at a higher rate (7% versus 4% from USAID) neccesitated by the repayment of the USAID loan. This increases the CFSC's average cost of funds, reducing overall profitability.

1/ The detailed financial statement appear in Appendix VI.

(ii) 5% Interest Rate:

Increasing the USAID rate from 4% from 5% has a large negative impact on the project. Profitability is decreased in all years of the analysis, with the return on equity reaching substantially lower rates in the early years of the project (4.6% versus 9.5% in year 3). The rate rises to over 15%, then declines to 13.3% in the tenth year of the analysis as the average cost of funds begins to rise, due to increasing amounts of other long-term debt.

The debt to equity ratios are higher in this sensitivity than in the base case because of the decreased earnings which reduce the total amount of equity in the project.

(b) Foreign Exchange Risk:

This sensitivity was performed to assess the ability of the CFSC to manage the risks of potential devalutions of regional currencies vs the dollar, should the CFSC be forced to assume that risk.

If the CFSC were to fund a non-earning escrow account at the rate of 1% of the outstanding AID loan in each year, by the tenth year the escrow funds would total $997,745, providing coverage for an immediate devaluation of 8.1% against the $12 million principal balance of the AID loan. Assuming that these escrow funds earned interest at the rate of 9%, the rate used on local deposits in our analysis, tenth year funds would total $1,063,702, and provide coverage of 8.9%. If this foreign exchange "provision" was taken over and above the 4% on the AID Loan, the CFSC's performance would be identical to their performance under the 5% AID loan sensitivity above. A 2% rate would create an escrow fund at $2,875,738 providing coverage of 24%. A sensitivity analysis was not run on this rate. Rather the base case projections would be modified as shown on the followoing Tables 5 and 6.

(c) Lending Volumes

Two alternative scenarios were analyzed varying total loans outstanding. In the first analysis the totals were adjusted downwards by 25% in all loan portfolios, for all years, and in the second analysis they were adjusted upwards by 25%. Operating expenses were left unchanged from the base case analysis for the first three years, and calculated as a percentage of outstanding loans thereafter.

(i) Lending Volumes - Reduction of 25%

When the volume was adjusted downwards by 25%, total gross loans outstanding reached a level of approximately $11.3 million by the end of the fifth year of operations and approximately $21.5 million by the end of the tenth year, as compared to $15.1 million and $28.7 million in the base case. Net income, therefore, is substantially lower during all years of operation. While the lower net income figures in the first three years of operations are due to a continuation of irreduceable initial administrative expenses coupled with lower gross interest income, in years 4 through 10 the declines are due strictly to lower volumes and thus lower total operating income, in spite of lower average interest expense. This is particularly evident in the last four years of the

TABLE 5

SUMMARY OF SENSITIVITY ANALYSES COMPARING RETURN ON EQUITY AND RETURN ON ASSETS

Year	Base Case	Market Down 25%	Admin. Expense up 20%	Int.Rates Down 1%	Loan Loss 2.5%	Dividend 25% of net Income
1	-11.2	-12.8	-17.1	-13.5	-11.5	-11.2
2	5.4	1.2	1.0	1.3	4.6	5.4
3	9.5	1.5	3.9	4.1	8.4	9.5
4	17.1	14.9	12.4	11.9	15.8	17.3
5	14.9	15.8	9.6	10.1	13.3	15.3
6	14.3	14.6	9.2	10.4	12.6	15.0
7	16.8	16.2	13.5	14.4	15.2	18.1
8	15.4	14.9	11.7	13.3	13.9	16.8
9	14.5	14.1	10.6	12.7	13.0	16.0
10	14.0	13.6	10.2	12.6	12.6	15.6

RETURN ON ASSET COMPARISON

1	-5.3	-6.9	-7.9	-6.3	-5.4	-5.3
2	1.4	0.4	0.3	0.3	1.2	1.4
3	1.8	0.3	0.7	0.7	1.6	1.8
4	2.9	2.8	1.9	1.8	2.7	2.9
5	2.8	3.1	1.5	1.6	2.4	2.7
6	2.8	3.2	1.4	1.7	2.4	2.7
7	3.4	3.8	2.0	2.3	2.9	3.3
8	3.3	3.7	1.8	2.1	2.7	3.1
9	3.2	3.5	1.6	2.1	2.6	2.9
10	3.1	3.5	1.5	2.1	2.6	2.8

analysis, when the average interest spread is actually larger than in the base case due to lower levels of 7% money. In this scenario the USAID loan is not completely drawn down by the fourth year, the end of the drawdown period, and peaks at $9.8 million Return on equity is lower than in the base case in spite of a higher return on assets, due to a decrease in the debt to equity ratio.

(ii) Lending Volume - Increase of 25%:

An increase in the lending volume produce results opposite to the situation described above. Net income figures are higher than in the base case in the first three years of the analysis and then fall below the base case levels in the 4th through 6th years. The fall in net income in those years is due to a higher average cost of funds relative to the base case, coupled with the higher administrative expenses of servicing the Direct Lending and Other Financial Markets. The return on equity in those years falls substantially, to 12.5% in the fifth year, before it begins to rise. However return on equity never quite reaches the levels achieved in the base case, as growth in assets outpaces the growth in earnings, overshadowing the increases in the debt to equity ratio. The above illustrates that, given these assumptions, the CFSC will lose money any time the marginal cost of lending exceeds the marginal benefit of the portfolio increase after administrative and provision expenses.

(f) Administrative Expenses

An increase in the costs of administrative expenses by 20% has a substantial negative impact on net income in all years of operation. The return on assets in this scenario never rises above 2%, versus 3.4% in the base case. This illustrates the importance of maintaining administrative costs in line with operations.

(g) Interest Rates

In order to measure the impact of lower market interest rates on this institution, the general interest rate level was reduced by 1% in this scenario, affecting all interest income and expense categories except the USAID loan.

The net effect of falling interest rates would be to lower the average yield on investments at a rate faster than the decrease in the average cost of funds. This can be seen clearly by examining the yield analysis, which shows the impact of lowered interest rates on interest income. The average interest expense does not drop, however, as there is no reduction in the USAID rate of 4%, and as earnings are reduced, additional higher cost funds must be borrowed in later years.

(h) Provision For Loan Losses

An increase to 2.5% in the average provision for loan losses on the Direct Lending and Other Financial Services portfolios has a negative impact on the returns that the CFSC is able to achieve, while increasing the reserves which the institution has available to cover losses. In this scenario the reserves to gross loans outstanding reach 3.5% in the 5th year, rising to 7.1% in the 10th year of the analysis versus 2.8% and 5.7% in the base case. The final decision as to the appropriate provision for loan loss level should be reviewed annually in light of actual loss experience. A well conceived, consistently applied loan monitoring policy will help avoid unexpected losses and could help to achieve lower charge-offs in the long-run.

(i) Dividend Payouts

In this senstivity analysis, dividends were set to equal 25% of the net income. As return earnings is reduced beginning in the fourth year through the payment of dividends, additional borrowings are required to support the loan portfolio. This increases the interest expense, and therefore lowers return on assets compared to the base case. However, the debt to equity ratio is increased substantially as equity is reduced by dividend payout. This has a positive effect on the return on equity which exceeds the negative effect of the increased borrowing costs, and allows return on equity to reach 18% in year 7. The debt to equity ratio peaks at 4.0 to 1 in year 3, and begins to fall in later years as the level of retained earnings is sufficient to keep leverage from increasing despite additional borrowings.

6. Implications for CFSC Management and Operations

The base case and sensitivity analyses clearly illustrate some of the issues affecting profitability which are to some degree controllable by management. The issues center around the increases in the level of net income which are a function of the relationships and trade-offs between gross interest income, interest expense, administrative expenses, and the provisions for loan losses.

In an effort to increase net income, management can increase gross income through a variety of strategies, such as increased volumes, higher rates, the introduction of fees for discounting or direct lending activities, or a reorientation towards higher yielding loan portfolios. However, management must always assure itself that by doing so it neither overly restricts the size of the market nor allows any increase in risk, administrative expense, or interest expense to fully offset the value of the higher revenues that are achieved. For example, the sensitivity analyses of market size show that increasing the portfolio volumes will increase gross income, but will not necessarily translate into an increase in net income. This situation arises in this analysis because the marginal cost of funding the additional business (7% debt), ccupled with the associated additional administrative expense and loss provision actually exceed the increase in gross income.

Management can also choose to lower the average cost of funds in order to increase net income. An increase in paid-in capital will lower the requirements for outside borrowings, thus reducing average interest expense for the same portfolio volume. If the resulting increase in income, however, does not fully compensate for the higher equity base, return on equity will decrease. Finding other low cost sources of funds would be the ideal way to lower the average cost of funds, but may be very difficult to accomplish.

Administrative costs per dollar invested can be reduced by placing a higher percentage of total funds in the discounting portfolio, as discounting produces a relatively low operating expense. However, the CFSC's developmental contribution could be lessened by this strategy, unless on-lending institution could be somehow induced to accept the higher credit risks associated with developmental lending.

Management could also consider lowering its administrative expenses per dollar lent through the use of fewer or lower cost personnel to originate and service the same level of outstanding loans. This could, however, have the effect of increasing losses which might more than offset the lower administrative costs. Alternatively, higher efficiency per employee could be demanded, but it may result only from an increase in personnel costs, be they direct or through some incentive program. The relative merits of these costs and potential savings would have to be considered. Finally, higher efficiency could be achieved through increasing the average size of each loan, but the offset is that certain smaller customers would be effectively excluded from borrowing.

Net income can be improved through a reduction in losses which will decrease the required level of provision for losses. Increasing loan quality standards will accomplish this, but at the risk of eliminating certain customers, and potentially lowering gross interest income. Closer initial review of loan requests can also have the same positive effect on risk reduction, but only with increased administrative costs per dollar lent.

Management will always be faced with numerous options to improve net earnings, and the trade-offs are not always immediately clear. Its primary responsibilities will be to determine which lines of business are financially viable by carefully analyzing the marginal benefits and costs of each strategy. Management must therefore have a full understanding of the market place, and address new opportunities as they arise, while at the same time protecting the long term viability and profitabiltiy of the institution.

D. Summary Economic Analysis

1. Macroeconomic Considerations

The goal of the project is to stimulate expansion of the productive private sector in the English-speaking Caribbean, thereby creating employment, income and foreign exchange earnings. The economic analysis quantifies the impact of the project on investment, employment, real output and balance of payments. These are summarized below.

In terms of increased investment, CFSC will stimulate gross new investment by the productive private sector. It is projected that for every dollar of loans extended by CFSC, \$1.75 of investment will be generated. Therefore, over \$50 million in new investment may be generated over a 10-year period.

Unemployment and underemployment are two of the most pervasive problems in the Eastern Caribbean. It is estimated that CFSC will generate over 35,000 job-years of employment and \$100 million of earnings over the next 20 years.

According to the analysis, CFSC will produce increases in GNP in the Region in 1985 of \$1.5 million rising to \$9.7 million in 1994. Foreign exchange earnings, while difficult to quantify may exceed \$50 million over the next 20 years.

2. Benefit/Cost Analysis

Under the project, the CFSC will extend term credit and other financial services to private sector clients. The clients will use these together with any equity contributions and any funding from other sources such as commercial banks to generate capital. This capital, in turn, will be utilized to generate income. Consequently, broadly speaking, the economic costs of this project are the funds employed in producing the capital, while economic benefits consist of the income generated from the capital.

In an economic benefit/cost analysis, incremental costs and benefits are measured. Under this project, the CFSC will (a) provide discounting of loan funds, (b) engage in direct lending, and

(c) furnish non-traditional financial services. By design, these activities should not displace ongoing credit activities in the region. To the extent that such displacement would occur, incremental benefits would not be realized. Hence, for the purposes of our analysis, we assume that no displacement occurs.

To assess the project's viability, an internal rate of return was calculated. Economic costs of the project consist primarily of two components: (a) the gross investment induced by the CFSC and (b) its operating expense. As noted above, gross investments are made up of the credit extended by the institution, any other funding secured by its clients, and client equity contributions. The CFSC operating expenses include administrative expenses and interest expenses on loans secured to fund its operations.

In seeking to delineate the project's benefits, the returns generated from the CFSC investment cpaital were calculated. To do this, it must be assumed that the CFSC will engage only in "profitable" activities. This enables the establishment of a benchmark for computing the returns on the investment capital created by the CFSC. Currently, yields in the neighborhood of 17 percent are being obtained in the region on investment capital. These yields, however, are after tax and thus are understated. Since the tax rate is roughly 50 percent, a return of roughly 34 percent can be expected on the capital generated by the CFSC. To compute these returns requires data on investment capital. To secure such data, we assume that investment take one year on average to become income-generating capital and that depreciation is 10 percent per year.

Prior to calculating the project's internal rate of return, two adjustments were made. First, under this project, workers will be employed (a) when physical plants are being created or expanded and (b) when the concern begins full time or expanded operation. To some extent, the total wages paid to these workers should not be considered an economic cost. While some of the workers will already have jobs and hence will have to be attracted away from these jobs, others will be drawn from the ranks of the unemployed. Unemployment and underemployment is a severe problem in the region. The opportunity cost to the economy as a whole of hiring individuals who were previously unemployed is zero. Therefore, to the extent that such individuals are hired, financial costs exceed economic costs. Consequently, the analysis can reduce economic costs by 50 percent of the total wages paid by the private sector bank's clients to (a) construction workers and (b) permanent full time employees.

Second, a comparison of the recent inflation performance in the region states suggest that currencies of the region's states, especially the Barbadian dollr and the East Caribbean dollar, are "overvalued". For instance, over 1976-82 the U.S.'s average annual inflation rate stood at 8.7 percent; in contrast to over 12 percent in the Caribbean region. This suggest that a portion of the foreign exchange produced by this project should be included as a benefit. Hence, as a rought estimate, the analysis adds to the economic benefits 10 percent of the foreign exchange generated by the CFSC.

Accordingly, an internal rate of return of 34 percent has been estimated for the project. This suggests that the project is a viable economic proposition.

E. Summary Social Analysis

A traditional social soundness analysis for the project has not been undertaken as indicated in the full social analysis annex. However, the project has been e amined to determine the cultural context in which project activities will be undertaken, the intended beneficiaries and the potential for discrimination.

Most of the countries to be included under this project have become independent in the last ten-to-fifteen years. Recent independence and a structural movement of the economies toward industries based on extra-regional markets, such as manufacturing and tourism have significantly changed the social fabric of the societies. Of particular significance is the emergence of non-white professionals and businessmen in the middle class. It is envisioned that credit activities under this project will further support this emergence as well as contribute to employment of unskilled and skilled labor.

Direct beneficiaries under the project will be those enterprises which receive longer-term financing and/or other financial services. Typically, these will be small to medium businesses but will also include larger enterprises (measured in the context of the Caribbean). Secondary beneficiaries will be unskilled and skilled labor which will be brought into full employment. [illegible]pansion of existing enterprises and the creation of new ones [illegible]irectly employ several thousands of individuals.

It is not the intention of the project to address credit constraints of the micro-business sector as these are to some extent being met by national development finance corporations and other similar institutions. In addition, studies by RDO/C indicate significant non-financial assistance is required to make these very small businesses profitable, CFSC cannot afford to address these constraints. It should be emphasized that the micro-business sector is important in the Eastern Caribbean and assistance is beginning to flow to it, for example through the establishment of country National Development Foundations (NDFs). NDFs are now active in Barbados and Dominica, with St. Lucian's NDF moving toward formal establishment. In support of Dominica's NDF, RDO/C approved a $300,000 grant last fiscal year to initiate its assistance to very small businesses. RDO/C intends to expand its efforts to support this sector.

F. Issues and Conclusions

A number of key issues related to the technical, financial and organizational analyses merit broader treatment to verify the project's feasibility. These are discussed below:

1. Foreign Exchange Risk

By accepting a U.S. dollar loan, CFSC will be accepting some level of foreign exchange risk. However, a number of steps will be taken to help reduce that risk. These include:

(a) Convertibility Guaranties: CFSC will negotiate guaranties of convertibility with each central monetary authority prior to initiating lending in that currency area. The Barbados Central Bank clearly has indicated its willingness to provide this guaranty (see Annex IX) and to consider options for neutralizing risk associated with changes in exchange rates. No direct discussions have been held with the Eastern Caribbean Currency Authority principally because it is in the process of conversion to a central bank. However, since regional government support for a private sector banks seems firm, a guaranty of convertibility should not pose a problem. Regarding Belize, the private sector does not believe this will present major difficulties either.

(b) Exchange Risk Guaranties: It appears that the Barbados Central Bank will consider forward contracts for foreign exchange with CFSC. Other devices, such as swap agreements also will be explored with monetary authorities.

(c) Risk-Sharing: For direct lending, CFSC will make loans to clients with access to foreign exchange or with sufficient financial strength to bear devaluation risk. In all cases, the sub-borrowers will bear the immediate risk with the subloan denomination in U.S. dollars or at a fixed dollar exchange rate. For discounting, again the sub-borrowers will be expected to bear exchange rate risk, although CFSC will be protected since its agreements will be with the commercial banks, not individual sub-borrowers.

(d) Probability of Devaluation: In CFSC's initial area of emphasis (Barbados, Belize and the Eastern Caribbean LDC's), some economists argue that the three currencies in question are somewhat overvalued. However, given the very open nature of the various economies, devaluation would have very little positive economic impact. In addition, in the case of both the Eastern Caribbean Currency Authority and the Belize Monetary Authority, specific "cover ratios" (e.g., percentage of foreign exchange assets to the domestic money supply) are manadated. Given these factors, the probability of significant changes in the value of these currencies to the U.S. dollar appears remote over the medium term.

While these actions will help reduce CFSC's risk, RDO/C believes it is prudent to establish a special reserve account to further protect CFSC and AID. The account will be held in cash in the form of an interest bearing escrow account (Risk Minimization Fund) will grow over time until it equals the total outstanding balance of the AID loan. If at the end of any AID loan. If at the end of any AID loan payment period, the value of the assets in the fund's interest bearing escrow account exceeds the balance due on the AID loan, that excess, with written agreement by AID, will be paid out in the form of a stock dividend, thus further capitalizing the CFSC. Any funds so transferred will be subject to the same use as agreed upon in the Project Description attached as an annex to the Loan Agreement.

The financial analysis and sensitivity analysis indicate that the interest rate to CFSC should not exceed 4%. Therefore, RDO/C proposes that the interest rate on the AID Loan be 2% during the grace period and 3% thereafter. In addition, the Project Agreement will require CFSC to pay the equivalent of 2% of interest on the AID loan during the grace period and 1% thereafter into the escrow account. The impact on CFSC will be the same as a 4% interest payment over life of the loan to AID.

With this Risk Minimization Fund, RDO/C considers the foreign exchange risk manageable and acceptable.

2. Terms and Conditions of the AID Loan

A $12 million loan at 2 percent interest during a 10 year grace period and 3 percent during a 10 year amortization period is proposed by RDO/C, with the additional payout by CFSC into the Risk Minimization Fund, total interest payments by CFSC will be 4 percent for the total loan period. The sensitivity analyses performed by ADL indicate that at a higher rate of interest or with a shorter grace period, the margin of financial viability is significantly reduced. Given the measurable impact of harder terms, the risk inherent in any project of this type and the significant developmental impact we expect from the project, the proposed terms of the AID loan are fully justified.

3. AID Exposure and Risk

The sensitivity analyses highlight several key variables which affect CFSC's financial condition, including costs of administration, AID loan terms, and changes in CFSC on-lending rates. It is clear that reduction in CFSC interest rate spreads (the cost of funds versus the on-lending rates) will have a very negative impact on its cash flow. Major changes in the exchange rates within the Caribbean (particularly the Eastern Caribbean and Barbados dollar) also would be extremely serious.

Given the uncertainity in any project of this type, there is an element of risk in AID's extending an unguarantied loan to CFSC. RDO/C is fully aware of these risks and has examined them against the substantial developmental gains to the region which we expect from CFSC. In our view, the benefits significantly outweigh the risks. However, RDO/C will monitor the project carefully to minimize controllable risk.

4. CFSC Incorporation

To incorporate in Barbados, two processes are moving in parallel: subscription of equity and enactment of the Caribbean Financial Services Act of 1983.

(a) Equity Subscription: At this time, the Caribbean private sector is actively soliciting equity subscriptions from Caribbean firms and the major international banks operating in the Region (Chase Manhattan, Citicorp, Royal Bank of Canada, Bank of Nova Scotia, Canadian Imperial Bank of Commerce and Barclays). Offering Circular have been presented to all major potential equity services and CFSC's leading private sector supporters have personally visited many of these sources.

Based on the responses to date, RDO/C anticipates that the required $2.0 million in equity will be subscribed before the end of August.

(b) CFSC Act of 1983: The draft legislation of CFSC, providing tax and other benefits to the corporation, has been presented to the Government of Barbados for introduction to Parliament as a government-sponsored bill. Based on consultations with high GOB officials, the full support of the GOB is expected.

With Cabinet approval, the passage of the Act then becomes a formality. The issue with the new legislation is the time-table for its presentation to Parliament. While passage is a three to four week process, Parliament will go out of session in July and probably not reconvene until late August or early September.

If it appears that the legislation will not be passed in sufficient time for FY 83 authorization, incorporation of CFSC under existing legislation (either the Barbados Companies Act or the Off-Shore Banking Act) will be considered.

RDO/C and the private sector founders of CFSC believe that early incorporation and commitment both of equity capital and the AID loan is essential. Substantial time and momentum will be lost if CFSC is not incorporated until October or November. Based on direct discussions at the highest political level, the government of Barbados appears committed to the passage of the CFSC legislation. Therefore, if the legislation cannot be passed before the end of August for procedural reasons, we intend to proceed with incorporation under existing laws. An additional condition precedent to disbursement of loan funds will be added to require the passage of the CFSC Act of 1983.

Prior to AID authorization, the Mission will confirm that an acceptable level of equity has been pledged and that the Barbados Cabinet has approved the CFSC legislation.

5. Management: The key to the success of CFSC is the quality of its management, particularly the Managing Director. This individual has not yet been selected. AID grant funds are proposed to assist the CFSC Board in its talent search. AID will approve the final selection. During the interim between signing of the Project Agreement and the employment of the permanent Managing Director, grant funds also are proposed to contract a project coordinator whose role it will be to begin to put in place the procedures and systems which CFSC will need to begin operations. It is anticipated that there will be a two-month overlap of the project coordinator and the Managing Director to give CFSC an extra hand of management resources at a crucial point in its existence.

V. COST ESTIMATES AND FINANCIAL PLAN

The proposed project will total $14.4 million of which AID will contribute $12.0 million in the form of a long-term loan and $400,000 in grant assistance. CFSC will contribute $2.0 million in the form of paid-in equity. The project will be implemented over a 54-month period. Table 1 projects disbursement of AID loan and grant funds. Table 2 details the estimated cost of project activites through the life of project and includes both A.I.D. and CFSC contributions.

TABLE 1

AID DISBURSEMENT OF FUNDS

(US$000)

YEAR	GRANT	LOAN	AMOUNT
1983	125	-0-	125
1984	65	2,600	2,665
1985	114	3,900	4,014
1986	46	2,800	2,846
1987	50	2,700	2,750
TOTAL	400	12,000	12,400

TABLE 2

SUMMARY BUDGET

(US$000)

COMPONENT	AID	CFSC	TOTAL
Technical Assistance	260	–	$ 260
Equity	–	$2,000	$2,000
Investment Capital	12,000	–	$12,000
Evaluation	140	–	$ 140
TOTAL	$12,400	$2,000	$14,400

Table 3 details the financial plan for the project. For ongoing activities after the life of the project in each of the areas detailed below see the Financial Analysis. Details of the grant budget are contained in Annex VIII.

Table 3
FINANCIAL PLAN
US$000

COMPENENT	1983	1984	1985	1986	1987	TOTAL
A. Grant						
1. Tech. Asst.	125	60	60	-	-	245
2. Evaluation	-	-	36	36	36	108
Inflation (9%/annum)	-	5	18	10	14	47
Sub-total	125	65	114	46	50	400
B. Loan						
1. Discounting	-	2,000	1,990	320	0	4,310
2. Direct lending	-	600	1,840	2,000	2,250	6,690
3. Other Serv.	-	-	-	500	500	1,000
Sub-total	-	2,600	3,830	2,820	2,750	12,000
TOTAL	125	2,665	3,944	2,866	2,800	12,400

VI. MONITORING AND IMPLEMENTATION PLAN

A. RDO/C Monitoring Responsibilities

The Mission's Private Sector Division (PSD) will have overall project management responsibilities for the project. Working in conjunction with the Regional Legal Advisor, the Office of the Controller and, as appropriate, Mission management, the PSD will monitor all loan and grant activities, maintain regular communication with the CFSC, assure compliance with the loan and grant agreements, participate in evaluations and report to Mission management on an on-going basis. In addition to these general areas, the PSD will (a) review and forward for disbursement all CFSC vouchers, (b) participate in any operational approval processes requiring A.I.D. review and approval, (c) review CFSC quarterly reports, audited financial statements and all other related project documents, and (d) visit, as feasible, participating banks or direct borrowers to assure that the project is being implemented as mutually agreed upon.

To assist the PSD in carrying out the above monitoring responsibilites, an internal Mission implementation committee consisting of the Chief, Development Resources; Chief, Capital Projects; the Regional Legal Advisor and a representative of the Office of the Controller will be formed. Fiscal control of all funds being provided under the project will be the responsibility of RDO/C's Controller.

In addition to quarterly progress reports covering all aspects of the project's activities, the CFSC will be required to submit annual audited statements prepared by an independent accounting firm.

B. CFSC Monitoring Responsibilities

The CFSC will need to develop policies and procedures required to monitor all aspects of its management and lending operations, and produce reports both for internal management purposes and periodic USAID review. Other information such as annual audited financial statements, will be required by A.I.D., other potential lenders and governmental ministries.

With Board assistance, detailed internal management information requirements will be developed by CFSC management. This information will include, among others, periodic delinquency reports, current valuations of collateral pledged to secure loans, proforma and historical financial statements of all borrowers, status reports from the discounting financial institutions, CFSC portfolio performance appraisal and cash flow projections. Prior to each direct loan disbursement, the CFSC must establish to the satisfaction of its Loan Committee that (1) the borrower will be able to service the debt, (2) that any collateral pledged is unincumbered and fairly valued, and (3) that the purpose of the loan is within the lending charter of the CFSC.

The CFSC should review and retain all documentation pertaining to loans made through the discounting facility, including some type of loan purpose certification. USAID should be given access to all direct loan and discount documentation, and be provided with summary financial reports on a quarterly basis.

C. Implementation Schedule

The following is a schedule of key project events.

	EVENTS	DATE
1.	Project paper submitted to AID/W	June, 1983
2.	Initial Equity capital pledged	July, 1983
3.	Project authorized	July, 1983
4.	CFSC duly incorporated and Board of Directors appointed	August, 1983
5.	Project Agreement Negotiated and Obligated	August, 1983
6.	CP's to first disbursement of grant funds met	September, 1983
7.	Contracting a Project Coordinator	September, 1983
8.	Selection of a General Manager	October, 1983
9.	Operating procedures developed	November, 1983
10.	Staff hired and office opened for business	November, 1983
11.	Initial CP's met for disbursement of loan funds for discounting	December, 1983
12.	First Disbursement for AID Loan	January, 1983
13.	Subsequent CP's met for disbursement of Loan funds for direct lending & other financial services	June, 1983
14.	First Evaluation	February, 1985
15.	Second Evaluation	February, 1986
16.	End of Project Evaluation	September, 1987
17.	PACD	December, 1987

D. Disbursement Procedures

1. Grant Funds

Following the signature of the Project Agreement, the Board of CFSC will select and contract a Project Coordinator to manage the day-to-day start up operations of the CFSC until the Managing Director can be identified and brought on board. A personal services contract of up to six months is anticipated.

Two other contracts, both host country contracts with firms, will be entered into as soon as possible: a contract with an executive search firm to assist in the identification of a Managing Director and a contract to assist in the development of operating systems, accounting procedures, monitoring procedures, etc. which will guide the operation of the corporation when it begins its lending activities.

One other contract or contracts will be used to provide RDO/C and CFSC with independent evaluations of the development of the project will be required. In all probability it will be an AID-direct contract given its short duration (on an annual basis) and "independent cbserver" focus.

All grant procurements will follow the requirements of HB11, Chapter 1, since services will be procured directly by CFSC (with the exception of evaluation).

2. Loan Funds

Loan funds will be disbursed through CFSC directly to sub-borrowers or through particpating commercial banks to their sub-borrowers. Procurement procedures followed will be those applicable to intermediate credit institutions (ICIs) in accordance with AID Handbook IB, Chapter 19.

While procurement will conform to HB 1B, waivers of some of the policies established therein are considered essential to the successful implementation of the project and are discussed below.

E. Procurement Waivers

1. Source/Origin and Nationality

Given RDO/C funding limitations, loan funds for CFSC activities will be split between Development Assistance and Economic Support Funds: $9 million and $3 million respectively. The source eligibility for DA loan funds is Geographic Code 941 while ESF funds is Code 000. In addition to this obvious problem, the unique nature of CFSC operations and the economies of the Eastern Caribbean require that AID waiver its source and origin policy to permit CFSC to operate as a viable private sector financial entity.

A number of factors make application of source/origin rules particularly problematic in the Eastern Caribbean and Belize as follows:

(a) Small domestic markets: In larger economies, "shelf items" procurement using local currencies is very common for many purchases by firms. However, in the island states and Belize, the local market is so small that true shelf items (imported for normal commerical requirements and not for specific projects), are uncommon for a broad range of items.

(b) High import component of investments: Elsewhere in Latin America, the local source content of particular investments is significant, especially in cases involving construction. In the Eastern Caribbean, little is produced domestically and most construction materials (including lumber, glass, cement, nails, roofing, structural members) are imported from a variety of countries. Authorization to permit procurement of local source items, therefore, is of less significance in the Eastern Caribbean and Belize.

(c) Definition of Local Source: Although CFSC will be incorporation in Barbados, its sub-borrowers will be located in a number of territories. RDO/C projects with the Caribbean Development Bank, for example, resolve the "local source" issue by defining as eligible source all borrowing members of the CDB. CFSC wil have no such convenient "member country" mechanism to define local source.

(d) Administrative Complexity: Two aspects of this issue are particularly relevant to the Caribbean. First, it will be extremely difficult to make certain that all participating banks and sub-borrowers understand the application of source/origin rules with at least two or three commercial banks in up to nine countries eligible for participation. Verification of compliance will be equally complex. Second, the ability of the system to respond to valid and commercially legitimate instances supporting case-by-case waiver requests would be complex and cumbersome. The management burden on the participating banks, CFSC, and RDO/C would be substantial.

(e) Trade Patterns: While the U.S. has emerged as the leading developed country trading partner for most of the Region, important commercial links exist with the U.K, other EEC countries, Canada and Japan. A sub-borrower could be deterred from using project funds if he could not rely on his customary sources of supply, particularly for small value items.

Based on the arguments outlined above, imposition of either AID Geographic Code 000 or Code 941 source/origin requirements could undermine the commercial viability and developmental impact of CFSC. The cumbersome, slow and confusing system which would have to be created to improve these geographic code restrictions would discourage banks and sub-borrowers from participating in the project. This in turn would reduce the rate of draw-down of the loan significantly and compromise the financial viability of CFSC. AID would be, in affect, increasing the risk that CFSC will encounter severe cash flow problems.

After carefully weighing the alternatives, RDO/C requests that a source waiver of $8.2 million be approved which would permit AID loan-financed procurement from countries included in AID Geographic Code 935. That level of waiver authority would cover the discounting program ($4.3 million) and 50% of the direct lending activities. The decision to seek less than a full source waiver for direct lending is based on two factors. First, current trade patterns indicate that approximately 50% of imported goods are of U.S. source in the Eastern Caribbean. Second, while some administrative complexity is required to implement the source rules, it is feasible in those cases involving direct contact between CFSC and the actual recipients of funds. In our view, this recommendation is the optimum balance between the requirements of the project and the basis of AID's procurement rules.

Under the terms of HB 1, Supplement B, Chapter 5, paragraph 4 (a) (7), a waiver of source requirements may be granted in "such other circumstances as are determined to be critical to the success of project objectives". It is our conclusion that failure to grant a source waiver to Code 935 would truncate CFSC's market and erode its financial viability thereby preventing achievement of the success of the project.

The proposed source/origin provision of the Project Agreement have been included in the draft Project Authorization in accordance with the requested waiver which, because of its magnitude, can only be granted by the Administrator.

Shipping

The Project envisions AID-Funds being used to finance many transactions throughout the Eastern Caribbean and Belize. The transactions under the ICI-type activity will be carried out by many independent firms from various Eastern Caribbean islands, called upon to make instantaneous business decisions regarding time and mode of shipment. This factor, coupled with the fact that at the present time there is virtually no regularly scheduled U.S. flag service in the Eastern Caribbean and Belize, makes it imperative for the practical operation of the Project that the source of shipping be broadened to include shipment on vessels of AID Code 899 countries. Accordingly, we recommend that SER/COM be requested to grant the necessary shipping waiver. The shipping waiver has been built into the draft authorization furnished with the PP.

VII. CONDITIONS, COVENANTS AND NEGOTIATING STATUS:

A. Negotiating Status

RDO/C has been working with the Caribbean private sector on the development of a regional private sector development bank for a number of months. The close collaboration and frequent exchanges of views have resulted in a clear concensus on the structure of CFSC and the terms and conditions RDO/C proposes for AID assistance. Prior to preparation of the final draft of this Project Paper, the Mission met with the key members of the CFSC Steering Committee and clarified the proposed terms and conditions. Unless there are substantial changes in those terms, RDO/C anticipates no problems will be encountered during the final negotiation of the Project Agreement.

B. Conditions and Covenants to the A.I.D. Assistance

Below are presented the terms and conditions for the Project Agreement.

1. Interest Rate and Terms of Repayment

The Borrower shall repay the Loan to A.I.D. in U.S. Dollars within twenty (20) years from the date of first disbursement of the Loan including a grace period of not to exceed ten (10) years. The Borrower shall pay to A.I.D. in U.S. dollars interest from the date of first disbursement of the Loan at the rate of four percent (4%) per annum on the outstanding balance of the Loan and on any due and unpaid interest accured thereon.

2. Source and Origin of Goods and Services Grant Financed

Commodities or services financed by A.I.D. under the Loan shall have their source and origin in the United States except as A.I.D. may otherwise agree in writing, have their source and origin in the United States or Barbados. Ocean shipping financed by A.I.D. under the grant-funded portion of the Project shall, except as A.I.D. may otherwise agree in writing, be financed only on flag vessels of countries included in A.I.D. Geographic Code 000 except as A.I.D. may otherwise agree in writing.

3. Source and Origin of Goods and Services Loan Financed

Commodities or services financed by A.I.D. under the Loan shall, except as A.I.D. may otherwise agree in writing, have their source and origin in countries included in A.I.D Geographic Code 941. Ocean shipping financed by A.I.D. under the loan-funded portion of the Project shall, except as A.I.D. may otherwise agree in writing, be financed only on flag vessels of countries included in A.I.D. Geographic Code 899.

4. Conditions Precedent to Signing of the Project Agreement

Prior to the signing of the Project Agreement the Borrower will furnish to AID, in form and substance satisfactory to AID, evidence that:

(a) The Borrower has been duly organized and incorporated under the laws of Barbados and has taken all corporate and legal action(s) required under the laws of Barbados to operate as an intermediate finance institution.

(b) Capital has been subscribed to the borrower of approximately one million United States Dollars ($1,000,000).

5. Conditions Precedent to First Disbursement of the Grant

Prior to the first disbursement under the Grant or to the issuance by AID of documentation pursuant to which disbursement will be made, the Borrower/Grantee will, except as A.I.D. may otherwise agree in writing, furnish to AID in form and substance satisfactory to AID;

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

(b) A statement of the name of the principal officers of the Borrower/Grantee and of any additional representatives empowered to act on behalf of the borrower/Grantee, together with a specimen signature of each person specified in such statement.

6. Conditions Precedent to Any Disbursement of Loan Funds

Prior to the disbursement under the loan, or to the issuance by AID of documentation pursuant to which disbursements of loan funds for any lending act will be made, the Borrower will, except as AID may otherwise agree in writing, furnish to AID, in form and substance satisfactory to AID:

(a) Evidence of subscribed capital of not less than $2.0 million and paid-in capital of not less than $1.0 million;

(b) Evidence of the establishment of a working office, including evidence that the Managing Director is actively employed and that the Borrower has employed the staff required to carry out its operations; and

(c) A statement setting forth the basic organizational policies and operational guidelines of the Borrower, including specific lending criteria.

(d) Evidence that prior to initiating lending in any particular country the Borrower has adequate agreement with the relevant monetary authority which at a minimum provides for currency convertibility.

(e) Evidence of the establishment of an escrow account for the risk minimization fund described in Annex I of this Agreement.

7. <u>Conditions Precedent to Disbursement of Loan Funds for Discounting</u>

Prior to the disbursement under the loan, or to the issuance by A.I.D. of documentation pursuant to which loan funds for discounting will be made, the Borrower will, except as A.I.D. may otherwise agree in writing, furnish to A.I.D., in form and substance satisfactory to A.I.D.:

(a) Evidence that the Borrower has employed the staff required to carry out the discounting program;

(b) A duly authorized detailed statement setting forth the criteria and procedures that the Borrower will follow in reviewing, administering and monitoring the discounting program;

(c) A projected two-year operating plan and budget for the discounting program and a model agreement illustrating the basic legal framework for the discounting program; and

8. <u>Condition Precedent to First Disbursement of Loan Funds for Direct Lending or Other Financial Services</u>

Prior to the disbursement under the loan, or to the issuance by AID of documentation pursuant to which disbursement of loan funds for direct lending or other financial sources will be made, the Borrower will, except as the parties may otherwise agree in writing, furnish to AID in form and substance satisfactory to AID:

(a) A duly authorized detailed plan for (a) the periodic audit of sub-loans and (b) a projected two year operating plan and budget for direct lending and/or other financial services.

9. Special Covenants

The Borrower agrees that it will, unless otherwise agreed to by AID:

(a) Not declare or pay any cash dividend during the grace period until such time as the CFSC has realized two consecutive years of profit. Furthermore, the amount declared and paid in cash should not exceed 25% of that year's profits;

(b) Not use AID funds to pay administrative or operating expenses of the Borrower;

(c) Make an annual provision for bad debts of at least two percent (2%) of annual average outstanding direct loans;

(d) Not incur any indebtedness which would enjoy a position superior to the obligation incurred under the AID loan;

(e) Use reflows of principal and interest in a manner which will achieve the purposes and objectives of the Project;

(f) Submit a report to AID each quarter during the life of this Agreement. Each report will contain a breakdown of sub-projects, showing types of industry, commitments and disbursements, terms and conditions of financing and uses of AID funds, an aging of account, and other information as A.I.D. may reasonably request;

(g) Not amend or modify its corporate charter and by-laws or other incorporating instruments without prior approval of AID;

(h) Limit the maximum total amount of outstanding loans to any sub-borrower, to be no more than 15% of the Borrower's equity base at the time sub-loans are made;

(i) Engage the services of an internationally recognized accounting firm, satisfactory to A.I.D. to carry out an annual audit of the Borrower's operations;

(j) Not incur short or long-term liabilities other than concessional assistance acceptable to both Parties, which cause the debt/equity ratio of the CFSC to exceed six to one (6/1) during the first five years, seven to one (7/1) during year six and seven, and eight to one (8/1) thereafter;

(k) Not make cash equity investment in any one company which exceed 15% of the CFSC's equity;

(l) not make cash equity investments which as a total exceed 30 percent of CFSC's equity;

(m) Not use more than US$6.0 million discount loans in any one year.

(m) Request prior AID approval of the Managing Director and any changes in the Managing Director;

(o) Request AID's prior approval of any subloan related to the production of citrus, palm oil, or sugar;

(p) Preclude use of AID funds in any country which is in default to AID under the terms of Section 620q of the Foreign Assistance Act as amended.

(q) A minimum of $500,000 of CFSC's capital shall be paid in by the private sector of the English-speaking Caribbean.

(r) Preclude a member of the Board of Directors from voting on the approval of a loan to a company in which that member has a financial interest.

(s) Require follow-on loans to the same company which in their aggregate exceed $300,000 to be approved by A.I.D..

(t) Will not finance or be involved in projects which adversely affect the environment, including but not limited to, loans for the manufacture, importation, procurement or use of pesticides, mining of coral reefs, or activate which would exploit or otherwise harm endangered species.

10. Risk Minimization Fund

CFSC will establish and make payment into a reserve account to be held in escrow in a United States financial institution in accordance with the terms and conditions stipulated in ANNEX I of this agreement and those of an escrow agreement acceptable in form and substance to AID.

11. Annex I - Risk Minimization Fund

The following will be included in Annex I:

Except as AID may otherwise agree in writing, the Borrower will make semi-annual payments into an interest bearing escrow account, acceptable to AID, at the following annual rates: two (2) percent of the average outstanding balance of the AID loan during the ten-year grace period and one percent thereafter until the balance of the escrow account equals the outstanding balance of the AID loan. These payments shall be made at the same time as interest is paid to AID. CFSC payments into the escrow account and earnings thereon less appropriate fees, if any, will remain the property of the CFSC, but will pass to AID, should AID communicate to the escrow agent that the AID loan is in default. No other CFSC creditors or investors will have any claim on the fund. AID's exclusive claim on the fund in the event of default will not prejudice any other claims which AID may share with other creditors. Moreover, although CFSC property, the assets in the fund may not be counted either as equity in calculations of maximum allowable debt to equity or in calculations of maximum allowable dividends payable. CFSC payments into the fund may be only with interest earnings (payments may not be made with AID loan funds or with the recuperated principal of the AID subloan portfolio.)

VIII. EVALUATION ARRANGEMENTS

Due to the projected four year disbursement of the A.I.D. loan, three evaluations are planned under the project. The first will occur following the close of the first financial yeai of CFSC. The second the following year and the third and final evaluation in September, 1987. All evaluations will be conducted by independent contractors.

A. Evaluation/Guidelines

The two interim evaluations are necessary to ensure that the CFSC is adequately structured and functioning and to determine the extent to which the project is meeting its stated objectives. They will include assessments of:

(1) the degree to which CFSC has been organized and structured to meet the financial needs of the productive sector;

(2) the extent to which CFSC operating procedures are working, both in terms of institutional viability and the level of credit and other financial services;

(3) the impact of sub-loans in terms of increased productivity, employment and revenue generation;

(4) the extent to which participating commercial financial institutions understand and are involved in CFSC activities; and

(5) what problems, if any, need to be addressed in concluding the project.

B. Final Evaluation

The final evaluation will determine the extent to which the project has achieved its purpose and objectives. As a more comprehensive evaluation, it shall use the logical framework, basic agreements and all reports relating to the project to ascertain:

(1) the degree to which CFSC is a fully functioning and financially solvent institution;

(2) the degree to which all lending and financial services activities are contributing to both productive enterprise development and overall national growth;

(3) the effectiveness of CFSC in meeting the financial needs of the productive sector;

(4) the extent to which CFSC has completed the commitments agreed to in the project agreements; and

(5) the longer-term impact expected from the project.

C. Mini-Evaluations

To assist CFSC in ensuring that its operational procedures and lending practices are indeed working as envisioned, the project provides limited grant assistance to the institution to use on an as needed evaluation basis. For example, upon establishing the direct lending activities of the institution, it may be desirable after some initial experience in this area to further refine the policies and practices of CFSC to more effectively implement its direct lending activities.

TO AMEMBASSY BRIDGETOWN 4249
BT
UNCLAS SECTION 01 OF 02 STATE 279748
AIDAC

E.O. 12065: N/A

TAGS:
SUBJECT: RDO/C CARIBBEAN INVESTMENT CORPORATION (CIC) CONCEPT PAPER

1. SUMMARY. AN AGENCY REVIEW OF THE SUBJECT PAPER WAS HELD ON SEPTEMBER 28, 1981. IN VIEW OF THE NATURE AND CONTENT OF THE DOCUMENT, THE BUREAU HAS CHOSEN TO TREAT IT AS A PID. THE PID IS APPROVED AND THE MISSION IS HEREBY AUTHORIZED TO PROCEED WITH INTENSIVE REVIEW OF THE PROJECT FOR FINANCING IN FY 1982 WITH ESF FUNDS. ONCE FINALIZED BY THE MISSION, THE PP SHOULD BE SUBMITTED TO AID/W FOR REVIEW. BUREAU VIEWS PROJECT AS MEANS FOR DEVELOPING INDIGENOUS CARIBBEAN INTITUTIONAL CAPABILITY TO ADDRESS PRIVATE SECTOR LOAN AND EQUITY FINANCING NEEDS OF SMALL AND MEDIUM SIZE BUSINESSES. THUS, WE AGREE THAT, AMONG THE ALTERNATIVES PUT FORWARD, REVITALIZATION OF THE CIC, WITH PRIVATE SECTOR CONTROL, IS THE BEST AVENUE FOR ACHIEVING OBJECTIVE.

2. IN DEVELOPING THE PROJECT, THE BUREAU REQUESTS THAT THE FOLLOWING ITEMS BE ADDRESSED IN THE PP:

--A RATIONALE. SUGGESTS THAT THE PRIMARY RATIONALE FOR UNDERTAKING THE PROJECT RESTS ON FINANCIAL INVESTMENT GROUNDS. WHILE AN IMPORTANT ASPECT, THE BUREAU BELIEVES THAT ANOTHER IMPORTANT RATIONALE EXISTS. LAY OBSERVATIONS SUGGEST THAT WEST INDIAN BUSINESSMEN HAVE A QUOTE TRADER/DISTRIBUTION MENTALITY END QUOTE WITH A HIGHER AVERSION TO RISK. THUS, THERE IS A NEED TO INFLUENCE REGIONAL BUSINESSMEN BY ENCOURAGING MORE ENTREPRENEURIAL BEHAVIOR, I.E., TO EXHIBIT MORE RISK TAKING AND PROGRESSIVE DECISION-MAKING AND OPERATIONAL BEHAVIOR. TO ADDRESS THIS ASPECT OF THE PROJECT RATIONALE, THE RDO/C SHOULD EXAMINE THE ATTITUDES AND PERCEPTIONS OF BUSINESSMEN TOWARD INVESTMENT AND DECISION-MAKING AND THE EXISTING SOCIAL AND POLITICAL CONSTRAINTS UNDER WHICH BUSINESSMEN OPERATE. THE BUREAU RECOMMENDS THAT THE PP CONTAIN AN ANNEX, CLASSIFIED IF NECESSARY, WHICH WOULD CONTAIN YOUR FINDINGS AND OUTLINE, INTER ALIA: (1) EXISTING ATTITUDES AND PERCEPTIONS OF BUSINESSMEN IN THE REGION (INCLUDING PERCEPTIONS OF THE NEED FOR FIXED INTEREST RATES WHICH EVIDENTLY CURTAIL BORROWING AT WORLD MARKET RATES AND THUS LIMIT BUSINESS EXPANSION), (2) THE POLITICAL/POLICY AND SOCIAL CONSTRAINTS TO MORE ENTREPRENEURIAL BEHAVIOR, AND (3) HOW THE PROJECT WILL ADDRESS THESE FACTORS WHICH LIMIT ENTREPRENURIAL BEHAVIOR IN THE REGION.

--B. COMPONENTS. (1) MICROBUSINESS FUND - CONCERN WAS EXPRESSED ABOUT CIC ASSOCIATION WITH THIS FUND WHICH IS LIKELY TO PLACE CONSIDERABLE ADMINISTRATIVE BURDEN ON ITS NEWLY ORGANIZED STAFF AND WHICH IS PHILOSOPHICALLY DIFFERENT FROM THE MAINSTREAM OF CIC ACTIVITIES. MOREOVER, THIS FUND MAY EXPERIENCE INITIALLY HIGH DEFAULT RATES (DUE TO NATURE OF RECIPIENTS) WHICH WOULD SET A BAD PRECEDENT FOR CIC OPERATIONS. RDO/C SHOULD EXPLORE ALTERNATIVE MECHANISMS FOR EXECUTING THIS COMPONENT INCLUDING USE OF CARIBBEAN ASSOCIATION OF INDUSTRY AND COMMERCE (CAIC) TO IDENTIFY SUB-PROJECT INVESTMENTS AND APPROVE USE OF THESE RESOURCES. (2) INVESTMENT FUND - BUREAU BELIEVES THAT A REASONABLE AMOUNT OF FUND SHOULD BE USED IN THE EASTERN CARIBBEAN LDCS. PP SHOULD INDICATE WHAT EFFORTS WILL BE MADE TO MAXIMIZE FLOW OF INVESTMENT FUNDS INTO THE LDCS. UTILIZING THE RESOURCES OF THE TA AND SERVICES COMPONENT OF PROPOSED PROJECT AND THE PROJECT DEVELOPMENT

ASSISTANCE PROGRAM (PDAP) FOR THIS PURPOSE AND SENSITIZING THE CIC TO THIS PRIORITY BY INCLUDING A QUOTE BEST EFFORTS CLAUSE END QUOTE IN THE PROAG ARE POSSIBLE WAYS OF HELPING TO ACHIEVE THIS OBJECTIVE. (3) TECHNICAL ASSISTANCE AND SERVICES - COSTS OF THIS COMPONENT SHOULD BE BUILT INTO SUB-LOANS WHEREEVER POSSIBLE.

--C. FINANCIAL VIABILITY. (1) LOAN GUARANTY CONCERN WAS EXPRESSED ABOUT AID EXPOSURE FROM EXTENDING AN UNGUARANTEED LOAN TO CIC. BUREAU RECOGNIZES THAT GUARANTY FROM CIC, CDB, OR GOVERNMENTS IS PROBABLY NOT APPROPRIATE AT THIS TIME AND THAT LDC GUARANTIES OF INDIVIDUAL SUB-LOANS MAY NOT BE ACCEPTABLE SOLUTION. RDO/C SHOULD EXPLORE ALTERNATIVES FOR ADEQUATELY ASSURING REPAYMENT TO AID AND CIC'S VIABILITY GIVEN THE RISKS POSED BY DEFAULT AND DEFVALUATION. ONE POSSIBILITY WHICH SHOULD BE EXPLORED AS TO FEASIBILITY AND ADEQUACY IS ESTABLISHMENT OF AN ESCROW ACCOUNT (SUCH AS THE RISK MINIMIZING FUND UNDER THE BANEX LOAN IN COSTA RICA) AND RESERVE ACCOUNT. (2) LOAN TERMS. SINCE CREATION OF FINANCIALLY VIABLE CIC IS A PRINCIPAL OBJECTIVE OF PROJECT, RDO/C SHOULD DETERMINE WHICH LOAN REPAYMENT SCHEDULE, GRACE PERIOD AND RESPECTIVE INTEREST RATES ARE APPROPRIATE. IN MAKING THIS DETERMINATION, MISSION SHOULD ATTEMPT TO RETAIN THE 26 YEAR REPAYMENT PERIOD AND ADJUST THE GRACE PERIOD AND INTEREST RATES TO ACHIEVE FINANCIAL VIABILITY. ONLY IF THIS NOT SUCCESSFUL SHOULD EXTENSION OF REPAYMENT PERIOD BE CONSIDERED. (3) CONVERTIBILITY. SINCE CONVERSION OF LOCAL CURRENCY INTO U.S. DOLLARS COULD BE A PROBLEM AT THE TIME SUBBORROWER AND AID LOAN REPAYMENTS, RDO/C SHOULD EXPLORE WAYS OF ADDRESSING THIS PROBLEM UNDER PROJECT.

--D. ILLUSTRATIVE SUB-PROJECTS. AS PART OF PP MARKET/DEMAND ANALYSIS, RDO/C SHOULD PROVIDE EXAMPLES OF CIC SUB-PROJECT INVESTMENTS. THESE DESCRIPTIONS SHOULD DEMONSTRATE THE RANGE AND NATURE OF LIKELY ACTIVITIES TO BE UNDERTAKEN BY CIC. APPROXIMATELY FIVE EXAMPLES SHOULD BE SUFFICIENT. THESE SUB-PROJECTS SHOULD BE EXTRACTED FROM THE COMPLETE ADL LIST OF SUB-PROJECTS BEING DEVELOPED. THIS LIST SHOULD BE INCLUDED AS ANNEX TO PP.

--E. U.S. MEMBERSHIP ON CIC BOARD. BECAUSE OF OUR ABILITY TO INFLUENCE THE ACTION OF BORROWERS THROUGH RIGHTS GRANTED AID UNDER LOAN AGREEMENTS, THE BUREAU SEES LITTLE NEED FOR USG REPRESENTATION ON THE CIC BOARD OF GOVERNORS. ON THE OTHER HAND, IF THE U.S. BUSINESS COMMUNITY PROVIDES EQUITY FINANCING TO CIC, THEIR PARTICIPATION ON THE BOARD, EX-OFFICIO OR OTHERWISE, MAY BE USEFUL.

--F. IEE. RDO/C SHOULD SUBMIT AN IEE TO BUREAU WITHIN 90 DAYS OF RECEIPT OF THIS CABLE. IEE SHOULD INCLUDE A BRIEF PROJECT DESCRIPTION, DISCUSS THE POTENTIAL IMPACTS ON ENVIRONMENT, AND INDICATE MEASURES WHICH ARE LIKELY TO BE TAKEN TO MITIGATE NEGATIVE IMPACTS.

--G. TIMING OF PP. A NUMBER OF STEPS ARE OUTLINED IN THE PID WHICH MAKES IT CLEAR THAT THE SIGNATURE OF A LOAN AGREEMENT IS NOT POSSIBLE UNTIL NEGOTIATIONS BETWEEN THE PRIVATE SECTOR AND CIC BOARD OF GOVERNORS ARE COMPLETED. GIVEN INTEREST IN INITIATING SUB-PROJECT INVESTMENTS ASAP THEREAFTER, RDO/C SHOULD EXPLORE WAYS OF ENSURING THAT INVESTMENTS ARE READY FOR FINANCING SHORTLY AFTER PROJECT OBLIGATION. MISSION SHOULD CONSIDER, INTER ALIA: (1) COORDINATING CLOSELY WITH PDAP AVISORS TO ASSURE THAT A NUMBER OF SUB-PROJECT INVESTMENTS WILL HAVE BEEN DEVELOPED AND READIED FOR FINANCING UPON SIGNATURE OF LOAN: AND (2) EXAMINING THE UTILITY OF HOLDING PROMOTIONAL SEMINARS FOR LOCAL BUSINESSMENT TO MAKE THEM AWARE OF CIC LENDING PROGRAM PROCEDURES, AND REQUIREMENTS. RDO/C MAY ALSO WISH TO CONSIDER US OF PD AND S TO (1) ASSIST CIC WITH STAFF DEVELOPMENT THROUGH PROVISION OF SHORT TERM

ASSISTANCE AIMED AT IDENTIFYING CIC MANAGEMENT TEAM, (2) ESTABLISHED CIC OPERATIONAL PROCEDURES, (3) DEVELOP OR REVISE CIC CHARTER AND BY-LAWS, ETC., ONCE THE PRIVATE SECTOR HAS INDICATED THAT IT IS PREPARED TO MAKE ADEQUATE EQUITY INVESTMENT IN CIC.

3. AT AN APPROPRIATE TIME PRIOR TO FINALIZATION OF THE PP, THE RDO/C SHOULD PROVIDE BUREAU WITH AN UPDATED REPORT ON THE STATUS OF NEGOTIATIONS BETWEEN THE PRIVATE AND PUBLIC SECTOR REGARDING THE REVITALIZATION OF THE CIC. ALSO, AS SOON AS THE MISSION HAS PREFORMED THE FINANCIAL ANALYIS AND PROJECTIONS OF CIC, WHICH INCORPORATE THE OPTIONAL TERMS AND ADDRESS THE FINANCIAL VIABILITY ISSUES DISCUSSED IN PARA 2C ABOVE, WE WOULD LIKE TO HAVE THAT MATERIAL COPIED TO THE BUREAU. HAIG
#9748

LOGICAL FRAMEWORK

FROM FY 83 TO FY 8
TOTAL U.S. FUNDING
DATE PREPARED:

PROJECT TITLE & NUMBER: CARIBBEAN FINANCIAL SERVICES CORPORATION

<table>
<tr><th>NARRATIVE SUMMARY</th><th>OBJECTIVELY VERIFIABLE INDICATORS</th><th>MEANS OF VERIFICATION</th><th>IMPORTANT ASSUMPTIONS</th></tr>
<tr>
<td>Program or Sector Goal: The goal of this Project is to stimulate expansion of the productive sector in the Eastern Caribbean, thereby creating employment, income and balance of payments support.</td>
<td>Measures of Goal Achievement:
1. Increased productive sector related to CFSC activities.
2. Increased expansion at existing enterprises and the development of new companies.</td>
<td>1. Project evaluations.
2. Project reports.</td>
<td>Assumptions for achieving goal targets
1. There is a need to provide AID resources to stimulate production and employment.
2. Private enterprises are prepared to expand or seek to develop new companies.</td>
</tr>
<tr>
<td>Project Purpose:

To establish a private development finance institution to provide longer-term financing and the provision of non-traditional financial services to private enterprises in the English-speaking Caribbean.</td>
<td>Conditions that will indicate purpose has been achieved: End of project status.
1. A viable financial institution will have been established which meets the longer-term credit needs for new and/or expanded private enterprises.
2. $13 million loan portfolio consisting of a mix of rediscounting, direct and creative financing.
3. Creation of new employment opportunies for skilled and unskilled labor.
4. Increased payment of taxes to provide balance of payment support.</td>
<td>1. Project reports, annual audits and periodic evaluations.
2. CFSC loan portfolio records.
3. Project evaluations, CFSC reports, governmental employment statistics.
4. Central Bank and other monetary authorities' annual reports.</td>
<td>Assumptions for achieving purpose
1. CFSC terms and services are needed to promote productive sector expansion.
2. CFSC can successfully recruit qualified staff and market its services in the region.
3. Unemployment and under employment is a developmental prolem in the region.
4. Private enterprises will pay higher taxes as they increase the level of their activities</td>
</tr>
<tr>
<td>Outputs:
1. Outstanding loan portfolio
2. Identification, promotion and development of sub-projects.
3. Credit and project monitoring systems functioning efficiently to assure client success and loan repayments.</td>
<td>Magnitude of Outputs: (US$000)
1. YR 1 — 2,600; YR 2 — 6,800; YR 3 — 10,400; YR 4 — 13,200</td>
<td>1. CFSC loan portfolio records and quarterly reports.
2. CFSC records and project evaluations.
3. CFSC loan portfolio records and quarterly reports.</td>
<td>Assumptions for achieving outputs
1. The basis for disbursements is reasonably developed.
2. CFSC marketing activities will result in new activities
3. Borrowers from the CFSC will be sufficiently developed to handle loan repayment commitments.</td>
</tr>
<tr>
<td>Inputs:
1. AID Loan
2. Borrowers equity</td>
<td><table>
<tr><th></th><th>1983</th><th>1984</th><th>1985</th><th>1986</th><th>1987</th><th>TOTAL</th></tr>
<tr><td>1. Grant</td><td>125</td><td>65</td><td>114</td><td>46</td><td>50</td><td>400</td></tr>
<tr><td>2. Loan</td><td>-</td><td>2,600</td><td>3,830</td><td>2,820</td><td>2,750</td><td>12,000</td></tr>
<tr><td>TOTAL CFSC</td><td>125</td><td>2,665</td><td>3,944</td><td>2,866</td><td>2,800</td><td>12,400</td></tr>
<tr><td>1. Equity</td><td>2,000</td><td>-</td><td>-</td><td>-</td><td>-</td><td>2,000</td></tr>
</table></td>
<td>1. AID disbursement records
2. CFSC reports and semi-annual audited statements.</td>
<td>Assumptions for providing inputs
1. AID Funds for the Project are available.
2. CFSC is committed to raising its equity commitment and this will be forthcoming.</td>
</tr>
</table>

PROJECT CHECKLIST

Listed below are statutory criteria applicable generally to projects under the FAA and project criteria applicable to individual funding sources: Development Assistance (with a subcategory for criteria applicable only to loans); and Economic Support Funds.

CROSS REFERENCES: IS COUNTRY CHECKLIST UP-TO-DATE? HAS STANDARD ITEM CHECKLIST BEEN REVIEWED FOR THIS PROJECT?

A. GENERAL CRITERIA FOR PROJECT

1. FY 1982 Apropriation Act Sec. 523; FAA Sec. 634A; Sec. 653(b).

(a) Describe how authorizing and appropriations committees of Senate and House have been or will be notified concerning the project;

(a) A Congressional Notification has been forwarded to Congress.

(b) is assistance within (Operational Year Budget) country or international organization allocation reported to Congress (or not more than $1 million over that amount)?

(b) Yes.

2. FAA Sec. 611(a)(1). Prior to obligation in excess of $100,000, will there be (a) engineering, financial or other plans necessary to carry out the assistance and (b) a reasonably firm estimate of the cost to the U.S. of the assistance?

(a) Yes.
(b) Yes.

3. FAA Sec. 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 the assistance?

A bill incorporating CFSC under special legislation has been submitted to the Government of Barbados. Preliminary indications are that it will be incorporated in accordance with the project design schedule.

4. FAA Sec. 611(b); FY 1982 Appropriation Act Sec. 501. If for water or water-related land

N/A

	resource construction, has project met the standards and criteria as set forth in the Principles and Standards for Planning Water and Related Land Resources, dated October 25, 1973?	
5.	FAA Sec. 611(e). If project is capital assistance (e.g., construction), and all U.S. assistance for it will exceed $1 million, has Mission Director certified and Regional Assistant Administrator taken into consideration the country's capability effectively to maintain and utilize the project?	N/A
6.	FAA Sec. 209. Is project susceptible to execution as part of regional or multilateral project? If so, why is project not so executed? Information and conclusion whether assistance will encourage regional development programs.	The project is a regional financial institution and shall undertake regionwide activities in the English-speaking Caribbean.
7.	FAA Sec. 601(a). Information and conclusions whether project will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; and (c) encourage development and use of cooperatives, and credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture and commerce; and (f)	Project will support private sector industrial investments and thereby increase international trade, foster private initiative and competition, and improve the technical efficiency of industry agriculture and commerce.

strengthen free labor unions.

8.	<u>FAA Sec. 601(b).</u> Information and conclusions on how project will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).	U.S. goods and services will be used in the project as appropriate.
9.	<u>FAA Sec. 612(b), 636(h); FY 1982 Appropriation Act Sec. 507.</u> Describe steps taken to assure that, to the maximum extent possible, the country is contributing local currencies to meet the cost of contractual and other services, and foreign currencies owned by the U.S. are utilized in lieu of dollars.	A substantial equity contribution will be made by the private sector in the English speaking Caribbean in support of the project.
10.	<u>FAA Sec. 612(d).</u> Does the U.S. own excess foreign currency of the country and, if so, what arrangements have been made for its release?	No.
11.	<u>FAA Sec. 601(e).</u> Will the project utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise?	Yes.
12.	<u>FY 1982 Appropriation Act Sec. 521.</u> If assistance is for the production of any commodity for export, is the commodity likely to be in surplus on world markets at the time the	No.

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resulting productive capacity becomes operative, and is such assistance likely to cause substantial injury to U.S. producers of the same, similar or competing commodity?

13. FAA 118(c) and (d). Does the project take into account the impact on the environment and natural resources? If the project or program will significantly affect the global commons or the U.S. environment, has an environmental impact statement been prepared? If the project or program will significantly affect the environment of a foreign country, has an environmental assessment been prepared? Does the project or program take into consideration the problem of the destruction of tropical forests?

Yes.

14. FAA 121(d). If a Sahel project, has a determination been made that the host government has an adequate system for accounting for and controlling receipt and expenditure of project funds (dollars or local currency generated therefrom)?

N/A

B. FUNDING CRITERIA FOR PROJECT

1. Development Assistance Project Criteria

a. FAA Sec. 102(b), 111, 113, 281(a). Extent to which activity will (a) effectively involve the poor in development, by

Project will generate substantial employment in the region. It is further directly supportive of productive sector expansion.

extending access to economy at local level, increasing labor-intensive production and the use of appropriate technology, spreading investment out from cities to small towns and rural areas, and insuring wide participation of the poor in the benefits of development on a sustained basis, using the appropriate U.S. institutions; (b) help develop cooperatives, especially by technical assistance, to assist rural and urban poor to help themselves toward better life, and otherwise encourage democratic private and local governmental institutions; (c) support the self-help efforts of developing countries; (d) promote the participation of women in the national economies of developing countries and the improvement of women's status; and (e) utilize and encourage regional cooperation by developing countries?

b. FAA Sec. 103, 103A 104, 105, 106. Does the project fit the criteria for the type of funds (functional account) being used?

Yes.

c. FAA Sec. 107. Is emphasis on use of appropriate technology (relatively smaller, cost-saving, labor-using technologies that are generally most appropriate for the small farms, small businesses,

N/A

and small incomes of the poor)?	
d. <u>FAA Sec. 110(a).</u> Will the recipient country provide at least 25% of the costs of the program, project, or activity with respect to which the assistance is to be furnished (or is the latter cost-sharing requirement being waived for a "relatively least developed" country)?	N/A
e. <u>FAA Sec. 110(b).</u> Will grant capital assistance be disbursed for project over more than 3 years? If so, has justification satisfactory to Congress been made, and efforts for other financing, or is the recipient country "relatively least developed"?	N/A
f. <u>FAA Sec. 122(b).</u> Does the activity give reasonable promise of contributing to the development of economic resources, or to the increase of productive capacities and self-sustaining economic growth?	Yes.
g. <u>FAA Sec. 281 (b).</u> Describe extent to which program recognizes the particular needs, desires, and capacities of the people of the country; utilizes the country's intellectual resources to encourage institutional development; and supports civil education and training in skills required for effective	Project is the outcome of over two years of extensive negotiation with a wide range of the regions private sector. CPSC will promote both skilled and unskilled labor involve- in productive enterprises

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participation in governmental processes essential to self-government.

2.	Development Assistance Project Criteria (loans Only)	
	a. FAA Sec. 122(b). Information and conclusion on capacity of the country to repay the loan, at a reasonable rate of interest.	Based on the financial analyses undertaken, the Mission has concluded that the borrower will have the capacity to repay the loan
	b. FAA Sec. 620(d). If assistance is for any productive enterprise which will compete with U.S. enterprises, is there an agreement by the recipient country to prevent export to the U.S. of more than 20% of the enterprise's annual production during the life of the loan?	No.
	c. ISDCA of 1981, Sec. 724 (c) and (d). If for Nicaragua, does the loan agreement require that the funds be used to the maximum extent possible for the private sector? Does the project provide for monitoring under FAA Sec. 624(g)?	N/A.
3.	Project Criteria Solely for Economic Support Fund	N/A.
	a. FAA Sec. 531(a). Will this assistance promote economic or political stability? To the extent possible, does it reflect the policy directions of FAA Section 102?	
	b. FAA Sec. 531(c). Will assistance under this chapter be used for military, or paramilitary activities?	

c. FAA Sec. 534. Will ESF funds be used to finance the construction of the operation or maintenance of, or the supplying of fuel for, a nuclear facility? If so, has the President certified that such use of funds is indispersable to nonproliferation objectives?

d. FAA Sec. 609. If commodities are to be granted so that sale proceeds will accrue to the recipient country, have Special Account (counterpart) arrangements been made?

5C(3) - STANDARD ITEM CHECKLIST

Listed below are statutory items which normally will be covered routinely in those provisions of an assistance agreement dealing with its implemetation, or covered in the Agreement by imposing limits on certain uses of funds.

These items are arranged under the general headings of (A) Procurement, (B) Construction, and (C) Other Restrictions.

A. Procurement

1. FAA Sec. 602. Are there arrangements to permit U.S. small business to participate equitably in the furnishing of goods and services financed. **Yes**

2. FAA Sec. 604(a). Will all commodity procurement financed be from the U.S except as otherwise determined by the President or under delegation from him? **Yes**

3. FAA Sec. 604(d). If the cooperating country discriminates against U.S. marine insurance companies, will agreement require that marine insurance be placed in the U.S. on commodities financed? **N/A**

4. FAA Sec. 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? **N/A**

5. FAA Sec. 608(a). Will U.S. Government excess personal property be utilized wherever practicable in lieu of the procurement of new items? **Yes**

6. FAA Sec. 603. (a) Compliance with requirement in section 901(b) of the Marchant Marine Act of 1936, as amended, that at least 50 percentum of the gross tonnage of commodities (computed separately for dry bulk carriers, dry cargo liners, and tankers) financed shall be tranported on privately owned U.S.-flag commercial vessels to the extent that such vessels are available at fair and reasonable rates. **Yes**

7. FAA Sec 621. If technical assistance is financed, will such assistance 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, are they particularly suitable, **Yes**

not competitive with private enterprise, and made available without undue interference with domestic programs?

8. International Air Transport Fair Competitive Practices Act. 1974. If air transportation of persons or property is financed on grant basis, will provision be made that U.S.-flag carriers will be utilized to the extent such service is available? — **Yes**

9. FY 79 App. Act. Sec. 105. Does the contract for procurement contain a provision authorizing the termination of such contract for the convenience of the United States? — **Yes**

B. Construction

1. FAA Sec. 601(d). If a capital (e.g., construction) project, are engineering and professional services of U.S. firms and their affiliates to be used to the maximum extent consistent with the national interest?

2. FAA Sec. 611(c). If contracts for construction are to be financed, will they be let on a competitive basis to maximum extent practicable?

3. FAA Sec. 620(k). If for construction of productive enterprise, will aggregate value of assistance to be furnished by the U.S. not exceed $100 million?

C. Other Restrictions

1. FAA Sec. 122(e). If development loan, is interest rate at least 2% per annum during grace period and at least 3% per annum thereafter? — **Yes**

2. FAA Sec. 301(d). If fund is established solely by U.S. contributions and administered by an international organization, does Comptroller General have audit rights? — **N/A**

3. FAA Sec. 620(h). Do arrangements preclude promoting or assisting the foreign aid projects or activities of Communist-bloc countries, contrary to the best interests of the U.S.? — **Yes**

4. FAA-Sec. 636(i). Is financing not permitted to be used, without waiver, for purchase, long-term lease, or exchange of motor vehicle manufactured outside the U.S., or guaranty of such transaction? — **Yes**

5.	Will arrangements preclude use of financing?	Yes
a.	FAA Sec. 104(f). To pay for performance of abortions or to motivate or coerce persons to practice abortions, to pay for performance of involuntary sterilization, or to coerce or provide financial incentive to any person to undergo sterilization?	Yes
b.	FAA Sec. 620(g). To compensate owners for expropriated nationalized property?	Yes
c.	FAA Sec. 660. To finance police training or other law enforcement assistance, except for narcotics programs?	Yes
d.	FAA Sec. 662. For CIA activities?	Yes
e.	FAA Sec. 636(i). For purchase, sale, long-term lease, exchange or guaranty of the sale of motor vehicles manufactured outside U.S., unless a waiver is obtained?	Yes
f.	FY 1982 Appropriation Act, Sec. 503. To pay pensions, annuities, retirement pay, or adjust service compensation for military personnel?	Yes
g.	FY 1982 Appropriation Act, Sec. 505. To pay U.N. assessments, arrearages or dues?	Yes
h.	FY 1982 Appropriation Act, Sec. 506. To carry out provisions of FAA section 209(d) (Transfer of FAA funds to multilateral organizations for lending?	Yes
i.	FY 1982 Appropriation Act, Sec. 510. To finance the export of nuclear equipment, fuel, or technology or to train foreign nationals in nuclear fields?	Yes
j.	FY 1982 Appropriation Act, Sec. 511. Will assistance be provided for the purpose of aiding the efforts of the Government of such country to repress the legitimate rights of the population of such country contrary to the Universal Declaration of Human Rights?	No
k.	FY 1982 Appropriation Act, Sec. 515. To be used for publicity or propaganda purposes within U.S. not authorized by Congress?	No

COUNTRY CHECKLIST

Listed below are statutory criteria applicable generally to FAA funds, and criteria applicable to individual fund sources: Development Assistance and economic Support Fund.

A. GENERAL CRITERIA FOR COUNTRY ELIGIBILITY

1.	FAA Sec. 481. Has it been determined that the government of the recipient country has failed to take adequate steps to prevent narcotic drugs and other controlled substances (as defined by the Comprehensive Drug Abuse Prevention and Control Act of 1970) produced or processed, in whole or in part, in such country, or transported through such country, from being sold illegally within the jurisdiction of such country to U.S. Government personnel or their dependents, or from entering the U.S. unlawfully?	No.
2.	FAA Sec. 620 (c). If assistance is to a 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) the debt is not denied or contested by such government?	No.
3.	FAA Sec. 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?	No.
4.	FAA Sec. 532(c), 620(a), 620(f), 620D; FY 1982 Appropriation Act Secs. 512 and 513 Is recipient country a communist country? Will assistance be provided to Angola, Cambodia, Cuba, Laos, Vietnam, Syria, Libya, Iraq, or South Yemen? Will assistance be provided to Afghanistan or Mozambique without a waiver?	No.
5.	ISDCA of 1981 Secs. 724, 727 and 730. For specific restrictions on assistance to Nicaragua, see Sec. 724 of the ISDCA	N/A

of 1981. For specific restrictions on assistance to El Salvador, see Secs. 727 and 730 of the ISDCA of 1981.

6. FAA Sec 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.

7. FAA Sec. 620(l). Has the country failed to enter into an agreement with OPIC? — No.

8. FAA Sec. 620 (o); Fishermen's Protective Act of 1967, as amended, Sec. 5
(a) Has the country seized, or imposed any penalty or sanction against, any U.S. fishing activities in international waters? — No.

(b) If so, has any deduction required by the Fishermen's Protective Act been made? — N/A

9. FAA Sec. 620(q); FY 1982 Apprpriation Act Sec. 517. (a) Has the government of the recipient country been in default for more than six months on interest or principal of any AID loan to the country? — (a) No.
(b) Has the country been in default for more than one year on interest or principal on any U.S. loan under a program for which the appropriation bill apppropriates funds? — (b) No.

10. FAA Sec. 620(s). If contemplated assistance is development loan or from Economic Support Fund, has the Administrator taken into account the amount of foreign exchange or other resources which the country has spent on military equipment? (Reference may be made to the annual "Taking into Condiseration" memo: Yes, taken into account by the Administrator at time of approval of Agency OYB." This approval by the Administrator of the Operational Year Budget can be the basis for an affirmative answer during the fiscal year unless significant changes in circumstances occur.) — Yes.

11. FAA Sec. 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? — N/A

12. FAA Sec. 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 AID Administrator in determining the current AID Operational Year Budget? (Reference may be made to the Taking into Consideration memo.) — N/A

13. FAA Sec. 620A; FY 1982 Appropriation Act Sec. 520. Has the country aided or abetted, by granting sanctuary from prosecution to, any individual or group which has committed an act of international terrorism? Has the country aided or abetted, by granting sanctuary from prosecution to, any individual or group which has committed a war crime? — No.

14. FAA Sec. 666. Does the country object, on the basis of race, religion, national origin or sex, to the presence of any officer or employee of the U.S. who is present in such country to carry out economic development programs under the FAA. — No.

15. FAA Sec. 669, 670. Has the country, after August 3, 1977, delivered or received nuclear unrichment or reprocessing equipment, materials, or technology, without specified arrangements or safeguards? Has it transferred a nuclear explosive device to a non-nuclear weapon state, or if such a state, either received or detonated a nuclear explosive device, after August 3, 1977? (FAA Sec. 620E permits a special waiver of Sec. 669 for Pakistan.) — No.

16. ISDCA of 1981 Sec. 720. Was the country represented at the Meeting of Ministers of Foreign Affairs and Heads of Delegations of the Non-Aligned Countries to the 36th General Session of the General Session of the General Assembly of the U.N. of September 25 and 28, 1981, and failed to disassociate itself from the comminique issued? If so, has the President taken it into account? (Reference may be made to the Taking into Consideration memo.) — N/A

17. ISDCA of 1981 Sec. 721. See Special requirements for assistance to Haiti. — N/A

B. FUNDING SOURCE CRITERIA FOR COUNTRY ELIGIBILITY

1. Development Assistance Country Criteria

a. FAA Sec. 116. Has the Department of State determined that this government has engaged in a consistent pattern of gross violations of internationally recognized human rights? If so, can it be demonstrated that contemplated assistance will directly benefit the needy? — N/A

2. Economic Support Fund Country Criteria

a. FAA Sec. 502B. Has it been determined that the country has engaged in a consistent pattern of gross violations of internationally recognized human rights? If so, has the country made such significant improvements in its human rights record that furishing such assistance is in the national interest? — No.

b. ISDCA of 1981, Sec. 725(b). If ESF is to be furnished to Argentina, has the President certified that (1) the Government of Argentina has made significant progress in human rights; and (2) that the provision of such assistance is in the national interests of the U.S.? — N/A

c. ISDCA of 1981, Sec. 726(b). If ESF assistance is to be furnished to Chile, has the President certified that (1) the Government of Chile has made significant progress in human rights; (2) it is in the national interest of the U.S.; and (3) the aiding international terrorism and has taken steps to bring to justice those indicted in connection with the murder of Orlando Letelier? — N/A

BORROWER'S LETTER OF APPLICATION

CARIBBEAN ASSOCIATION OF
INDUSTRY AND COMMERCE

1983-06-21

Mr William B. Wheeler
Director
UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT
Regional Development Office/Caribbean
P O Box 302
Bridgetown
BARBADOS

Dear Bill:

This will refer to our mutual efforts to develop the Caribbean Financial Services Corporation (CFSC) project. The purpose for establishing the Caribbean Financial Services Corporation is to assist the region's productive private sector through the provision of longer-term financing and related financial services.

To this end, the Caribbean Association of Industry and Commerce (CAIC), acting on behalf of the Eastern Caribbean's private sector, requests that the USAID Mission in Barbados provide a loan of US$12.0 million and a grant of US$400 000 to assist in the establishment of the Caribbean Financial Services Corporation. To this end, CAIC intends to raise US$2.0 million or its equivalent, in equity capital to contribute to the Caribbean Financial Services Corporation.

We hope that this request for loan and grant assistance from AID will result in a positive response from AID.

With best personal regards.

Sincerely,
ON BEHALF OF THE CARIBBEAN PRIVATE SECTOR SPONSORS

John S. Goddard

John S. Coddard

cc: Mr P.A. Thompson
Executive Director - CAIC

P O BOX [illegible] BARCLAYS BANK BUILDING,
WILDEY [illegible] BARBADOS

UNITED STATES INTERNATIONAL DEVELOPMENT COOPERATION AGENCY
AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON D C 20523

LAC/DR-IEE-83-41

ENVIRONMENTAL THRESHOLD DECISION

Project Location	:	Caribbean Regional
Project Title and Number	:	Caribbean Financial Services Co. 538-0084
Funding	:	$12,000,000 (G), 400,000 (L)
Life of Project	:	Four years
IEE Prepared by	:	Arthur Warman RDO/C
Recommended Threshold Decision	:	Negative Determination
Bureau Threshold Decision	:	Concur with Recommendation

Copy to	:	William Wheeler Director, RDO/C
Copy to	:	Arthur Warman RDO/C
Copy to	:	Robert Otto, LAC/DR
Copy to	:	IEE File

James S. Hester Date 27 July 1983

James S. Hester
Chief Environmental Officer
Bureau for Latin America
and the Caribbean

ENVIRONMENTAL THRESHOLD DECISION

PROJECT LOCATION	-	Caribbean Regional
PROJECT TITLE AND NUMBER	-	Caribbean Financial Services Corporation 538-0084
FUNDING	-	FY83 Loan: $12,000,000 FY83 Grant: $ 400,000
LIFE OF PROJECT	-	Four Years, FY83-FY88
IIE PREPARED BY	-	Arthur L. Warman, RDO/C
DATE	-	May 30, 1983
RECOMMENDED THRESHOLD DECISION	-	Negative Determination
CONCURRENCE	-	William B. Wheeler William B. Wheeler Director
DATE	-	June 12, 1983

I. PROJECT DESCRIPTION

The Caribbean Financial Services Corporation (CFSC) will be a broad-based, multipurpose investment finance institution which will provide term financing and other financial services to productive enterprises in the English-speaking Caribbean. The emphasis of the institution will be to provide financing and financial services to viable and profitable projects of new or expanded private sector enterprises operating primarily in manufacturing, agro-industry and tourism.

Project selection activities under CFSC will include economic and financial viability, availability of skilled management, environmental acceptability, employment generation and potential for foreign exchange earnings.

II. IDENTIFICATION AND EVALUATION OF ENVIRONMENTAL IMPACT

The intent of this project is to create a totally private sector owned and managed credit and financial services institution that will stimulate productive enterprise growth in the English-speaking Caribbean. In addition to generating foreign exchange and balance of payments support, the project will directly stimulate employment.

The Project will not finance or be involved with projects which adversely affect the environment. Those classes of loans or needs for other financial services will be specifically excluded from funding under the terms of the AID loan. These include, for example, loans for the manufacture, importation and use of pesticides, loans for mining coral reefs, and loans which would exploit or otherwise harm endangered species. As such, pursuant to AID IIE Guidelines, Part V.B., the project does not warrant the preparation of an Environmental Assessment.

III. RECOMMENDED ACTION

Given that the CFSC project will not have a significant impact on the human environment, a Negative Determination is recommended for this project.

MARKET SURVEY

Introduction

In connection with efforts to establish a Caribbean Financial Service Corporation (CFSC) for the English speaking states of the Eastern Caribbean, Arthur D. Little, Inc., was asked to conduct a limited market survey in six regional territories, in order to estimate the potential level of interest among financial institutions and private sector companies toward the lending and other financial services which the CFSC might offer. One to three days were spent by ADL staff interviewing in Antigua, Barbados, Belize, Dominica, St. Kitts/Nevis, and St. Lucia. In this chapter we have summarized the results of our market survey, and the individual country reports are in Appendix I of this report.

The purpose of the survey was to update the ADL team's knowledge gained during the CIC study[1]; and to focus specifically on the potential demand for a variety of financial products and services[2].

The three categories of financial products and services used throughout this study are:

- Discounting of productive sector loans made by other financial institutions.

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[1] In 1981, Arthur D. Little, Inc. conducted a study of the prospects for a "revitalized" Caribbean investment corporation. The study included an extensive interview program in the LDC's and MDC's of the Eastern Caribbean.

[2] More detailed descriptions of these services are included in Appendix II.

- Direct lending by the CFSC, primarily for terms of five years or more.

- Provision of other financial services including but necessarily limited to receivable financing, inventory financing, export financing, leasing and guarantees.

The survey was not intended to produce an exact, detailed projection of the demand based on exhaustive interviews, but rather a general estimate of the size and character of the two to three year market for these services. Recognizing that the business climate in many of these territories has changed considerably since the CIC study was conducted, and that the financial needs of the productive sector had likely also changed, the survey was further intended to identify other financial services which the CFSC could provide, beyond those proposed above.

The series of interviews concentrated on secondary sources of information such as financial institutions with productive sector contact, business associations, monetary authorities, government agencies, PDAP[1] representatives and U.S. Embassy commercial officers. These sources were able to speak knowledgeably about the financial needs of a broad range of private sector businesses and the financial services currently available. In addition, contacts were made with local business persons.

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[1] Project Development Assistance Program, a U.S. Agency for International Development funded program to identify both private sector investment opportunities in the Caribbean Basin, and potential investors from the U.S. and the rest of the Free World.

Although only six territories were visited, in no way is a geographic restriction of the CFSC to those locations implied. It is expected that the CFSC will operate throughout the LDC's and MDC's of the English-speaking Eastern Caribbean where political and financial conditions warrant. The six locations chosen for initial interviews reflected the judgment of USAID, CAIC and the interview team as to the most likely locations for initial CFSC business.

For purposes of this study, the productive sector was defined to include manufacturing companies, agro-industry, the tourist industry, and any service industries directly and substantially benefitting the first three groups.

It was assumed that foreign exchange convertibility and rate risks would be borne by the borrowers, rather than the institutions participating in the discount program, or the CFSC.

<u>Summary</u>

The initial raw estimates of the potential three year market demand for loans meeting the proposed CFSC requirements, arrived at by the survey teams in their numerous interviews, were refined by team members into realistic ranges of annual demand (shown on the next page), which could be met through discounting and/or through direct CFSC lending. The refinement process was based on the estimated quantity of pent-up versus sustainable demand, the potential for overlapping of estimates from competing financial institutions, and on perceived over-pessimism or over-optimism on the part of those people interviewed in light of existing credit levels and the state of economic affairs in each country.

Market Estimate for Discounting Service and Direct Lending

	Annual Disbursements (US $ Millions) Year 1	Year 2	Year 3
Barbados	0.5 - 2.5	0.5 - 2.5	0.5 - 3.0
LDC's	3.5 - 5.8	3.1 - 4.9	2.7 - 4.5
Belize	0 - 2.0	2.0 - 4.0	2.0 - 4.0
Total	4.0 -10.3	5.6 -11.4	5.2 -11.5

It should be noted that although other LDC's and MDC's were not visited, and no potential demand from these markets is included in the market, organization or financial analyses, they obviously represent an unmeasured upside potential to the market size. Moreover, the figures do not include new demand which may be kindled by the existence of substantial amounts of accessible long term funds which were not previously available, nor are any amounts attributed to higher risk credits whose risk profile might still be acceptable to the CFSC.

The wide range of estimates for Barbados reflects uncertainty as to the success of the proposed World Bank productive sector loan discount program which is presently being negotiated. If it is successful, the CFSC will probably have reduced opportunity to discount or originate loans in Barbados during the near term, unless it resorts to active promotion of its own discount facility in open competition with the world bank funded project, which may or may not be advisable. If, on the other hand, the World Bank program is not successful, the CFSC should find a strong potential market in Barbados.

The demand figures for Belize are similarly affected by the proposed USAID US $5 million discount program through commercial banks for primary agricultural and agro-industry term loans. It appears that with a 5% spread to the commercial banks, the USAID/Belize program will be of interest to them and could initially dampen the demand for CFSC funds. There is, however, a strong underlying demand for project funds which goes well beyond the $5 million level. Furthermore, the Belize Government is offering incentives for manufacturing sector projects, and has begun to ban a number of imported goods, in an attempt to restructure the basic economy of the country. While the effects of these may be delayed, they should ultimately increase the financial requirements of the productive private sector.

The provision of long term financing to manufacturing companies is clearly the most likely application of the funds which the CFSC might make available, although agro-industry is of strong interest to the financial communities in St. Lucia and Belize. Tourism is not presently being actively developed by the private sector in most of the countries visited, and little mention was made of the service sector. In locations where limited liquidity is a problem, such as Antigua and St. Lucia, use of the discount facility to also fund working capital loans is feasible. In addition, many financial institutions indicated a desire to refinance selected companies which have a legitimate requirement for longer term financing than they presently can obtain. Refinancing may also be desirable in situations where financing for expansion is needed, yet all available collateral is pledged to secure existing loans, and current lenders are not willing to share it on a parri passu basis. This would indicate a need to purchase the existing loans to be combined with new debt in order to obtain the security of the collateral. Refinancing does not represent a significant portion of the overall demand, however, in Belize, where the future of a number of firms is jeopardized by unduly short credit terms, it could be of measurable importance.

The market for other financial services, as noted in the individual country reports, appears to be growing at this time. However, because of potential legal hurdles, logistic difficulties, and the unfamiliarity of the business community with some of these services, significant effort will be required to reasonably define the level of demand which could be expected to develop. It therefore does not appear prudent for the CFSC to immediately begin offering other financial services. After it has gained operating experience, management should be much better able to assess where and in what quantity potentially profitable opportunities exist. We anticipate, however, that the CFSC will evolve a larger portfolio of services over time, in response to expanding needs of the productive sector. This in no way implies that the CFSC will or should become a financial supermarket for the region, as numerous financial services are already offered by other institutions and such a broad task could overstrain organizational capabilities. However, the CFSC should explore all potential opportunities, choosing those which fit its own defined parameters concerning deployment of its assets, risk levels, and return on equity.

Compared to the results of the study prepared when the revitalization of the CIC was being explored, it appears that the overall market for loans and other financial services is more robust, especially in Antigua, St. Kitts, St. Lucia and Belize. This may have resulted partially from the fact that the financial institutions' estimates of their ability to use the proposed discounting facility were higher than in the CIC study because the concept and mechanics of the facility in this case were better defined[1]; however, a general sense of an increasingly vibrant private productive sector was evident during the interviews. During 1981 the small economies of the Eastern Caribbean, as elsewhere in the Caribbean Basin, were reeling from the double negative impact of high interest rates and a contracting world economy. At present, the private sector is beginning to regain self confidence, and wants to proceed with its own business expansion, no longer waiting for or expecting favorable trade concessions.

Tempering this positive outlook is the fact that most if not all of the constraints to development of the productive sector listed in the CIC study still exist and continue to dampen its growth. Difficulty of accessing overseas markets, lack of a large pool of people with sufficient management skills, unavailability of equity and other hurdles seriously affect productive sector activity. Attempts are being made to address some of these constraints through development assistance programs, training projects and promotion of joint ventures, but it is not possible at this time to predict the outcome of these efforts.

In summary, there does appear to be a legitimate niche for the CFSC in these territories, both to promote and provide financial services not now offered by the existing financial institutions, and to meet the needs of those not now serviced by the commercial banks or development finance

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[1] Appendix III contains a brief description of the descriptions which were used during our interviews.

companies. The immediate prospects for discounting are healthy, yet because much of the discounting demand which was identified is for long term loans, the CFSC will have the opportunity to shift its loan portfolio from discounting to direct medium and long term lending as it develops the capability to originate and service loans itself. Discounting will be, however, both a source of earnings to fund the development of a broader service CFSC, as well as a means to develop experience and market knowledge while remaining financially viable. It will also in and of itself have a positive development effect on the productive sector. As the CFSC develops its capabilities, and adds new services to meet the market demand, it will enhance the developmental impact of its operations while acting as a catalyst to a more responsive financial sector.

Revised Lending Volumes

In order to develop projected financing volumes for the base case financial analysis discussed in Chapter III, we took the market projections shown on page 4 and further revised them in order to reflect the organizational constraints as well as the fact that the borrower will assume the exchange rate risk.

As a conservative measure, the combined volume for discounting and direct lending for the first three years was kept at the lower end of the ranges of the market estimates; in fact, in the first year, the total volume is well below the projected range due to organizational constraints. In the first year, for instance, only three direct loans at an average size of $200,000 are projected to be placed, increasing to ten to twelve the following year.

In addition to the organizational constraints, the market projections were also adjusted for the fact that the borrower would be expected to assume the exchange rate risk, since the subloans, and the repayments of these subloans, must be made in U.S. dollars or its equivalent in convertible local currency. The degree to which the CFSC can work with the local monetary authorities to limit or reduce the potential risk to the borrower will affect the acceptance of this program.

No discounting is projected at all for Barbados, nor will discounting begin in Belize until the second year; these assumptions are made in light of the World Bank and USAID discount programs which may be successfully implemented in those countries in 1983. It was estimated that with an initial direct loan limit of $250,000-$300,000, the CFSC would be able to satisfy no more than 40% of the total demand through direct lending during the first two years, although thereafter, the policy of the institution would be to decrease the volume and relative importance of discounting, while increasing direct lending. It has also been assumed that the $250,000-$300,000 direct loan limit (15% of equity capital) would not apply to loans discounted from commercial institutions, as the commercial risk would remain with these institutions, thus presenting very low risks to the CFSC.

Given the tight liquidity situation in Belize, St. Lucia, and Antigua, and given also the potential difficulty for sharing collateral with other short term lenders on a parri passu basis, the availability of short term monies for both the discounting and direct lending are included in the projections. However over time, the actual outstanding amounts are increasingly made up of long term loans.

The volumes for other financial services are based on the expected policy of the CFSC to expand into this market as rapidly as is financially and organizationally feasible. It is anticipated that this will not occur until year three, as a significant amount of prospecting, planning and marketing work must be undertaken during the first two years to develop this market.

As mentioned earlier, the exact nature of this business will have to be ascertained and developed by the management of the CFSC once operations have begun. Although no amounts are specifically included for venture capital financing, it is expected that the CFSC might undertake this type of activity after careful assessment of the market. Given the sophisticated nature and relative newness of venture capital financing in the region, however, it may be more difficult to develop profitably than other financial services.

ORGANIZATIONAL/INSTITUTIONAL ANALYSIS

Introduction

The organizational model described in this section is intended to address the initial structural and staffing requirements of the CFSC, which is expected to operate under the set of primary assumptions outlined below. The management and operating structures logically derive from the types and level of activities which are dictated by the assumptions made. The costs of administration for this model were developed with the assistance of local businesspersons in line with the expected market which CFSC will serve.

This model should be regarded as a starting point from which the CFSC Board of Directors will refine the organizational structure and assignment of responsibilities in light of actual conditions at the time of formation, as well as the experience and skills of the management and staff who are hired. It should be emphasized, however, that any framework which is implemented should be reviewed frequently in response to changes occasioned by the varying business environment in operating philosophy, product emphasis, funds availability and cost, and other assumptions. The CFSC should always have a responsive operating format, evolving and adapting to best accommodate the unmet financial needs of the productive sector in a profitable manner. In the volatile business climate of the Caribbean, this ability to respond flexibly and intelligently will be a necessity for CFSC's success, measured both in terms of CFSC's own prosperity, and its contribution to the growth of the productive sector in the region.

Primary Assumptions

Ownership and Purpose

The CFSC will be a privately owned, for profit institution, providing financial services to the productive private sector.

Business Activities and Geographic Market

During the first three years of operations, the CFSC will undertake three types of business activities: (1) discounting of term loans through other financial institutions to the productive private sector in Barbados, St. Lucia, Antigua, St. Vincent, Dominica, St. Kitts, Montserrat, Grenada, and Belize, with the commercial credit risk remaining with the on-lending financial institutions, (2) the direct lending of money for up to twelve years to the productive private sector in the same countries as well as other MDC's, and (3) the development, exploration and direct provision, where feasible, of other financial services, including but not limited to inventory and receivables financing, leasing, export financing, provision of guarantees, trading company activities, venture capital endeavors, and any other financial services required by the productive private sector in the LDC's and MDC's that can be provided at a reasonable profit to the CFSC.

Operating Philosophy

Although the CFSC will as a matter of policy attempt to maximize the dollar volume of services which it provides directly to the productive sector, these activities will take time and effort to develop and will likely carry a higher risk than the discounting of loans through other financial institutions. Therefore, the discounting portfolio is expected to grow rapidly during the early years of operation and will, in effect, subsidize the initial development and promotion of the other services as well as positively influencing productive sector growth. In later years, discounting will be discontinued altogether.

Overall Market Size

The total market available to the CFSC will be at least equal to the minimum market sizes shown in Chapter 1, based on a minimum individual loan size of $50,000.

Capital Funds

The CFSC will have available loan and equity funds equal to at least $7 million during the first three years, and greater thereafter.

Headquarters Location

The operations of the CFSC will be headquartered in Barbados; representatives will travel to other locations as required. Permanent representation in any location will be considered only when the volume of business and the logistics of remote servicing warrant it.

Staff Quality, Size, and Remuneration

The CFSC will operate with the minimum number of staff necessary to effectively provide the proposed services. Additional staff will be hired only when profitable business opportunities have been identified. Because of the limited staff size, and the unique financial purpose of the organization, highly competent, motivated staff with a broad range of promotional, business development, financial and economic analyses and managerial talents will be required. This will require that compensation for management be significantly higher than similarly titled positions in existing financial institutions in the region. It should be noted that the salary and benefit levels shown do not reflect any profit sharing or bonus incentives which should also be part of the total package for all senior managers. The levels of these incentives will have to be decided by the Board of Directors, but should apply when performance is significantly above expectations.

Technical Assistance

Major technical assistance required for development of projects will be provided from without the CFSC by sources such as PDAP, IESC, BIMAP, and other similar projects.

Organizational Structure

Based on the assumptions above, and the types of specific activities which will have to be undertaken, the Initial Organization Chart shown in Figure 1 reflects the number and titles of individuals and groups necessary to meet CFSC operating requirements for at least the first two years. During the third year it is likely that the Chief Loan Officer/Credit Analyst will require an assistant, and that a new position title "Chief - Other Services" will also be established. Thereafter, the number and types of individuals hired will be determined by the nature and volume of business.

The staff expenses shown in Table 1 reflect the high remuneration necessary to obtain the highly qualified and

FIGURE 1

INITIAL ORGANIZATION CHART

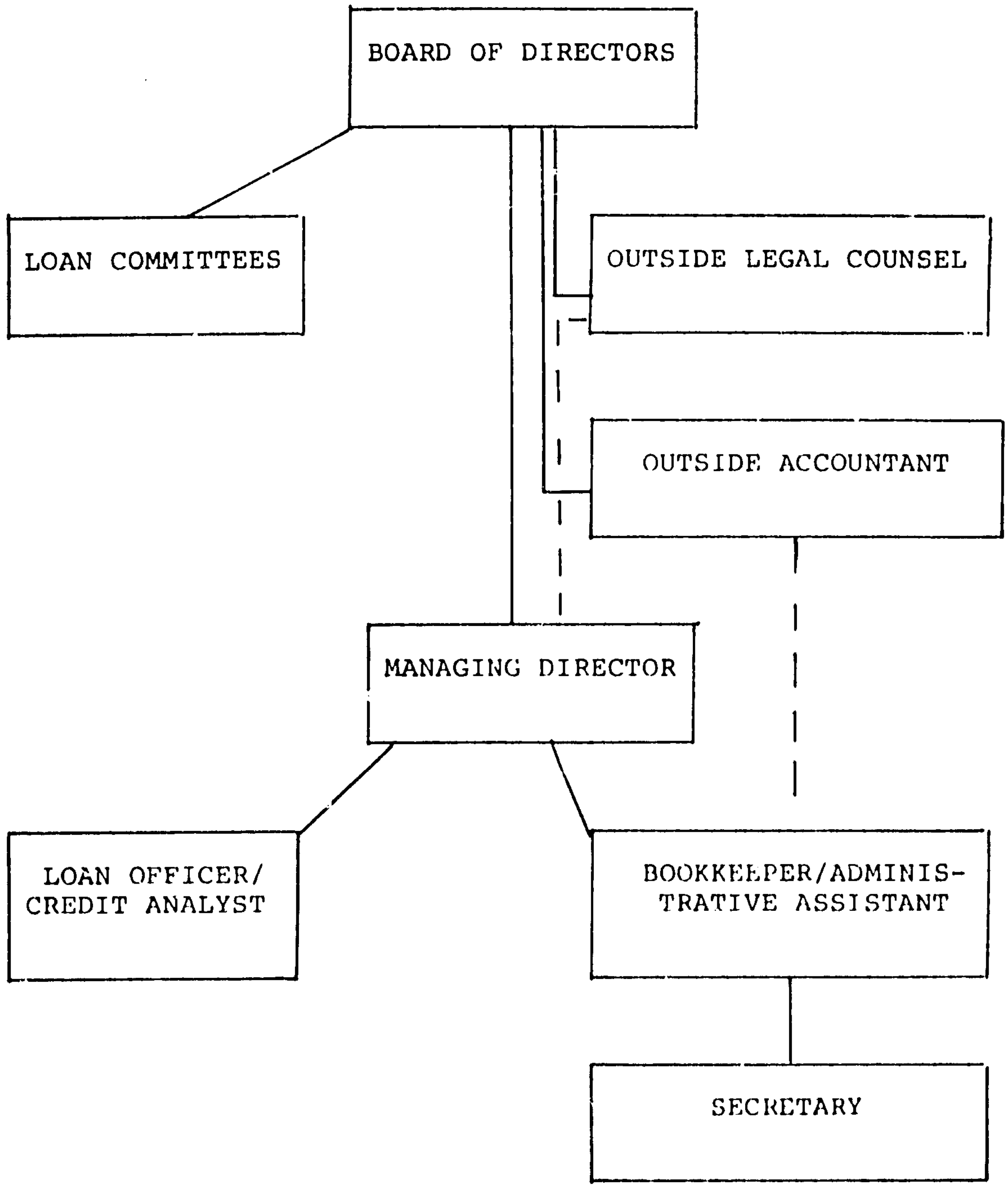

TABLE 1

CARIBBEAN FINANCIAL SERVICES CORPORATION

Projected Administrative Expenses

Staff Expenses	Year 1	Year 2	Year 3
General Manager	70,000	70,000	80,000
Chief Credit Officer	40,000	40,000	50,000
Credit Officer	-	-	30,000
Chief Other Services	-	-	50,000
Bookkeeper/Administrator	20,000	20,000	20,000
Head Secretary	10,000	10,000	12,000
Secretary	-	-	7,000
Other Office Help	5,000	5,000	7,000
	145,000	145,000	260,000
Benefits (20% of salaries)	29,000	29,000	52,000
TOTAL	174,000	174,000	312,000

The staff is expected to remain at the same level for the first two years with no increase in salaries (two year contracts).

TABLE 1 (continued)

CARIBBEAN FINANCIAL SERVICES CORPORATION

Projected Administrative Expenses

U.S. $

Office and Related Expenses	Year 1	Year 2	Year 3
Staff Travel & Subsistence	20,000	21,600	46,640
Directors Travel & Subsistence	30,000	32,400	34,980
Insurance	2,000	2,160	2,332
Postage, Cables & Telephone	4,000	4,320	6,996
Stationery & Publications	2,000	2,160	4,664
Professional Fees (Legal) 1% of Loans	20,000	21,600	43,142
Audit & Accounting Fees	6,000	6,480	9,326
Utilities	3,000	3,240	3,498
Sundries	500	540	875
Canteen Expenses	500	540	875
Maintenance of Premises & Equipment	1,000	1,080	1,399
Entertainment	2,400	2,592	4,081
Office Rent (Barbados)	6,000	6,480	6,996
Managing Directors Housing Allowance (Rent & Utilities)	18,000	19,400	20,995
Managing Directors Automobile (Amortization & Maintenance)	7,500	8,100	8,748
SUB-TOTAL	122,900	132,792	195,587
10% Contingency Factor	12,290	13,273	19,559
TOTAL	135,190	146,005	215,146
Total Staff Expenses (from prior page)	174,000	174,000	312,000
GRAND TOTAL - ADMINISTRATIVE EXPENSE	309,190	320,005	527,146

The total administrative expenses in the third year equal about 9.3% of the combined portfolios 2 and 3. Assuming that the discounting function takes very little to operate by year 4, administrative expenses are projected from year 4 to 10 at a declining percentage of portfolios 2 and 3, reaching 5% by year 7. An annual inflation rate of 8% is included in these figures.

versatile management and staff necessary to the CFSC's success. The office and related expenses shown within that table were developed in coordination with local business-persons, and have been increased in years two and three as a result of projected increases in business activity, staffing, and an 8% inflation factor.

Proposed Organizational Responsibilities

Board of Directors

The Board of Directors will have the ultimate responsibility to the shareholders for the operations of the CFSC. The Board should be composed of the most experienced and successful businesspersons available in the region, as well as other individuals outside the region having a specific background and experience of a nature helpful to the proper functioning of the Board. In order to keep the Board from being unwieldy, the number of members should initially be kept below ten. The quality of the first Board will be critically important to the future of the CFSC, as they will have the responsibility of defining the role of this and future Boards, and the rules under which they will operate. This is a proper function for a new Board, but it highlights the need for careful, perceptive people, with an appreciation of the long-term flexibility required by most organizations in order to avoid unnecessary internal constraints to success.

In addition to the establishment of broad operating rules, the Board will also have the following responsibilities:

- Development and/or approval of policy objectives and guidelines.
- Approval of management structure.

- Approval of senior management and compensation packages.
- Delegation of specific responsibilities to management.
- Approval of all equity investments; post review of credit committee decisions.
- Initial provision of rotating members for Loan Committee.
- Selection of outside auditors and legal counsel.
- General promotion of the company including search for potential clients.

Managing Director

The Managing Director will be the Chief Executive Officer of the CFSC, reporting directly to the Board of Directors. This person must also be a full member of the Board, as he/she will be the most informed and experienced person regarding the day-to-day business of the CFSC. Although exact responsibilities may vary slightly, taking into account the background and experience of the individual, the Managing Director will be responsible for most if not all of the following functions:

- Development of specific operational and administrative rules, including personnel policies.
- Institution and initial management of the discounting function.
- Development of overall business plan.
- Lead responsibility for first two years in development of other financial services.
- Membership on Loan Committee.
- Membership on Board of Directors.

- General promotion and business development.
- Review of financial and operational reports for day-to-day management and Board meetings.
- Development of management information system.
- Liaison with outside legal counsel where necessary.
- Development of policy issues for Board consideration.
- Assistance with credit analysis/project development.
- Senior management responsibility for personnel management, cash planning and any other activities not specifically assigned to other staff.

Given this range of activities, the Managing Director will have to be a person with comprehensive financial and managerial background, particularly as it relates to the ability to plan, develop and institute other financial services not traditionally undertaken by the existing regional financial community.

Loan Officer/Credit Analyst

In addition to assisting the Managing Director wherever and whenever requested, this person will have primary accountability for the development of the direct lending portfolio of the CFSC. Duties will include:

- Marketing of the direct lending service.
- Design and implementation of loan evaluation procedures including initial screening of potential clients.
- Design and implementation of loan administration and monitoring procedures.

- Liaison with outside counsel regarding legal requirements of loans.
- Liaison with agencies providing outside assistance to customers.
- Liaison with other financial institutions and/or associations as sources of prospective clients.
- Negotiations of loan agreements with customers.
- Future assumption of the management of the discounting function.

This individual will have to have excellent credit and project analysis skills, with a keen perception of the regional and local characteristics of productive sector borrowing.

Bookkeeper/Administrative Assistant

To the greatest extent possible, this person must be adaptable to a number of roles, ready to assist wherever required; the need for such high quality assistance should not be underestimated. Specific duties will include:

- Development of internal accounting system with help of outside accountant.
- Provision of accounting and operational information to management.
- Personnel functions including payroll.
- Preparation of performance reports and other financial reports for USAID.
- Day-to-day cash management.

Loan Committee

This committee will have the senior responsibility for all credit decisions made within CFSC, although as time passes, it may delegate sub-limits of that responsibility to individuals such as the Managing Director and/or Senior Loan Officer. As there will be only two members of management with the expertise to serve on this committee during the first two years, it will be necessary for other Board members to serve on a rotating or permanent basis. If the internal staff of the CFSC increases to the size that there are enough members of senior staff of the CFSC to serve on the committee (including junior loan officers in some cases), the role of the Board members on the committee can be reduced. The difficulty of convening Board members on a frequent basis given the potential geographical dispersement of members, and the advantage of relatively rapid credit decisions, make it clear that the full Board of Directors cannot effectively act as the Loan Committee. Furthermore, there is a positive benefit in having those people whose job it is to develop the direct lending and other financing services, also take partial responsibility as Loan Committee members for the credit decisions made.

Conclusions

While this proposed organizational model should serve the CFSC well during its early stages, the company will have to modify and diversify its structure as business growth and staff abilities require. In some manner, however, it will always have to deal with promotion and marketing of loans and other services, credit evaluation and administration, administration of other non-credit services, and other internal functions such as legal, accounting, treasury, collections, cash management, personnel and management information systems. The role of the Board and the management of the CFSC will be to see that these are carried out in the most efficient mode.

FINANCIAL ANALYSIS

Introduction

Although economic and other forces will effect the CFSC's future performance, its level of success will be most dependent on the ability of its management to shape an organization that can profitably position itself to cope with an ever changing business environment. The company will first have to define the existing market and find and/or develop a market for other new services which together will be of a size and quality sufficient to justify its operations. Second, the average cost of capital to the company must be low enough (and the gross earnings on its investments high enough) to allow for a level of operating income that can cover administrative expenses and the provisions for losses on investments, while still producing a profit. Third, administrative expenses must be tightly controlled without either increasing risk due to under-management of investments or forcing investments to be of such a low risk that the return to the company and developmental effect on the business community are reduced.

Base Case Assumptions

The base case analysis represents our conservative projections regarding the initial ten-year performance of the CFSC. It is based on conclusions which have been drawn as a result of our market study, conversations with USAID personnel, and our experience with private development finance institutions. A discussion of the major assumptions used in developing the base case, are discussed below, although a detailed description of the computer model and the overall assumptions made in our analysis can be found in Appendix 4.

As real market conditions change over time in ways which cannot be predicted, we would expect this institution to analyze these new opportunities, modifying its operations to better serve the market.

Loan Portfolios

Table 2 provides a breakdown of the annual loan disbursements by category in each of the ten years of the analysis. These lending volumes are based on our adjusted market estimates as explained in Chapter 1, and reflect both the organizational constraints faced by any start-up operation, and the assumption that the foreign exchange risk will be borne by the borrowers. In our opinion these estimates represent realistic and achievable lending volumes given the assumptions of the organizational analysis and the market considerations. No effect has been attributed to markets in countries not covered by the market survey although these markets should have an undetermined positive influence on total demand for CFSC services.

As explained in Chapter 1, the volume of lending for other financial services will be determined by future market conditions and the opportunities that they present, as well as by policy decisions by the management of the CFSC. We have conservatively assumed in the base case analysis, that until the third year CFSC will not be able to generate the necessary income through discounting and direct lending to support the development of the more costly other financial services. Twenty percent of all new lending in the fifth year of operations is projected to originate from the other financial services component, increasing every year until approximately one third of all new lending is handled through this component. The estimates of these volumes are

TABLE 2

ANNUAL LOAN DISBURSEMENTS - BASE CASE

(Millions of U.S. $)

	Year: 1	2	3	4	5	6	7	8	9	10
LDC's[1]										
- **Discounting**										
• Short Term (1 year term)	0.8	0.9	0.9	1.2	1.2	0.8	0.8	0	0	0
• Long Term (1 year grace, 5 year term)	1.6	1.7	1.6	0.8	0	0	0	0	0	0
- **Direct Lending**										
• Short Term (1 year term)	0	0.2	0.4	0.6	0.8	1.0	1.6	2.0	2.0	2.0
• Long Term (1 year grace, 6 year term)	0.3	0.8	1.0	1.2	1.6	2.0	2.0	2.4	2.8	3.2
Sub Total	2.7	3.6	3.9	3.8	3.6	3.8	4.4	4.4	4.8	5.2
BELIZE										
- **Discounting**										
• Short Term (1 year term)	0	0.9	0.4	0.4	0.4	0.4	0.4	0	0	0
• Long Term (1 year grace, 5 year term)	0	0.4	0.4	0.4	0	0	0	0	0	0
- **Direct Lending**										
• Long Term (1 year grace, 6 year term)	0	0.5	0.8	0.8	1.2	1.6	2.0	2.0	2.0	2.4
Sub Total	0	1.8	1.6	1.6	1.6	2.0	2.4	2.0	2.0	2.4
BARBADOS										
- **Direct Lending**										
• Long Term (1 year grace, 6 year term)	0.3	0.5	0.5	0.8	1.2	1.6	1.6	2.0	2.4	2.4
OTHER FINANCIAL SERVICES										
• Short Term (1 year rollover)	0	0	0.5	1.0	1.6	2.0	2.7	3.3	4.0	4.8
TOTAL	3.0	5.9	6.5	7.2	8.0	9.4	11.1	11.7	13.[illegible]	14.8

[1] Antigua, Dominica, St. Kitts and St. Lucia

based on the fact that poorly defined though recognizable demand exists, coupled with the proposed policy of CFSC to emphasize, where feasible, other financial services.

Interest Rates

The interest rates used in the base case are based on the existing interest rate structure in the region. A constant interest rate scenario has been used for purposes of this analysis and the rate structure assumes a 12% commercial bank prime with average lending at prime plus 2%.

Discounting is assumed to yield an average rate of 10% to the CFSC. This rate is based on the current market rate to the average customer of prime plus 2% or 3% (14% - 15%), and would therefore yield a 4-5% gross spread to the financial institutions participating in the discount program. Direct lending by the CFSC has been set at an average rate of 14% which is in line with current market rates. The other financial services component has been set to provide an average interest yield of 15%, reflecting the slightly higher delivery costs and risks of this program. Short-term fixed deposits placed by the CFSC are assumed to yield 9%.

Provision for Loan Losses

Provision for loan losses has been set to 2% of the year-end loan balances before the write-off of bad debts in the direct lending and other financing portfolios. Two-thirds of the provision in any given year is written off two years later and taken as an actual loss in the computer model.

No direct provision has been applied against the discount program, reflecting the fact that financial institutions participating in the program assume all of the credit risk. However, the total reserves are of a level to provide sufficient protection against unlikely losses in discounting. The 2% provision on direct lending and the other financial services portfolio is a melded rate as it is expected that the other financial services portfolio may, by its nature, consist of somewhat higher risk investments.

Long-Term Debt

The base case assumes a 4% interest rate on the $12 million USAID loan to this institution, with a total term of 20 years and a 10 year grace period on the principal repayments. The total can be drawn down over a period not to exceed four years.

The base case assumes that other long-term debt will be made available to this institution as needed at an average interest rate of 7%. Our use of the this rate does not necessarily imply that future funds will be made available to the CFSC at 7%. Rather, the rate that was chosen is a compromise between the USAID concessional rate of 4%, but below the higher rates which private sector lenders would likely require for term borrowings by a successful development finance institution of this sort. As it turns out, loans funded at this marginal rate provide little additional net income to the CFSC.

Paid-In Capital

For purposes of the base case analysis, the initial capitalization of this institution has been set at $2 million U.S. of which $1 million U.S. will be paid in prior to start-up with an additional amount of $500,000 U.S. per year in years one and two of operations. The base case analysis further assumes that if the debt to equity ratio exceeds 6 to 1 in years 1 through 5, 7 to 1 in years 6 and 7, and 8 to 1 starting in year 8, further paid-in capital will be provided in order to bring the debt to equity ratio to a level at or under the set limits. These debt to equity ratios are in line with those imposed by USAID on other regional development finance institutions it has financed.

Administrative Expenses

The administrative expenses for the first three years of operations are shown in Table 1 of Chapter 2 and are based on the organizational analysis discussed in that chapter. After year 3 of operations, the base case assumes that administrative expenses will be a fixed percentage of the direct and other financial services volumes reflected on the balance sheets. The administrative expenses in year 4 have been set to equal 8% of the amount in direct and other financial services, dropping to 7% in year 5, 6% in year 6 and 5% in years 7 through 10. The 5% rate is slightly above the administrative expenses of other successful Caribbean development finance institutions reflecting the increased expense of a geographic area that CFSC will cover, partially offset by the projected efficiencies of a high quality staff. The discount volume has not been included in the calculation of administrative expenses, due to its relative unimportance to the overall portfolio after year 4, as well as the low operating expenses associated with such a program.

Fee Income

Fee income of 1% on the annual disbursements made through the other financial services component of the project is sued for purposes of the base case analysis.

Dividends

Dividends are set at zero in the base case. All earnings are retained in order to provide funds for the growth of the loan portfolio.

Taxes

It appears that the CFSC will have a tax holiday on income for a period of at least 10 years, although taxes would be imposed on any dividends paid.

Base Case Analysis

The balance sheets, income statements, and funds flow analysis figures are presented in Tables 3, 4 and 5. Gross loans reach a level of almost $12 million by the end of the fourth year which allows for the full draw down of the USAID loan by that year. Thereafter, time deposits, earnings, and other long term borrowings are the sources of new capital supporting the growth of the loan portfolios. The discounting program peaks at approximately $5.6 million by the end of the fourth year, declining thereafter as a matter of policy. Direct lending exceeds $9.0 million by the end of the fifth year and the other financial services portfolio, which begins in the third year at a $500,000 level, is projected to reach almost $2 million by the end of the sixth year or almost 10% of total outstanding gross loans. These investments represent over 15% of the total outstanding loans by the end of the tenth year.

TABLE 3

CARIBBEAN FINANCIAL SERVICES CORPORATION
PROJECTED BALANCE SHEET
1984 THROUGH 1993
U.S. DOLLARS
BASE CASE

YEAR	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
CURRENT ASSETS										
CASH	25750	26667	43917	50496	64390	74177	77434	91950	105778	119588
FIXED DEPOSITS	1367539	1957054	2153070	1426119	51304	0	0	0	0	0
INTEREST RECEIVABLE	41423	113368	199538	267855	314055	362182	428762	496791	567526	646188
TOTAL CURRENT ASSETS	1434712	2097088	2396525	1744471	429749	436359	506196	588740	673304	765776
LOAN PORTFOLIOS										
DISCOUNTING	2000000	4370000	5451250	5643750	4076250	2359750	1300000	750000	0	0
DIRECT LENDING	600000	2430000	4408707	6574424	9445746	12851856	15916527	18217121	21466913	24021763
FINANCIAL SERVICES	0	0	500000	1000000	1592486	1983551	2667719	3250784	3917690	4679375
OTHER	0	0	0	0	0	0	0	0	0	0
TOTAL GROSS LOANS	2600000	6800000	10359957	13218174	15114482	17194157	19884246	22217905	25384603	28701138
LESS RESERVE FOR LOSSES	12000	60600	150600	270520	426519	622157	846550	1090115	1348247	1630212
TOTAL NET LOANS	2588000	6739400	10209357	12947654	14687863	16572000	19037696	21127790	24036356	27070926
TOTAL ASSETS	4022712	8836488	12605882	14692125	15117612	17008359	19543892	21716530	24709660	27836702
CURRENT LIABILITIES	27875	68856	116011	136932	152195	169489	199956	236447	275555	321640
LONG TERM DEBT										
USAID LOAN#1	2627298	6810578	10336801	12000000	12000000	12000000	12000000	12000000	12000000	12000000
USAID LOAN#2	0	0	0	0	0	0	0	0	0	0
OTHER LONG TERM DEBT	0	0	0	0	0	1417170	3295849	4758160	6975162	9235813
TOTAL LONG TERM DEBT	2627298	6810578	10336801	12000000	12000000	13417170	15295849	16758160	18975162	21235813
TOTAL LIABILITIES	2655173	6879434	10452812	12136932	12152195	13586659	15495805	16994607	19250717	21557453
STOCKHOLDERS EQUITY										
PAID IN CAPITAL	1500000	2000000	2000000	2000000	2000000	2000000	2000000	2000000	2000000	2000000
RETAINED EARNINGS	-132461	-42946	153070	555193	965417	1421700	2048087	2721923	3458943	4279249
TOTAL EQUITY	1367539	1957054	2153070	2555193	2965417	3421700	4048087	4721923	5458943	6279249
TOTAL LIABILITIES AND EQUITY	4022712	8836488	12605882	14692125	15117612	17008359	19543892	21716530	24709660	27836702

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TABLE 4

CARIBBEAN FINANCIAL SERVICES CORPORATION
PROJECTED INCOME STATEMENT
1984 TO 1993
U.S. DOLLARS
BASE CASE

YEAR	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
OPERATING INCOME										
FIXED DEPOSITS	106539	149607	184956	161064	65424	2309	0	0	0	0
DISCOUNTING	100000	318500	491063	554750	486000	321750	182938	72500	7500	0
DIRECT LENDING	42000	212100	478710	768819	1121412	1560832	2013787	2431355	2820022	3184347
FINANCIAL SERVICES	0	0	37500	112500	194436	268203	348945	443888	537636	644780
OTHER	0	0	0	0	0	0	0	0	0	0
FEE INCOME	0	0	5000	10000	16000	20000	27000	33000	40000	48000
TOTAL OPERATING INCOME	248539	680207	1197228	1607133	1884332	2173094	2572570	2980743	3405158	3877127
INTEREST EXPENSE										
USAID LOAN#1	60000	222092	376212	446736	480000	480000	480000	480000	480000	480000
USAID LOAN#2	0	0	0	0	0	0	0	0	0	0
OTHER LONG TERM DEBT	0	0	0	0	0	49601	164956	281890	410666	567364
TOTAL INTEREST EXPENSE	60000	222092	376212	446736	480000	529601	644956	761890	890666	1047364
NET OPERATING INCOME	188539	458115	821016	1160397	1404332	1643493	1927614	2218853	2514492	2829743
OTHER EXPENSES										
PROVISION FOR LOAN LOSSES	12000	48600	98000	152320	221432	297085	372014	441622	508141	574381
ADMINISTRATIVE EXPENSES	309000	320000	527000	605954	772676	890124	929212	1103395	1269330	1435057
TOTAL OTHER EXPENSES	321000	368600	625000	758274	994108	1187210	1301227	1545017	1777471	2009438
INCOME BEFORE TAX	-132461	89515	196016	402123	410224	456293	626387	673836	737021	820306
TAXES	0	0	0	0	0	0	0	0	0	0
NET INCOME	-132461	89515	196016	402123	410224	456263	626387	673836	737021	820306

SOURCES AND USES OF WORKING CAPITAL

	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
SOURCES OF WORKING CAPITAL										
OPERATIONS	-132461	89515	196016	402123	410224	456293	626387	673836	737021	820306
PROVISION FOR LOAN LOSSES	12000	48600	98000	152320	221432	297085	372014	441622	508141	574381
PAID IN CAPITAL	500000	500000	0	0	0	0	0	0	0	0
INCREASE IN LONG TERM DEBT	2627298	4183280	3526223	1663199	0	1417170	1878678	1462311	2217002	2260651
TOTAL SOURCES	3006837	4821395	3820239	2217642	631656	2170539	2877080	2577769	3462163	3655337
USES OF WORKING CAPITAL										
NET INCREASE IN LOANS PLACED	2600000	4200000	3567957	2890617	1961641	2181222	2837710	2531716	3416708	3608950
DIVIDENDS PAID	0	0	0	0	0	0	0	0	0	0
TOTAL USES	2600000	4200000	3567957	2890617	1961641	2181222	2837710	2531716	3416708	3608950
NET CHANGE IN WORKING CAPITAL	406837	621395	252281	-672975	-1329985	-10683	39369	46053	45456	46397

TABLE 5

CARIBBEAN FINANCIAL SERVICES CORPORATION
BASE CASE

YIELD ANALYSIS::BASED ON AVERAGE GROSS LOANS AND FIXED DEPOSITS

YEAR	INTEREST INCOME	INTEREST EXPENSE	PROVISION EXPENSE	NET OP. INCOME LESS PROVISION	ADMINISTRATIVE EXPENSE	NET INCOME
1984	10	2.4	.5	7.1	12.4	-5.3
1985	10.7	3.5	.8	6.4	5	1.4
1986	11.3	3.5	.9	6.8	5	1.8
1987	11.8	3.3	1.1	7.4	4.5	3
1988	12.6	3.2	1.5	7.9	5.2	2.8
1989	13.4	3.3	1.8	8.3	5.5	2.8
1990	13.9	3.5	2	8.4	5	3.4
1991	14.2	3.6	2.1	8.4	5.2	3.2
1992	14.3	3.7	2.1	8.4	5.3	3.1
1993	14.3	3.9	2.1	8.3	5.3	3

RATIO ANALYSIS

YEAR	RETURN ON ASSETS *	RETURN ON EQUITY *	DEBT TO EQUITY	RESERVES TO GROSS LOANS
1984	-5.3	-11.2	1.9	.5
1985	1.4	5.4	3.5	.9
1986	1.8	9.5	4.9	1.5
1987	2.9	17.1	4.7	2
1988	2.8	14.9	4.1	2.8
1989	2.8	14.3	4	3.6
1990	3.4	16.8	3.8	4.3
1991	3.3	15.4	3.6	4.9
1992	3.2	14.5	3.5	5.3
1993	3.1	14	3.4	5.7

* NOTE: BASED ON AVERAGE BALANCES

Given the assumptions of the base case, the CFSC would be profitable from the second year forward, with returns on equity in the range of 5% to 17%. The rate of return on assets, which peaks at 3.4% in year 7, is not unexpectedly high for an organization with a maximum leverage of 8:1, although the actual leverage never exceeds 5:1 in the base case projections given that all earnings are retained. However, any increase in the amount of leverage, which could arise from additional outside borrowings, could have a negative impact on income unless the earnings on additional investments, net of the provision for losses and administrative costs associated with them, are greater than the rate which is paid for these funds.

The yield analysis in Table 5 clarifies the basic results of the CFSC operations. Interest income is projected to equal 14.3% of the average total earning assets in 1993, the tenth year. That is reduced by an average interest expense of 3.9% on total investments, along with the provision for losses equal to 2.1% and administrative expenses of 5.3% for total expenses of 11.3% on average loans outstanding. Non-interest expense totals 7.4%, thus illustrating that any additional investments funded by outside borrowings at 7% must bear an earnings rate of at least 14.4% (assuming no increase in the normal level of provision and administrative costs associated with the investments) or the impact on net income will be negative. The marginal cost of funds therefore has obvious implications for management in terms of the pricing of services to customers, and the control of commercial risk and administrative costs associated with the services.

The analysis projects a small loss in the first year of operations, followed by a small gain in the second year of operations. Net income increases in every year of the analysis although the growth rate slows temporarily in the fifth year. This decline is due to a combination of factors including rising average cost of funds, relatively high administrative expenses reflecting the transition from discounting to direct and other financing services, and higher provisions for loan losses associated with this transition.

As mentioned earlier, the leverage ceilings are never reached during the ten year analysis period due to the fact that all earnings are retained in the base case scenario which reduces the amounts borrowed. The resulting low debt to equity ratios directly affect the return on equity levels which are achieved in the projections.

Reserves for loan losses as a percentage of total gross loans increases in every year reaching a level of 5.9% by the tenth year, which is reasonable for this type of operation. It should be noted that in the early years, the reserves to gross loans figure is low as a result of provisions being taken only against the direct and other financial services portfolios, while the reserves to gross loans computation includes discounting which declines as a percentage of total loans in later years. Due to the assumed minimal risk to the CFSC in discounting commercial bank loans, it is more meaningful in the early years to examine the level of reserves against the direct lending and other financial services portfolio. This is calculated at over 3% in the third year which should be more than adequate to cover any potential losses, in these portfolios.

The return on equity reaches a peak of 17.1% during the fourth year of operations and then declines, again reflecting the transition from low cost discounting to direct lending and other financial services at levels requiring outside financing at 7%. Return on equity falls slightly in the last three years of the analysis due primarily to the complete phase out of the discounting program, as well as a steadily rising average cost of funds as a result of its growth, and falling debt to equity ratios.

After the tenth year of operation, which is beyond the scope of this analysis, actual results will depend on a number of factors. USAID concessionary financing will begin to be paid off, necessitating additional borrowings unless the total portfolio size is reduced. The higher the cost of the additional borrowings over the 4% USAID rate, the greater the negative effect on CFSC operations, unless there is an increase in the pricing of loans and services, or other fee sources of income can be found.

Sensitivity Analysis[1]

USAID Loan

Two separate sensitivity analyses were performed on the USAID loan. In the first analysis the grace period on the USAID loan was reduced to five years with the balance then being paid off in a 15-year period using the annuity method. In the second analysis, the interest rate on the USAID loan was raised to 5%.

1) The detailed financial statements appear in Appendix 5.

The reduction of the grace period on the principal repayments from ten years to five years has a negative impact on the project beginning in its sixth year of operations. In that year the return on equity falls from 14.3% in the base case, to 13.8%. The negative impact increases through to the tenth year where the return on equity falls to 12.6% versus 14.0% in the base case. This decline in returns is a result of increased borrowings from other sources at a higher rate (7% versus 4% from USAID) due to the repayment of the USAID loan. This increases the average cost of funds which the institution has available to lend, therefore reducing overall profitability.

Increasing the USAID rate from 4% from 5% has a large negative impact on the project. Profitability is decreased in all years of the analysis, with the return on equity reaching substantially lower rates in the early years of the project (4.7% versus 9.5% in year 3). The rate rises to slightly over 15% then declines to 13.3% in the tenth year of the analysis as the average cost of funds begins to rise due to increasing amounts of other long-term debt.

The debt to equity ratios are higher in this scenario than in the base case because of the decreased earnings which reduce the total amount of equity in the project.

Sensitivity On Lending Volumes

Two alternative scenarios were analyzed varying total lending volumes. In the first analysis the total lending volumes were adjusted downwards by 25% in all loan portfolios for all years. In the second analysis the total lending volumes were adjusted upwards by 25% on all loan portfolios.

When the volume was adjusted downwards by 25%, total gross loans outstanding reached a level of approximately $11.3 million by the end of the fifth year of operations and approximately $21.5 million by the end of the tenth year, as compared to $15.1 million and $28.7 million in the base case. Net income, therefore, is substantially lower during all years of operation. While the lower net income figures in the first three years of operations are due to a continuation of irreducible initial administrative expenses coupled with low lending income, in years 4 through 10 lower net income is due strictly to lower volumes and thus lower total operating income, in spite of lower average interest expense. This is particularly evident in the last four years of the analysis, when the average interest spread is larger than in the base case due to lower levels of 7% money, however net income figures do not match those reached in the base case, because the overall loan volume is smaller. In this scenario the USAID loan is not completely drawn down by the end of the fourth year, and therefore it peaks at $9.8 million as no draw downs are permitted after the fourth year. Return on equity is lower than in the base case due to a decrease in the debt to equity ratio, in spite of a higher return on assets.

An increase in the lending volume leads to the opposite situation than that described above. Net income figures are higher than in the base case in the first three years of the analysis and then fall below the base case levels in the 4th through 6th years. The fall in net income in those years is due to a higher average cost of funds relative to the base case coupled with the higher administrative expenses of serving the direct lending and other financial services markets. The return on equity in those years falls substantially, to 12.5% in the fifth year before it begins to rise; however it never quite reaches the levels achieved in the base case, due to the asset base growing much more rapidly than earnings, giving a lower return on assets which overshadow the increase in debt to equity (i.e., marginal income on loans funds at 7% is low). The above illustrates that, given the model assumptions, the CFSC will lose money any time the marginal cost of lending exceeds the marginal benefit of the portfolio increase after administrative and provision expenses.

Sensitivity on Administrative Expenses

An increase in the costs of administrative expenses by 20% has a substantial negative impact on net income in all years of operation. The return on assets in this scenario never rises above 2%, versus 3.4% in the base case, illustrating the need to maintain the administrative costs in line with the operation.

Interest Rates

In order to measure the impact of lower market interest rates on this institution, the general interest rate level was reduced by 1% in our scenario. This affects all interest earning and expense categories except the USAID loan.

The net effect of falling interest rates would be to lower the average yield on investments at a rate faster than the decrease in the average cost of funds. This can be seen clearly when examining the yield analysis which shows the impact of lowered interest rates on the interest income. The average interest expense does not drop, however, as there is no reduction in the USAID rate of 4%, and as earnings are reduced, additional higher cost funds must be borrowed in later years.

This scenario emphasizes the potential difficulty in borrowing at fixed rates, however low, and re-lending at shorter terms at market sensitive rates.

Sensitivity On The Provision For Loan Losses

An increase to 2.5% in the average provision for loan losses charged on direct lending and other financial services, has a negative impact on the returns that the CFSC is able to achieve while increasing the reserves which the institution has available to cover any losses. In this scenario the reserves to gross loans outstanding reach 3.5% in the 5th year, rising to 7.1% in the 10th year of the analysis versus 2.8% and 5.7% in the base case. The final decision as to what the appropriate provision for possible loan losses should be must be reviewed annually in light of the actual loss experience. We believe, however, that a well conceived, consistently applied loan monitoring policy will help avoid unexpected losses and could help to achieve lower charge-offs in the long-run.

Sensitivity on Dividend Payout

In the first scenario, dividends were set to equal 25% of the net income. As equity is reduced beginning in the fourth year when dividends begin to be paid, additional borrowings are required to meet the same size market as in the base case. This increases the interest expense, and therefore lowers the return on assets when compared to the base case. However, because the debt to equity ratio is increased substantially as the equity is reduced by the dividend payout, there is a positive effect on the return on equity illustrating the benefits of financial leverage. The debt to equity ratio peaks at 5.0 to 1 in year 3 and then begins to fall in later years in spite of the dividend payout since the level of retained earnings, produces sufficient equity to keep the ratio from rising.

In the second case, where the dividends were set to 10% of the paid-in capital, the effect is similar to that above, except that leverage peaks at 5.3 to 1, giving a return on equity that reaches 19.5% in spite of slightly lower absolute earnings. Leverage trends down only slightly in later years at this dividend level.

In the case where the dividends are set to 15% of paid-in capital, the effect is similar to the above two cases, however the debt to equity ratio reaches 6.8 to 1 and gradually increases throughout the ten years. While earnings are even lower than in the above cases, the higher leverage allows the return on equity to reach 21.4% at its peak.

Conclusions

The base case and sensitivity analyses clearly illustrate some of the issues affecting profitability which are to some degree controllable by management. The issues center around the increases in the level of net income which are a function of the relationships and trade-offs between gross interest income, interest expense, administrative expenses, and the provisions for loan losses.

In an effort to increase net income, management may wish to increase the gross income that CFSC generates through a variety of strategies, such as increased volumes, higher rates, the introduction of fees, or a reorientation towards higher yielding loan portfolios. However, management must always assure itself that it neither overly restricts the size of the market nor allows any increase in risk, admini-

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strative expense, or interest expense to fully offset the value of the higher revenues that are achieved.

For example, the sensitivity analyses on the market size show that increasing the portfolio volumes, will increase the gross income, but will not necessarily translate into an increase in the net income. This situation arises in our analysis since the marginal cost of funding the additional business (7% debt), coupled with the additional administrative and loss loss provisions associated with the increased lending, actually exceed the increase in income.

Management can also choose to lower the average cost of funds in order to increase net income. An increase in paid in capital will lower the requirement for outside borrowings, thus reducing average interest expense for the same portfolio volume. If the resulting increase in income, however, does not fully compensate for the higher equity base, return on equity will decrease. Finding other lower cost sources of funds would be the ideal way to lower the average cost of funds, but may be very difficult to accomplish.

Administrative costs per dollar invested can be reduced to increase net income by placing a higher percentage of total funds in the discounting portfolio, due to the relatively low operating costs associated with the discounting facility. However, the CFSC's developmental contribution would be lessened.

Management could also consider lowering its administrative expenses per dollar lent through the use of fewer or lower cost personnel to generate and monitor the same level of outstanding loans and services. This could, however, have the effect of increasing losses and therefore the provisions, which might more than offset the lower administrative costs. Alternatively, higher efficiency per employee could be demanded, but it may result only from an increase in personnel costs, be they direct or through some incentive program. The relative merits of these costs and potential savings would have to be considered. Finally, higher efficiency could be achieved through increasing the average size of each loan, but the offset is that certain potential customers will no longer qualify for assistance.

Net income can be improved through a reduction in losses which will decrease the required level of reserves for losses. Increasing loan quality standards will accomplish this, but at the risk of eliminating certain customers, and therefore lowering earnings and the developmental impact of the project. Closer initial review of loan requests can also have the same positive effect on risk reduction, but only with increased administrative costs per dollar lent.

Management will always be faced with numerous options for which the trade-offs are not often immediately clear. Its primary responsibilities will be to determine which lines of business are financially lucrative within the operating policies of the company by carefully analyzing the marginal benefits and costs of each strategy. The management must therefore have a full understanding of the marketplace, addressing new opportunities as they arise, while at the same time protecting the long term viability and profitability of the institution.

APPENDIX I

MARKET SURVEY

Individual Country Reports

Antigua

Barbados

Belize

Dominica

St. Kitts/Nevis

St. Lucia

ANTIGUA

Financial Institutions

Currently there are six banks active in the local commercial lending market:

- Barclays Bank
- Royal Bank of Canada
- The Bank of Nova Scotia
- The Canadian Imperial Bank of Commerce
- The Antigua Commercial Bank
- The Bank of Antigua

Other financial institutions active in commercial lending include: General Finance Corporation, the Antigua-Barbuda Development Bank and the Caribbean Development Bank.

Among the commercial banks, Barclays holds the largest share of the total commercial lending market, (including both the distributive and the productive sectors) followed by Royal Bank and the Bank of Nova Scotia. General Finance Corporation and the Bank of Antigua began their operations within the last two years. Both compete with the established banks for local deposits to fund their lending activities.

Constraints to Lending

Limited liquidity was most frequently mentioned as the current primary constraint to further growth in productive sector lending. The growth and distribution of local deposits limits the growth in local lending because the indigenous commercial banks' deposits are their only source of funds*. While the foreign bank branches have access to non-deposit sources of funds from abroad, these sources are rarely used because of the banks' policies to limit their exposure in any one country or region.

Most of the banks experience liquidity problems on an annual, cyclical basis as distributors and retailers gear up for Christmas and Easter sales. However, the bankers interviewed felt that their more recent lingering liquidity problems have resulted from an exodus of funds due, in part, to recent high rates offered on deposits abroad and in part to the anticipation of future monetary controls under the proposed E.C. Central Bank. It is also likely that liquidity has been affected within the established banks as the General Finance Company and the Bank of Antigua have captured deposit market share. The ECCA Commercial Bank statistics support the bankers' claims that the demand for funds from qualifying borrowers has outpaced the growth in deposits; from September 1980 to September 1982 commercial bank loans and advances as percentage of total assets climbed from 63% to 70%, and the aggregate loan to deposit ratio increased from 83% to 93% even though deposits grew by 23%.

The lack of long term funding sources to support long term lending was also mentioned as a major constraint to additional commercial bank assistance to the productive sector. Because loans are almost entirely funded through local

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* The Antigua Commercial Bank has recently begun to offer redeemable debenture stock with some success, but this is probably drawing funds from savings and other time deposits already within the financial system.

directly lend long term money to the productive sector, should the CFSC wish to do so. It is not possible, however, to estimate how much additional demand for medium or long term lending will arise which would not be met by the existing financial institutions even if funds were available, but which could still represent business of a legitimate risk level for the CFSC.

Demand for Other Financial Services

Given the reduction in availability of short term credit resulting from the present unavailability in Antigua of confirming house credit from England, it would appear that a market could be developed in Antigua for the CFSC to do some sort of inventory financing. However, the uncertainties of whether and when confirming houses might again begin to supply credit, the distinct possibility of a regional confirming house being developed, and the high risk (albeit high rate) nature of the business will demand that a very thorough study be done before the CFSC undertakes any such activity. Likewise, the high risks and expenses of receivable financing, the high risk and legal difficulties of providing a true leasing service for specialized equipment, and the unclear level of need for export financing all indicate that careful analysis will have to be done before attempting any of these services. Guarantees from a small, new financial organization such as the CFSC would probably be of little use at this time and in the near future.

BARBADOS

Financial Institutions

There are seven commercial banks currently operating in Barbados. They are:

- Barbados National Bank
- Bank of Nova Scotia
- Barclays Bank
- Royal Bank of Canada
- Canadian Imperial Bank of Commerce
- Chase Manhattan
- Citibank

A new bank, the Bank of Credit and Commerce International (BCCI), has been given authorization to conduct business as a domestic bank beginning by the end of April. The bank is controlled by Middle Eastern interests and is headquartered in Luxembourg, with branches in England, Jamaica, Miami and the Cayman Islands. BCCI will be primarily an import-export trading service bank.

Other financial institutions in Barbados include:

- Barbados Development Bank
- General Finance Corporation
- BARFINCOR
- Caribbean Development Bank (headquarters)
- Latin American Agricultural Development Corporation (LAAD)
- Barclays Development Fund

deposits, which are predominantly short term, most banks limit their liquidity and credit risk by extending credit on a demand basis. Although time deposits represent an increasing share of total commercial bank deposits, the majority of deposits are still for terms of one year or less. Several of the banks felt that both their existing borrowers and recent applicants able to qualify for commercial bank financing have abandoned or set aside plans for expansion or new ventures because of the lack of term funding. Even though banks can effectively lend for 3-5 years while carrying loans on a demand basis, it presents an unacceptable risk to some potential borrowers and restricts those whose projects require seven to twelve year credit.

Loan/Deposit Profiles

Quoted deposit rates range from 3% on savings deposits to 11.5% on term deposits, with statutory reserves of 5% on all deposits.

Most commercial lending is done on a demand basis, though a few of the banks interviewed do provide term loans for a few of their better customers. Each of the banks prices loans about 1 to 5 percentage points over an internal prime rate (the prime rates ranged from 12½% to 14½% at the time of the interviews) which is based on their marginal cost of funds and competitive lending rates. Both term and demand loans are variable rate, and are repriced whenever the bank's prime rate is changed. There are no legal restrictions on lending rates or the movement in variable rates.

Typically, the lender will seek a full debenture on a firm's fixed and floating assets to secure its loan. Except in special instances, none of the banks interviewed take specific working capital for sole collateral. Some firms had been financing their inventories through British confirming houses until an Export Credit Guarantor recently cut its guarantees on all credits in Antigua. Banks do not generally regard current assets as sufficient collateral because many firms are not incorporated and the title to inventory and receivables is therefore held by an individual against whose working capital it is difficult to effect a specific lien. Another difficulty with inventory financing is the high cost associated with controlling and monitoring the flow of goods and receipts. Banks are often reluctant to finance specific capital equipment purchases when the equipment has a specialized application which may make local resale difficult.

Demand for Discounting and Long Term Lending

Although reactions varied from institution to institution depending on the relative interest of specific lenders in seeking out new business opportunity, demand for the discounting facility was generally high, both to assist with liquidity needs for short term loans, as well as the additional need of long term funding sources for long term loans to the productive private sector. Although some of the demand might arise from the existing portfolio of the financial institutions, most of it would represent new loan originations to manufacturing companies. It was estimated that about 20-50% of the demand for discounting in the first two years would be to relieve liquidity constraints for short term to medium term lending, with the remainder being used for loans over five years in term. Therefore, while the demand for funds to discount loans is expected to be high, there should also be significant opportunity to

Constraints to Lending

The primary constraint to lending given by most bankers is overall economic conditions. Both internal and external recessionary pressures have limited viable lending opportunities. Many potential investors have taken a "wait and see" attitude, until there are signs of an economic upturn.

The banks inability to provide long term financing was also cited as a significant constraint to productive sector investment. Particularly in the tourism and manufacturing sector, the availability of long term financing would provide potential investors with the loan terms appropriate for acquisition of large capital equipment purchases and facilities construction. Liquidity is presently not a problem in Barbados as loans to the personal and distributive sectors are limited by the Central Bank; no such limits have been placed on productive sector facilities however.

Loan/Deposit Profile

The maximum average lending rate is set by the Central Bank and is presently at 13%. Most of the commercial banks are paying between 8½% - 9½% for one year fixed deposits, with a half-point to full point decrease for 60-120 day deposits. Due to the Central Bank mandated average interest rate, the commercial banks do not truly set their own prime rate.

Banks frequently offer 3-5 year term money, or loan on a demand basis with 3-5 year repayment periods. A large portion of the loans for hotels have up to ten-year renewable balloon if the client has met the repayment obligations, and the bank otherwise considers the client creditworthy.

Demand for Discounting and Long Term Lending

The commercial and development banks are in a relatively liquid position due to the Central Bank controls on the distributive and consumer sectors, along with lagging tourism activity. The banks have responded by adopting more aggressive marketing plans for lending to the manufacturing sector. The medium and long term money offered by the CFSC was of considerable interest to them, as a source they can use to more properly fund the medium and long term loans, while funding working capital needs from traditional deposits.

It should be noted, however, that the World Bank is presently negotiating with the Barbados Central Bank to introduce a rediscounting program which might compete directly with the CFSC. Although the amount has not been finally determined, it appears that the World Bank will put about $10 million into its facility. The general guidelines and objectives of their program are more or less the same as those which would be offered by the CFSC. The commercial banks were, however, somewhat skeptical of the World Bank program. They stated that if it is similar to other discount financing schemes run through the Central Bank it will burden the borrowing banks with excessive paperwork and provide too small of a spread for the effort and the risk undertaken. If these two problems are addressed and resolved, the World Bank program would be a direct competitor of the CFSC. If not the market in Barbados for the CFSC could be quite large.

The bankers seemed to feel that a 4% spread would be sufficient to induce them to use a CFSC discounting program with the banks retaining the commercial risk.

According to two bankers, the rediscounting demand and required spread will also hinge upon who bears the foreign exchange rate and convertibility risk, as few customers will be willing to accept such an added risk to their investment. There is a lack of confidence in the ECCA currency, especially with the impending changes in the ECCA central authority and there have been rumors about a devaluation of the Barbados dollar from time to time. They estimate that it will be at least 6-12 months after the new ECCA controls are in place before that currency is considered stable. Country risk limitations imposed by head offices further reduce the likelihood of banks accepting the risk.

Given the favorable liquidity situation among financial institutions here it is likely that at least 90% of the discounting requests will be for medium and long term funding, some of which could be done directly by the CFSC.

Other Financial Services

There was little or no optimism shown on the part of the interviewees concerning other financial services that CFSC accounts receivable financing, but legal restrictions and difficulty of controlling the collateral make it very risky to provide these services. Leasing has only a minimal appeal to business because the tax laws do not make it as attractive an option as in the U.S. It was felt that a term loan would serve the same purpose and be less complicated. Furthermore, the General Finance Corporation would be a prime competitor for leasing services. All of the banks said that they already offer export financing.

To some extent, the market for CFSC rediscounting and direct lending services will also depend on the aggressiveness of the Barbados Development Bank and the Caribbean Development Bank toward the productive sector. Both institutions have indicated that they have substantial sums of long term money available for such purposes. With reduced tourism tempering the demand for hotel financing, and relatively little demand from the agro-industry sector, both banks could, if they wished, be a competitive force in this market.

BELIZE

Financial Institutions

Currently, there are four banks with commercial lending operations in Belize. Ranked by outstanding commercial loans they are:

The Royal Bank of Canada
Barclays Bank
The Bank of Nova Scotia
The Atlantic Bank

The government Development Financing Corporation (government owned since 1973) provides loans, equity funds and technical assistance to commercial enterprises and administers the governments housing and student loan programs.

Constraints to Lending

Currently, the two primary constraints to commercial loan growth are tight liquidity and the security requirements of the commercial banks. The banks have managed their liquidity problems through interbank loans, Central Bank borrowing and, in rare cases, by bringing in funds from abroad. The United States Agency for International Development is now considering funding a proposed $5mm commercial bank discount window to be operated by the Central Bank. While the specific terms have not been settled it is anticipated that the facility will allow spread similar to that now received by the commercial banks, require that commercial banks retain all credit risk, impose a three year minimum term and favor primary agricultural production and agroprocessing loans.

The bank's collateral requirements severely constrain borrowing for both expansion of existing businesses and establishment of new enterprises. Commercial banks typically seek full debentures on a borrower's fixed and floating assets or matching fixed deposits to collateralize their loans. Consequently, the average loan to value ratio of Belize's total commercial loan portfolio is currently estimated at 30-50%, e.g. $2.00 in qualifying assets pledged to secure each $1.00 of borrowing. The collateral problem is further compounded by the definition of qualifying or pledgeable assets. Specialized machinery and equipment which may be difficult to resell locally, for example, typically will not qualify as collateral. Commercial bank security requirements limits the leverage available to local business, thus tying the growth in total available capital to growth in equity.

Loan/Deposit Profile

Both deposit and lending rates are set jointly by the commercial banks in cooperation with the Director of the Central Banks and the Financial Secretary. Deposit rates presently range from 6% for savings to 12½% for one year deposits with statutory reserves of 5%. The prime rate is currently 16%; commercial loans are priced up to 500 basis points over prime. Most commercial loans are on a demand basis, but there are some 3-5 year loans outstanding. In such cases, while repayment may be spread over five years, the banks retain the right to call at their discretion.

During the two years ended June 1982, total deposit growth averaged 16% annually, largely in the form of time deposits, while total loan growth averaged 19%. As a result, the total loan to deposit ratio increased from 95% to nearly 100%.

Demand for Discounting and Long Term Lending

Because of its impact on trade relations with Mexico traditionally so important to Belize, the devaluation of the Mexican Peso has created a climate which may hasten the transition of the Belize economy from its current reliance on transit trade to domestic production. The recent devaluation creates an opportunity for Belize to appraise its existing resources and international comparative advantages.

There are, however, a variety of obstacles to this transition, both financial and non-financial.

Non-Financial Obstacles

The traditional trading mentality of the local businessmen affects the willingness or ability of many to launch productive projects because they lack the requisite technical and managerial skills, and perceive these capital intensive enterprises as more risky than their traditional trading activities. Anxious to wean Belize of its dependence on transit trade, the government has taken steps to promote local production such as the imposition of import bans on specific goods and the creation of an investment promotion unit within the DFC and an investment task force to appraise government concessions for foreign investors.

The relatively small population of Belize presents two problems to potential productive enterprises; a limited local labor pool and a limited local market for goods. There is much imported labor now. The government has been liberal about immigration, and has established settlements for refugees from Haiti and El Salvador. In spite of this, Belize's small population will only support capital intensive enterprises which have access to foreign markets for their output, enabling them to achieve an economic size of production beyond that which the local market can absorb. Other obstacles include foreign investor timidity due to political instability in the region, the imposition of price controls which do not always reflect production costs, and limited access to foreign markets due to trade barriers, tariffs and the insufficiency of existing shipping facilities.

Financial Obstacles

Entrepreneurs who would take advantage of the opportunities for local productive projects created by the Mexican devaluation face several financial obstacles, both immediate and long term. Most important of these are: tight liquidity, a problem over the past 3 to 4 years at some banks; the lack of term funds to support loans of 3 years or more; the low loan to collateral ratios maintained by the commercial banks (40% is common); and artificially high rates on both deposits and loans, originally set to stem capital outflow during periods of high rates abroad. Furthermore, established entrepreneurs have already committed substantially all of their pledgable assets to the banks to finance their existing trading activities and therefore have little to offer as security for new venture financing.

The proposed discounting facility and direct long term lending address all but the last two of these obstacles. In the near term, discounting will ease the liquidity problem at the commercial banks and allow some of the currently bankable applications to be financed. Most of the banks felt that it would take at least a year for them to place the proposed $5mm AID Central Bank discount funds because, after a long period of tight liquidity, it will take some time for applications to begin flowing in again from their normal commercial customers. The rate at which the banks can disburse these funds will be further limited by their ability to review and process applications given their current lending practices. A discounting facility with a risk sharing or risk assumption option would likely be more rapidly used as there appear to be many viable projects now seeking funding which the banks consider riskier than their normal credits. Direct lending from the CFSC may provide an alternative immediate source of financing for these projects.

The long term prospects for both discounting and direct lending could be quite strong if the transition of the economy from transit trade to local production continues. In fact, the availability of term loans (discounting or direct) would likely facilitate the shift because Belize's greatest potential is for agricultural and agroindustrial projects*, projects typically requiring substantial capital investments and extended credit terms. Given that the CFSC will not make loans to primary agricultural production, and given that the growth in agroindustrial population (and so, loan demand) will lag slightly behind the growth in primary agricultural production, eligible long term direct lending and discounting demand should strengthen over the next several years.

Demand for Other Financial Services

While the demand for long term loans may take one or more years to develop, there is immediate demand for other financial services from both existing businesses and new

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* Currently less than 20% of the land suitable for agriculture or grazing is in use.

ventures. The greatest demand appears to be for services which would work in concert with Belize's existing financial institutions;

Full or Partial Guarantees: To create a source of funds for new entrepreneurs and non-traditional enterprises from the existing commercial banks, which are reluctant to lend without the security of double collateral or the certainty of success of traditional enterprise.

Specific Collateral Lending: To provide funds for expansion or new projects to those firms now fully pledged to the banks for existing debt.

Leasing: To provide a suitable means of financing for the capital intensive enterprises likely to characterize Belize's post-transition economy.

Two other needed services were identified during our interviews, services which may not be appropriate for the CFSC in its early years. Both anticipate a shift toward local productive exporting enterprises.

Merchant Banking, while today many of Belize's firms are family owned, in the next several years a trend toward public corporate ownership seems likely given the transition of the economy discussed earlier. The productive enterprises of the future require more capital than traditional trading and entail more risk. These enterprises would benefit from some type of equity market as a source of funds and vehicle for sharing their risk. Several interviewees felt that the current generation of family business heirs and entrepreneurs is more open to outside equity than their predecessors.

Trading Company Activities: Though the potential for intra-regional import substitution in the Caribbean is great, and offers Belize a potentially large market for its agricultural and manufactured goods, politics and logistics make regional trade difficult. The services of a trading company with knowledge of each country could make this market accessible. Producers need both local market intelligence and contacts, and full service shipping and distribution support. This regional market could be critical to the growth of productive enterprise in Belize.

DOMINICA

Financial Institutions

There are four commercial banks operating in Dominica:

- Royal Bank
- National Commercial Bank
- Barclays
- Banque Francaise Commerciale (formerly Banque Antillaise)

Barclays currently holds the largest share of the commercial lending market (including distributive sector loans). In addition, the Agricultural and Industrial Development Bank (AID Bank) and CDB provide loans to firms and projects with a development aspect to their operations. A National Development Foundation also exists, providing small loans to micro-businesses.

Constraints to Lending

Although two of the commercial banks have experienced some liquidity problems over the past year, two have not. In spite of the limited liquidity that two of the banks are experiencing, they are receiving at best a moderate demand for productive sector loans. However, it was generally felt that the lack of long term credit facilities does restrict the potential for new productive businesses as well as restricting the growth of certain companies who need refinancing for longer terms than they can obtain at banks. The dearth of good potential managers, and the general lack of equity within the younger population, were also mentioned as important constraints to productive sector growth.

Loan/Deposit Profile

Most commercial bank loans are carried on a demand basis, with repayment terms on some for periods up to five years. The average bank prime rate at the time of the interviews was 9.5% with actual lending rates ranging from zero to 350 percentage points over the prime on a floating basis. There are no formal restrictions on lending or deposit rates.

Deposit rates range from 2.5% for savings up to 7.5% on the longest term deposits (usually over one year). Reserve requirements are 7.5% of total deposits.

Demand for Discounting and Long Term Lending

Despite the tight liquidity situation being experienced by one bank in particular, that bank's manager did not foresee any opportunity for his organization to discount productive sector loans with the CFSC due to his perception of an extremely limited entrepreneurial base and lack of projects. It is unlikely that the National Commercial Bank or AID Bank would have need of additional funds for productive sector purposes. Two of the banks, however, did indicate that they might be able to use a small to moderate amount of a discount facility for long term loans to the manufacturing sector. Again, it was indicated that new, presently unknown entrepreneurs might wish to expand or form productive sector ventures once they know that long term capital funds are available, but this demand is not ascertainable.

Demand for Other Financial Services

No one contacted in Dominica indicated a need for other financial services with the exception of one person who mentioned that guarantees would be helpful in situations where new entrepreneurs had insufficient equity to put into a project. The same limitations mentioned elsewhere on the role a newly formed CFSC could play, and the potentially high risk associated with this service indicates the need for very careful analysis before proceeding. Other forms of providing short term credit (export financing, inventory and receivable financing), do not appear to be required, and leasing seems inappropriate for the size of the Dominica market, especially if other forms of long term capital are made available.

ST. KITTS-NEVIS

Financial Institutions

In addition to the St. Kitts-Nevis Development Bank, there are five commercial banks operating in St. Kitts-Nevis, ranked by commercial loans outstanding below:

Barclays
Royal Bank of Canada
St. Kitts-Nevis Anguilla National Bank, Ltd.
The Bank of Nova Scotia
Commerce Bank (presently bankrupt)

The Bank of Nova Scotia is the newest, and consequently fastest growing commercial bank actively competing for local deposits. In addition, the Caribbean Development Bank seems to be actively pursuing the private sector market in St. Kitts, with several proposed loans presently under review.

Constraints to Lending

The two most binding constraints to commercial bank lending are:

1. The lack of solid, bankable projects, and
2. The lack of term funds needed to make certain projects viable.

Liquidity is not currently a general concern. During the past two years, total loans to the agricultural sector have grown by 50% per year and loans to manufacturing firms by 32% per year despite a substantial increase in total government borrowings - from 24% to 45% of total commercial banks loans. The commercial banks have managed to support a 20% annual increase in total lending on deposit growth of less than 5% by increasing the average loan to deposit ratio from 63% to 82% during the two year period. Consequently, in the future, loan growth will be more closely tied to growth in deposits.

Loan/Deposit Profile

Currently 80 to 90% of commercial debt outstanding is for terms of less than three years. Nearly all commercial loans are variable rate, priced over a consensus prime rate established by the banks (9% at the time of the interviews). Spreads charged over the base rate vary 50 to 300 basis points. There are no legal limits on lending rates.

Rates paid for deposits range from 2.5% for savings to 7% for large, long term funds. The majority of the deposits are for terms of less than one year. Time deposits now accounts for 43% of total deposits, as both demand and savings deposits outstanding have decreased over the past two years. The statutory reserve requirement is 5%.

Demand for Discounting and Long Term Lending

All of the banks interviewed expressed a general interest in the proposed discount program as it was described to them. Two were particularly enthusiastic about originating term loans (five or more years) specifically for discounting. One bank alone estimated that it could place at least EC$1 million at its marginal cost of funds. One of the banks was less enthusiastic about the rediscounting scheme because it felt that it had ready access to similar development funds through its own affiliate. Another bank supported the concept in principle, but had no immediate need for long term funds.

In addition to the interest shown by the financial community, the local business chamber was anxious to work closely with the CFSC to identify and develop productive sector projects. They also expressed an interest in providing equity funds to the CFSC.

ST. LUCIA

Financial Institutions

There are five commercial banks with operations in St. Lucia:

The Bank of Nova Scotia
Barclays Bank
Royal Bank
Canadian Imperial Bank of Commerce
National Commercial Bank

Barclays is presently the largest commercial lender, having 30-35% of all commercial loans, followed by Royal and the National Commercial Bank, which has grown rapidly as a result of steady Government deposits. Other commercial credit institutions include the St. Lucia Cooperative Bank and the St. Lucia Development Bank. The Development Bank, recently formed through the merger of the local housing and agricultural banks, has not yet begun to lend but holds an inherited portfolio composed largely of consumer mortgages. The bank has targeted agriculture and manufacturing as its highest priority sectors for future lending.

Loan/Deposit Profile

The local banks price their loans up to 400 basis points over their internal prime rates. The majority of commercial lending is for terms under three years, but the banks claim that a significant amount of money is on loan for periods of 3 to 5 years. While commercial prime rates currently are at 13%, the Development Bank seeks an average rate on its new loans of 12%. Statutory reserve requirements are now at 10% of total deposits. Rates range from 3% on savings to 11% on large (over 250,000 EC) time deposits.

Constraints to Lending

According to the bankers interviewed, liquidity has become the primary constraint to increased productive sector lending, due to government borrowing and the policy of foreign bank branches to limit their country risk. However, through September of 1982, growth in total commercial bank deposits outpaced the growth in total loans (12.5% p.a. vs. 11.73% p.a.) and the aggregate loan to deposit ratio fell from 101% to 99%, still tight by US and local standards. More recent statistics are not yet available, and may well show a reversal of this drop. One banker currently has a backlog of $EC6mm productive sector loans that cannot be funded. The Development Bank has also accumulated a backlog of projects prior to beginning operations.

The severe liquidity shortage in most of the financial institutions in St. Lucia has likely overshadowed another constraint; the need for long term funds for some projects. This type of credit could account for 50% of the rediscounting requests of CFSC might be asked to consider.

The second major constraint impeding private sector investment appears to be a lack of management skills. Both the bankers and local businessmen felt strongly that many of the leading investors are not interested in new ventures because there is no source of competent middle management to whom they can turn over their existing businesses.

Demand for Discounting and Long Term Lending

The St. Lucia commercial banks appear to be able to absorb a considerable amount of discounted funds within the first year. A large portion of these funds would finance the short term needs of projects now in their pipelines, but a substantial amount would also fund long term lending.

After the first year, the demand for CFSC discount funds should decrease slightly as the backlog is reduced with perhaps a heavier emphasis on projects requiring substantial capital equipment and facilities investment. These projects will also need medium and long term financing.

The level of demand will be further influenced by the generally positive response of the business and financial community to the Government's support of the private sector. If the actions of Government continue to be supportive, the effect on the growth of the productive private sector could be substantial.

There was a strong interest among many of the business leaders as well as two of the banks in developing agricultural and agro-processing businesses. Many of the interviewers felt that the future of St. Lucia lies in its ability to develop these sectors.

In the manufacturing sectors, there is interest in not only the local market, but also in the regional market. Two of the interviewers, for example, were actively exploring the possibility of exporting to neighboring countries. The third major productive sector - tourism - appears to be somewhat lagging behind the other two as its sensitivity to external economic conditions make it a comparatively unattractive investment at this time.

Other Financial Services

There was no distinct pattern or consensus as far as the other services that were discussed are concerned, although any services that free funds for working capital, such as receivables financing, or provide financing of capital equipment, such as leasing, would be welcomed by the productive sector. CFSC will, however, have to more fully explore such demand in light of the inherent risks and rewards, legal complications and direct competition from one leasing company presently considering expansion into the St. Lucia market.

APPENDIX 2

PROPOSED SERVICES FOR A NEW DEVELOPMENT FINANCE INSTITUTION

Introduction

The primary purpose of the proposed development finance institution (DFI) will be to provide financing for the productive private sector in the Eastern Caribbean. This institution is not meant to compete with existing sources of financing in the region, but rather should serve as a new source which will address the potential unmet, yet viable, financial needs of this sector. We envision that most of the resources of the DFI will go toward providing medium and long term loans and, in selected cases, short term working capital loans, in order to strengthen and encourage the growth of the productive private sector in the region.

We also expect that this institution will differ from other existing lending institutions in the region in that it will emphasize the merit of a project (future income, cash flow, etc.) in determining the levels of lending which a project can support successfully. This will result in less emphasis being placed on the collateral itself, with the desired result of using the existing collateral to support higher levels of lending than that which is presently available from financial institutions.

Besides the traditional lending services which we envision the DFI will undertake, there are a broad scope of activities which this institution could undertake in order to achieve its primary objective of supporting the productive private sector. In analyzing some of these potential services, we have divided them into three groups; financing, support services, and trading company activities. The specific activities in each area are discussed in the following pages.

Financing

Accounts Receivable Financing

Presently there is little use of accounts receivables as a financing method in the countries which we examined in the previous study for the revitalization of the CIC. Accounts receivable financing can involve either the pledging of accounts receivable in which the borrower maintains the risk of a receivable being uncollectible, and factoring in which the borrower actually sells the receivables to the lending institution (factor).

Financing through receivables recognizes an asset which the current financial system, particularly in the LDC's, does not recognize to its full extent. If it is well managed, it can serve as a profitable service for the DFI while at the same time providing a valuable service to the private sector. While in the United States this type of financing historically has had relatively low loss ratios, it is a high cost undertaking that requires a sophisticated information and control system to monitor it. It also requires a skilled staff to operate such a system.

As much as 80% of the face value of the receivables can be advanced to a borrower when the borrower agrees to pledge receivables. An arrangement of this kind can stay in effect for up to three or four years, however borrowers try to minimize this type of funding since it can be expensive and more complicated than other financing methods.

Inventory Financing[1]

Another service which could create another source of collateral from existing assets is the use of inventory financing. In many developed countries, inventory financing serves as a major source of credit and the actual type of inventory financing used is related to the credit rating of the business.

Four type of inventory financing are common. The first, a blanket inventory lien, gives the lending institution a lien against the inventories of a borrower in return for a specific loan. This type of financing is limited to customers with good credit rating and this is due to the fact that the borrower has the ability to sell the inventories; reducing the collateral pledged to secure the loan.

The second type, which provides more protection to the lender, is through the use of trust receipts. The trust receipt is an instrument which recognizes that the borrower holds specific inventories in trust for the lender. This method usually requires that the particular inventory items covered under a trust receipt be segregated, and if the inventory item is used or sold that the funds be transferred to the lender within a specified period of time. The use of trust receipts can be cumbersome in that it requires that a specific trust receipt be issued for each inventory item,

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[1] Accounts receivable financing and inventory financing could be grouped together under one heading called commercial finance.

and therefore is usually used in those cases where the inventory consists of large, high value, low turnover items. From the lenders point of view it also requires a sophisticated monitoring system to avoid fraud.

A third type of inventory financing, field warehouse financing, offers the lender additional security in that the inventory is physically separated into a separate building or area which is clearly marked. This method is common when a bonded warehouse system does not exist. Legally, the borrower cannot access the inventory without the lender's consent. This type of an agreement provides the lender with a much more auditable system, thus providing the lender with more security, however, the lender still faces a degree of risk, especially in those cases where the field warehouse supervisor is, in fact, the borrower.

A bonded warehouse offers the lender the least risk of the different methods of inventory financing discussed, however, it is more inconvenient to the borrower than the other methods discussed and in the case where bonded warehouses do not exist it could result in an expensive system to implement. Many countries that have been included in this study are, however, small enough to be serviced by one centrally located bonded warehouse. Such a bonded warehouse could be actually owned and managed by the DFI, or the DFI could offer incentives to the private sector to undertake such a project. An independent bonded warehouse system would be the most cost effective method of implementing an inventory financing system in the marketplace.

Leasing[1]

We believe that there are existing opportunities for the DFI to offer expanded leasing services in the marketplace, either in locations not presently serviced by existing leasing companies or by offering new products not presently leased in the marketplace. We feel that leasing has many advantages, both to the borrower and the lender, which are appropriate to the marketplace. For the borrower, leasing offers the advantage of being able to acquire a piece of equipment, building, etc. without a substantial downpayment, while at the same time paying for the equipment throughout its useful life. The equipment itself serves as the collateral for the lease, and therefore would not tie up any existing collateral that the borrower may have. For the DFI, it has many advantages in that it is a secured transaction, it broadens the product line which the DFI can offer, and we feel that there is a large market need for this type of lending.

One of the major constraints identified in our previous study was the lack of collateral which could be used to finance expansion of a successful business, as well as the unwillingness on the part of many financial institutions to offer long term fixed rate term loans matching the useful life of machinery and equipment utilized by the private sector within the region. Leasing provides the vehicle which could address this constraint in part.

Implementing a leasing system would require the resources of a person familiar with the complexities of leasing. Also, an ongoing monitoring system is necessary as in the case of traditional lending, to protect the lender.

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[1] Full payout financial leases.

Export Financing Services

Another constrained identified in the previous study was the limited regional market size and the difficulty of accessing other larger markets. Part of this problem is due to a lack of skills and resources necessary to penetrate the export markets and this is discussed under "Trading Company Activities". Another problem associated with the export markets is, however, the requirement of being able to maintain and finance large inventory levels (to meet shipping schedules and the larger export market demand) and also to finance the receivables which may arise through export sales which tend to have a longer collectible period than those within a domestic market. The problem of financing both raw material and finished good inventory could be addressed by some of the alternatives which we discussed under inventory financing, however the problem of financing accounts receivable would be more complex since the credit rating of a buyer outside of the region might have to be assessed before financing that receivable. In an effort to promote exports for the region, this institution could work with the traditional financial network in order to quickly and efficiently establish creditworthiness on export sales.

Syndication

In a few cases where an individual loan is too large to be handled by the DFI, whether the reasons of risk, lack of funds, or an imposed lending ceiling, it would be possible for the DFI to help arrange a syndication of the loan in which a number of sources would pool together the necessary funds. The responsibility for forming such a syndicate, as well as the analysis of the project and the monitoring of the loan, could be undertaken by the DFI.

Such an ability might be desirable in those situations where a major project, in need of some financing, is being contemplated for the region. These large projects are usually backed by experienced, multi- national firms which would have access to traditional lending sources on their own. On a smaller scale, however, and especially when operating in countries where the existing financial network has an excess of funds, it may be reasonable for the DFI to participate out a portion of the lending to other local institutions. In this way, the DFI can help provide financing to a project which otherwise might not have been financed, while at the same time limiting its exposure to the individual project and leaves a greater portion of the DFI's resources available for other projects.

Direct Equity Investments

It is our belief that in many cases the constraint for expansion or the start up of new projects is due to the lack of sufficient amounts of equity on the part of the investor. In these cases it is possible that the DFI might take a direct equity investment in the project. This type of investment could take place on a limited basis as long as the risks to the DFI were well understood.

In our previous study, we found a major unwillingness on the part of many private sector organizations to accept this type of investment. In interviews with several firms in which the CIC had taken equity investments, we found that one of the problems was that no provision was ever made for the divestiture of the equity participation on the part of the CIC. If an equity participation were well defined, perhaps in the form of preferred stock with specified dividend payments and specific repurchase terms the market might be more willing to accept this type of investment, but on a more limited basis than that undertaken by the CIC.

The skills necessary to take an equity position are similar to those skills which are used in the traditional lending function, and therefore providing such a service could be done at little or no additional cost to the DFI.

Support Services

Cash Management Services

Many new businesses fail because they do not utilize the resources that are available to them in the most efficient manner. Although cash management services are usually associated with large and sophisticated corporations, cash management can be as simple as expediting collection and check clearing, slowing down disbursements, and taking advantage of timing differences between cash inflows and cash outflows. In its simplest form, we see that this service could be limited to training in cash flow planning so that investors can take advantage of the timing differences between inflows and outflows and insuring that short run excess are productively invested.

Training in cash management could be offered directly through the DFI, or contracted out to local accountants/ consultants. This training could be limited to a series of brief, one-day seminars used to educate the management of local companies as to the techniques which could be utilized and the benefit to them of using some of these techniques.

A second and more complex arrangement might involve contracting local consultants/accountants to actually work with investors on a limited basis. While this alternative would be more expensive to implement, it would also address the particular needs of investors and could also provide greater feedback to the DFI on the status of its borrowers.

Financial Advisory Services

Whereas cash management is concerned with working capital items, the emphasis in a financial advisory service would be on long term funding sources and capital structure. These types of services could also be limited to seminars or could also be expanded to provide individual advice in those cases where the amounts of money are substantial.

The specific service in this area that is most needed in the marketplace is in the area of project organization and appraisal whether it is for new projects or for expansion of existing companies. In our previous study, many commercial bankers, as well as development institutions told us that many projects which were presented for consideration are poorly prepared and organized. These financial institutions also appear to offer very little in terms of advice towards the preparation of project proposals, since it is time consuming and costly.

Advice in this area, however, would not necessarily be limited to project proposal preparation. Other areas which could be covered would include advice on structuring joint ventures, sources of additional equity, lease versus buy analysis and other sources of long term funds.

Acting as an agent for firms seeking additional funds, the DFI could also work as an agent to place relatively large amounts of equity or debt directly with private investors, local insurance companies, pension funds and others.

Guarantees

In cases where a company has an acceptable project, but may not have sufficient collateral or equity to obtain financing from the existing financial system, the DFI could provide partial guarantees to other financial institutions, for a fee, in order to encourage the transaction. The advantage that this has to DFI, is that it could use existing project appraisal staff to evaluate the project in question and make recommendations as to whether or not the guarantee was appropriate. The greatest weakness in undertaking this type of activity is that if it is not adequately monitored, the risk to the DFI could be very high, especially when compared to the relatively small fee which results from this type of business.

As a result of our previous study, we felt that a guarantee program through the commercial banking system would be of very little benefit. This was due mostly to the perceived aversion on the part of lenders and borrowers. However, guarantee programs have been utilized successfully in other countries and it is possible that if it is structured correctly it would be of great benefit in opening up an additional source of funds through the existing financial network.

Business Advisory Services

In an effort to assist existing businesses in their expansion programs, as well as helping to establish new ventures, the DFI may wish to organize a system by which firms could access quickly and efficiently a series of experts in specialized functional areas that could provide practical advise on a timely basis. As a result of our previous study, we were able to identify several companies which were in need of outside assistance, but did not know how to access it or could not afford to contract for the service in a cost effective manner. Some of the specialized, functional areas that we envision under this program are listed below:

- Production management,
- Energy and facilities management,
- Operations management,
- Data processing administration,
- Project management,
- Packaging,
- Export opportunities.

Such a program might be justifiable if the DFI could arrange to contract with a firm that could provide some basic services in these areas on a cost effective basis. A second approach might center around the use of seminars to provide general information and assistance in these areas. This approach would be more cost effective in that it would reach a larger population at one time, however, it could only work toward solving specific problems to a limited degree.

Trading Company Activity

Traditional Services

The DFI could provide the services traditionally associated with a trading company group. These services would include the collection of general market data and intelligence, development and enforcement of product quality standards, and the identification of buyers and distributors for local products.

The major benefit of forming a trading company would be in the area of export promotion. By grouping a series of small producers under one roof for export purposes, a trading company can achieve economies of scale which would in turn benefit all of the individual companies. One example would be for the trading company to group small, like-commodity producers in order to approach the export market as a single seller. This would allow access to the exports market where the volume needed to support such an activity would be too large for any single producer to handle. By developing and enforcing the product quality standards, the producers themselves would benefit through higher and more consistent prices than might otherwise be available to them.

Other trading company activities might center on increasing the value added of products before they are exported and export financing and related services could be provided through linkages through the DFI's lending and support operations.

APPENDIX 3

INTERVIEW GUIDE

DISCOUNT FACILITY

I. Eligibility Criteria

1. Loan Recipient - Productive Sector
   a) Manufacturer for export
   b) Manufacturer for import substitution
   c) Agro-Industry (excluding sugar, bananas and peanuts)
   d) Tourism
   e) Support services for the productive sector

   U.S. source/origin requirements may apply if USAID funds are used to finance foreign goods and/or services.

2. Loan Purpose
   All: Working capital, machinery, fixed assets, including refinancing for expansion.

3. Loan Tenor
   All: Short, medium and long term. No outer limit yet set but could be as long as 15 years for legitimate reasons.

4. Other Factors
   a) Loans may be originated by the bank specifically for discounting, including loans which a bank would not otherwise make, such as long term credits.
   b) There will be no limits on the rate the bank charges to its customer.
   c) No minimum size has been set, and it is unlikely that a maximum size will be set.

II. Terms

1. Rate

   a) Funds provided on fixed or floating rates to match movement of underlying loan rate.

   b) Discount rate will be rationally established based on bank's cost of funding and servicing loan, or based on actual market demand.

2. Credit

   a) The commercial risk for the discounted loans will in most cases remain with the bank, as will the loan servicing.

   b) In selected instances, the CFSC may wish to share or assume the risk of some loans which a bank would not hold in its portfolio.

III. Administrative

1. Documentation

   a) Simple but adequate to determine proper use of discount funds.

   b) More complicated in cases where CFSC takes commercial risk, as CFSC will have to do credit review themselves.

2. Servicing

   a) Simple reports to CFSC when bank takes commercial risk.

   b) CFSC will service or closely monitor loans when it takes the commercial risk.

DIRECT TERM LENDING

Term Debt

Direct lending for periods of over five years up to fifteen years where appropriate. Loans would have the same basic criteria as those under the discount facility. Participation in term loans originated by others, or syndication of large loans to others will be considered.

Participations which allow banks or other short and medium term lenders to receive payments prior to the CFSC being repaid might also be considered.

OTHER FINANCIAL SERVICES

I. Accounts Receivable Financing: Short term loans collateralized by accounts receivable. This type of financing will be possible only insofar as there are receivables from creditworthy companies or individuals.

II. Leasing: Full payout or operating leases, limited to equipment which has an easily accessed resale market.

III. Export Inventory Financing: Short term loans collateralized by inventories.

IV. Guarantees
In cases where another financial institution would be willing to make financing available to a productive sector company with the added inducement of a guarantee, the CFSC would be willing to consider so doing, for an annual fee. This will be most attractive in situations where a company is almost creditworthy under commercial bank standards, but may lack sufficient collateral or equity for the project.

APPENDIX 4

MODEL DESCRIPTION

MODEL DESCRIPTION

Introduction

In order to measure the financial impact of different assumptions on the operations of the CFSC, a computer model was designed which will allow the user to change certain ke variables and develop a projected set of balance sheets, income statements and sources and uses of working capital statements. The model also provides the user with a summar set of ratios which makes the analysis of the financial statements easier. The model covers a ten-year time horizon at the request of USAID, and it will simulate the projected operations of the CFSC over that time horizon.

The model does not reflect end of year amounts for most balance sheet items, but rather an average amount outstanding during the period. This is necessary in order to simulate the probable occurrences on the income statement.

A detailed description of the computer model assumptions is provided in this appendix. It is important to understand how the computer model behaves and simulates the financial activities of the CFSC in order to understand the financial analysis and its implications. The detailed assumptions are provided below starting with the balance sheet first, then the income statement, and then the sources and uses of funds statement:

Balance Sheet

Cash - Cash shown on the balance sheet is a function of operating expenses. In each scenario it is set to equal 1 month's administrative expenses. The amount of cash on the balance sheet is controlled by the variable CA on line 215.

Fixed Deposits - The model uses fixed deposits as a repository for all excess cash. The model will not draw down directly on the USAID loan to place funds in fixed deposits.

Interest Receivable - Average interest receivable is estimated by the model to equal two months gross operating income. The amount of interest receivable shown on the balance sheet is controlled by the variable IR on line 260.

Loan Portfolio - The loan portfolio has been broken down into four independent portfolios for purposes of our analysis. The amounts shown in each portfolio are a function of the annual disbursements, the grace period on the principal payments and the number of years the loan will be paid back in, in addition to the grace period. The model assumes that loans are paid in semi-annual principal installments. Each loan portfolio is built up as follows:

<u>Discounting</u>

Data 500	Annual disbursement
Data 505	Grace periods
Data 510	Repayment periods
Data 515	Annual disbursement
Data 520	Grace periods
Data 525	Repayment period

Direct Lending

Data 530	Annual disbursement
Data 535	Grace periods
Data 540	Repayment periods
Data 545	Annual disbursement
Data 550	Grace periods
Data 555	Repayment periods

Creative Financing

Data 560	Annual disbursement
Data 565	Grace periods
Data 570	Repayment periods
Data 575	Annual disbursement
Data 580	Grace periods
Data 585	Repayment periods

Other

Data 590	Annual disbursement
Data 595	Grace periods
Data 600	Repayment periods
Data 605	Annual disbursement
Data 610	Grace periods
Data 615	Repayment periods

Reserve for Loan Losses - The reserve for loan losses is made up of the accumulated provision for losses taken in every year, less the amount of loans written off in every year. For purposes of our analysis, the amount charged off is equal to 2/3 of the provision taken two years earlier.

The amount charged off is controlled by the variable WO on line 295 and the lag in charge off is controlled by the variable DL on line 235. The amount charged off in a year is subtracted from each of the four portfolios in proportion to the total of gross loans.

Current Liabilities - This amount is made up of 1/2 month's operating expenses controlled by variable AP on line 210 and three months' interest payable controlled by the variable IP on line 255. Three months' interest payable is assumed to be the average amount on the balance sheet given that interest on all debt is to be paid semi-annually.

USAID Loans - USAID Loan #1 is a function of the gross loans disbursed by the CFSC. All new loans made by the CFSC are funded by the USAID loan until the maximum amount has been reached or the draw down period on the loan has expired. The maximum amount available is controlled by the variable AD on line 200, and the draw down period is controlled by the variable DD on line 225. USAID Loan #2 is not used in this analysis.

Other Long-Term Debt - Once the USAID loan has been used up or the draw down period has expired, the model will borrow additional money only after exhausting all excess cash kept in fixed deposits. The amount in this category provides an indication of additional borrowing needs under each scenario.

Paid-in Capital - The model reflects the projected amounts of paid-in capital in any given year, both on the balance sheet and in the sources and uses of working capital statement. Additional paid-in capital can be programmed in on data line 630 manually, however, if the debt to equity ratio in any year exceeds the maximum allowed of 6 to 1 the model will automatically force additional paid-in capital in increments of $100,000. The debt to equity limits are set in in data line 625.

Retained Earnings - the model computes retained earnings in any year by taking the previous year's retained earnings, adding in the current year's net income and subtracting out any dividends paid during the current year. The amount of dividends paid is controlled by specifying the percentage of net income to be paid out in data line 620, although no dividends will be paid unless the current and previous two year's net income has been positive. For purposes of our analysis, no dividends have been paid out.

Income Statement

All interest income and expenses are computed on a constant interest rate forecast. The relative rates for each type of interest income and expense can all be controlled independently by the user.

Fixed Deposits - Fixed deposit income is computed on the average balance in the fixed deposit account on the balance sheet. The interest rate is controlled by the variable FD on line 245.

Loan Portfolios - The income on all four portfolios is computed by taking the average balance outstanding in each category in every year. The interest rate for each portfolio is controlled by the variables A(26,0), A(27,0), A(28,0) and A(29,0) on lines 265, 270, 275 and 280 for portfolios one through four, respectively.

Interest Expense on the USAID Loan #1 - The amount of interest charged on the USAID loan is based on the average outstanding balance in every year. The amount of interest charged is controlled by the variable AI on line 205.

Other Long Term Debt - Interest expense on other debt is computed on the average balance outstanding in every year. The interest rate charged is controlled by the variable OD on line 285 of the program.

Provision for Loan Losses - The amount taken as a provision for loan losses is controlled by the user with variable PL in line 290, and is taken on the gross loans outstanding before the charge off in each year.

Operating Expenses - Operating expenses are input directly into the model by the user on data line 635. During the first three years of operating an actual dollar amount is input. After the first three years a percentage is input which calculates administrative expenses as a function of the year end balances in direct lending and creative financing.

Sources and Uses of Working Capital

Sources of working capital are broken down into four categories by the model: Operations, Provision for Loan Losses, Paid-in Capital, and Increase in Long-Term Debt. The uses of working capital are broken down into two categories: Net Loans Placed (adjusted by the provision) and Dividends Paid. The model computes these amounts in every year by looking at the actual changes on the balance sheet, the actual amounts on the income statements and the Data lines in the computer model. The net change in working capital is the change in current assets minus current liabilities on a year-to-year basis.

Yield Analysis and Ratio Analysis

The yield analysis computes the major income statement categories, as a percentage of average gross loans outstanding in every year. The yield analysis facilitates the comparison of different scenarios and the comparison to other DFC's. The ratio analysis summarizes the returns as well as computing the debt to equity ratio in every year and the reserve to gross loans outstanding at the end of every year.

APPENDIX 5

COMPUTER SENSITIVITY ANALYSIS

CARIBBEAN FINANCIAL SERVICES CORPORATION
PROJECTED BALANCE SHEET
1984 THROUGH 1993
U.S. DOLLARS
5 YEAR GRACE PERIOD ON USAID LOAN

YEAR	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
CURRENT ASSETS										
CASH	25750	26667	42917	56496	64390	74177	77434	91950	105778	119588
FIXED DEPOSITS	1367539	1957054	2153070	1426119	51304	0	0	0	0	0
INTEREST RECEIVABLE	41423	113368	199538	267855	314055	362182	428762	496791	567526	646188
TOTAL CURRENT ASSETS	1434712	2097088	2396525	1744471	429749	436359	506196	568740	673304	765776
LOAN PORTFOLIOS										
DISCOUNTING	2000000	4270000	5451250	5543750	4076256	2356750	1300000	150000	0	0
DIRECT LENDING	600000	2420000	4408707	6574424	9445746	12651856	15916527	18817121	21468913	24021763
FINANCIAL SERVICES	0	0	500000	1000000	1592466	1983551	2667719	3250784	3917690	4679375
OTHER	0	0	0	0	0	0	0	0	0	0
TOTAL GROSS LOANS	2600000	6890000	10359957	13218174	15114492	17194157	19884246	22217905	25386603	28701138
LESS RESERVE FOR LOSSES	12000	65600	156600	270520	426619	622157	846550	1090115	1350247	1630213
TOTAL NET LOANS	2588000	6739400	10209357	12947654	14687873	16572000	19037696	21127790	24036356	27070926
TOTAL ASSETS	4022712	8836488	12605882	14692125	15117612	17008359	19543892	21716530	24709660	27836702
CURRENT LIABILITIES	27875	68855	116011	136932	152195	173339	208806	250839	296081	348945
LONG TERM DEBT										
USAID LOAN#1	2627298	6810578	10336801	12000000	12000000	11402486	10780832	10134064	9461166	8761083
USAID LOAN#2	0	0	0	0	0	0	0	0	0	0
OTHER LONG TERM DEBT	0	0	0	0	0	2026235	4556968	6718072	9683942	12747115
TOTAL LONG TERM DEBT	2627298	6810578	10336801	12000000	12000000	13428721	15337800	16852136	19145108	21508198
TOTAL LIABILITIES	2655173	6879434	10452812	12136932	12152195	13602060	15546606	17102975	19441189	21857143
STOCKHOLDERS EQUITY										
PAID IN CAPITAL	1500000	2000000	2000000	2000000	2000000	2000000	2000000	2000000	2000000	2000000
RETAINED EARNINGS	-132461	-42946	153070	555193	965417	1406299	1997285	2613555	3268471	3979559
TOTAL EQUITY	1367539	1957054	2153070	2555193	2965417	3406299	3997285	4613555	5268471	5979559
TOTAL LIABILITIES AND EQUITY	4022712	8836488	12605892	14692125	15117612	17008359	19543892	21716530	24709660	27836702

CARIBBEAN FINANCIAL SERVICES CORPORATION
PROJECTED INCOME STATEMENT
1984 TO 1993
U.S. DOLLARS
5 YEAR GRACE PERIOD ON USAID LOAN

YEAR	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
OPERATING INCOME										
FIXED DEPOSITS	106539	149607	184956	161064	66484	2309	0	0	0	0
DISCOUNTING	100000	318500	491063	554750	486000	321750	182938	72500	7500	0
DIRECT LENDING	42000	212100	478710	765819	1121412	1560922	2013787	2431355	2820022	3184347
FINANCIAL SERVICES	0	0	37500	112500	194436	268203	345845	443858	537636	644780
OTHER	0	0	0	0	0	0	0	0	0	0
FEE INCOME	0	0	5000	19000	16000	20000	27000	33030	40000	48000
TOTAL OPERATING INCOME	248539	680207	1197229	1607133	1884332	2173094	2572570	2980743	3405158	3877127
INTEREST EXPENSE										
USAID LOAN#1	60000	222092	376212	446736	480000	474084	449944	424830	398700	371515
USAID LOAN#2	0	0	0	0	0	0	0	0	0	0
OTHER LONG TERM DEBT	0	0	0	0	0	70918	230412	374626	574070	785087
TOTAL INTEREST EXPENSE	60000	222092	376212	446736	480000	545002	680356	799456	972770	1156602
NET OPERATING INCOME	188539	458115	821016	1160397	1404332	1628092	1892213	2181287	2432387	2720525
OTHER EXPENSES										
PROVISION FOR LOAN LOSSES	12000	43600	98000	152320	221432	297065	372014	441622	508141	574381
ADMINISTRATIVE EXPENSES	309000	325000	527000	605954	772676	890124	929212	1123395	1269330	1435057
TOTAL OTHER EXPENSES	321000	368600	625000	758274	994108	1187210	1301227	1565017	1777471	2009438
INCOME BEFORE TAX	-132461	89515	196016	402123	410224	440882	590987	616269	654916	711088
TAXES	0	0	0	0	0	0	0	0	0	0
NET INCOME	-132461	89515	196016	402123	410224	440882	590987	616269	654916	711088

SOURCES AND USES OF WORKING CAPITAL

	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
SOURCES OF WORKING CAPITAL										
OPERATIONS	-132461	89515	196016	402123	410224	440882	590987	616269	654916	711088
PROVISION FOR LOAN LOSSES	12000	43600	98000	152320	221432	297065	372014	441622	508141	574381
PAID IN CAPITAL	500000	500000	0	0	0	0	0	0	0	0
INCREASE IN LONG TERM DEBT	2627298	4188280	3526223	1663199	0	1428741	1909079	1514336	2292971	2363090
TOTAL SOURCES	3006837	4821395	3820239	2217642	631656	2166688	2872080	2572227	3456029	3648559
USES OF WORKING CAPITAL										
NET INCREASE IN LOANS PLACED	2600000	4200000	3567957	2890617	1961641	2181222	2837710	2531716	3416708	3608950
DIVIDENDS PAID	0	0	0	0	0	0	0	0	0	0
TOTAL USES	2600000	4200000	3567957	2890617	1961641	2181222	2837710	2531716	3416708	3608950
NET CHANGE IN WORKING CAPITAL	406837	621395	252281	-672975	-1329985	-14534	34370	40511	39321	39609

CARIBBEAN FINANCIAL SERVICES CORPORATION
5 YEAR GRACE PERIOD ON USAID LOAN

YIELD ANALYSIS::BASED ON AVERAGE GROSS LOANS AND FIXED DEPOSITS

YEAR	INTEREST INCOME	INTEREST EXPENSE	PROVISION EXPENSE	NET OP. INCOME LESS PROVISION	ADMINISTRATIVE EXPENSE	NET INCOME
1984	10	2.4	.5	7.1	12.4	-5.3
1985	10.	3.5	.8	6.4	5	1.4
1986	11.3	3.5	.9	6.8	5	1.8
1987	11.8	3.3	1.1	7.4	4.5	3
1988	12.6	3.2	1.5	7.9	5.2	2.8
1989	13.4	3.4	1.8	8.2	5.5	2.7
1990	13.9	3.7	2	8.2	5	3.2
1991	14.2	3.9	2.1	8.2	5.2	2.9
1992	14.3	4.1	2.1	8.1	5.3	2.8
1993	14.3	4.3	2.1	7.9	5.3	2.6

RATIO ANALYSIS

YEAR	RETURN ON ASSETS #	RETURN ON EQUITY #	DEBT TO EQUITY	RESERVES TO GROSS LOANS
1984	-5.3	-11.2	1.9	.5
1985	1.4	5.4	3.5	.9
1986	1.8	9.5	4.9	1.5
1987	2.9	17.1	4.7	2
1988	2.8	14.9	4.1	2.8
1989	2.7	13.8	4	3.6
1990	3.2	16	3.9	4.3
1991	3	14.3	3.7	4.9
1992	2.8	13.3	3.7	5.3
1993	2.7	12.6	3.7	5.7

NOTE: BASED ON AVERAGE BALANCES

CARIBBEAN FINANCIAL SERVICES CORPORATION
PROJECTED BALANCE SHEET
1984 THROUGH 1993
U.S. DOLLARS
USAID LOAN AT 5%

YEAR	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
CURRENT ASSETS										
CASH	25750	26557	43917	50496	64390	74177	77434	91950	105778	119558
FIXED DEPOSITS	1351832	1891930	1972761	1145228	0	0	0	0	0	0
INTEREST RECEIVABLE	[illegible]	112637	197522	264396	311564	361797	423762	496791	567526	646188
TOTAL CURRENT ASSETS	1415383	2021293	2214300	1460120	375954	435975	506196	585749	673304	765776
LOAN PORTFOLIOS										
[illegible]	[illegible]	4270000	5451250	5643750	4076250	2359750	1300000	150000	0	0
DIRECT LENDING	[illegible]	2420000	4402707	6574424	9445746	12851656	15916527	18817121	21468913	24021763
FINANCIAL SERVICES	0	0	500000	1000000	1592486	1982551	2667719	3250784	3917690	4579375
OTHER	0	0	0	0	0	0	0	0	0	0
TOTAL GROSS LOANS	[illegible]	[illegible]	10359957	13218174	15114492	17194157	19884246	22217905	25386603	28791133
LESS RESERVE FOR LOSSES	[illegible]	[illegible]	150600	270520	426519	622157	846550	1090115	1350247	[illegible]
TOTAL NET LOANS	[illegible]	6739400	10209357	12947654	14657863	16572000	19037696	21127790	24036356	27070926
TOTAL ASSETS	[illegible]	[illegible]	12423658	14407775	15063817	17007974	19543892	21716530	24709660	27836702
CURRENT LIABILITIES	31625	22699	139434	164695	185459	207602	241482	280733	323212	372694
LONG TERM DEBT										
USAID LOAN#1	2623430	6795065	10311463	12000000	12000000	12000000	12000000	12000000	12000000	12000000
USAID LOAN#2	0	0	0	0	0	0	0	0	0	0
OTHER LONG TERM DEBT	0	0	0	0	373059	1994152	4036105	5673399	8077557	10539328
TOTAL LONG TERM DEBT	2623430	6795054	10311463	12000000	12373059	13994152	16036105	17673399	20077557	22539328
TOTAL LIABILITIES	2655055	6878753	10450896	12164695	12553518	14201953	16277587	17954332	20401069	22912022
STOCKHOLDERS EQUITY										
PAID IN CAPITAL	1500000	2000000	2000000	2000000	2000000	2000000	2000000	2000000	2000000	2000000
RETAINED EARNINGS	-148168	-118070	-27238	243080	505298	506021	1266305	1762198	2308591	2924679
TOTAL EQUITY	1351832	1891930	1972762	2243080	2505298	2806021	3266305	3762198	4308591	4924679
TOTAL LIABILITIES AND EQUITY	4006883	8760683	12423658	14407775	15063817	17007974	19543892	21716530	24709660	27836702

CARIBBEAN FINANCIAL SERVICES CORPORATION
PROJECTED INCOME STATEMENT
1984 TO 1993
U.S. DOLLARS
USAID LOAN AT 5%

YEAR	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
OPERATING INCOME										
FIXED DEPOSITS	105832	145519	173461	140310	51535	0	0	0	0	0
DISCOUNTING	100000	318500	491063	554750	486000	321750	182938	72500	7500	0
DIRECT LENDING	42000	212100	478710	769819	1121412	1560832	2013787	2431355	2820022	3184347
FINANCIAL SERVICES	0	0	37500	112500	194436	268203	348845	443889	537636	644780
OTHER	0	0	0	0	0	0	0	0	0	0
FEE INCOME	0	0	5000	16000	16000	20000	27000	33000	40000	48000
TOTAL OPERATING INCOME	247832	676119	1185733	1586379	1869384	2170785	2572570	2980743	3405158	3877127
INTEREST EXPENSE										
USAID LOAN#1	75000	277422	469902	557787	600000	600000	600000	600000	600000	600000
USAID LOAN#2	0	0	0	0	0	0	0	0	0	0
OTHER LONG TERM DEBT	0	0	0	0	13057	82852	211059	339833	481294	651601
TOTAL INTEREST EXPENSE	75000	277422	469902	557787	613057	682852	811059	939833	1081294	1251601
NET OPERATING INCOME	172832	398698	715832	1028592	1256327	1487933	1761511	2040910	2323864	2625526
OTHER EXPENSES										
PROVISION FOR LOAN LOSSES	12000	48600	98000	152320	221432	297095	372014	441622	508141	574381
ADMINISTRATIVE EXPENSES	309000	320000	527000	605954	772676	890124	929212	1103395	1269330	1435057
TOTAL OTHER EXPENSES	321000	368600	625000	758274	994108	1187210	1301227	1545017	1777471	2009438
INCOME BEFORE TAX	-148168	30098	90832	270318	262218	300723	460284	495893	546393	616088
TAXES	0	0	0	0	0	0	0	0	0	0
NET INCOME	-148168	30098	90832	270318	262218	300723	460284	495893	546393	616088

SOURCES AND USES OF WORKING CAPITAL

	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
SOURCES OF WORKING CAPITAL										
OPERATIONS	-148168	30098	90832	270318	262218	300723	460284	495893	546393	616088
PROVISION FOR LOAN LOSSES	12000	48600	98000	152320	221432	297095	372014	441622	508141	574381
PAID IN CAPITAL	500000	500000	0	0	0	0	0	0	0	0
INCREASE IN LONG TERM DEBT	2623430	4172634	3515398	1688537	373059	1621092	2041953	1637294	2404458	2461471
TOTAL SOURCES	2987263	4751332	3704230	2111176	856710	2218900	2874251	2574809	3458992	3651940
USES OF WORKING CAPITAL										
NET INCREASE IN LOANS PLACED	2600000	4200000	3567957	2890617	1961641	2181222	2837710	2531716	3416708	3608950
DIVIDENDS PAID	0	0	0	0	0	0	0	0	0	0
TOTAL USES	2600000	4200000	3567957	2890617	1961641	2181222	2837710	2531716	3416708	3608950
NET CHANGE IN WORKING CAPITAL	387263	551332	136272	-779441	-1104931	37678	36541	43093	42284	42990

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CARIBBEAN FINANCIAL SERVICES CORPORATION
USAID LOAN AT 5%

YIELD ANALYSIS: BASED ON AVERAGE GROSS LOANS AND FIXED DEPOSITS

YEAR	INTEREST INCOME	INTEREST EXPENSE	PROVISION EXPENSE	NET OP. INCOME LESS PROVISION	ADMINISTRATIVE EXPENSE	NET INCOME
1984	10	3	.5	6.5	12.5	-6
1985	10.7	4.4	.6	5.5	5.1	.5
1986	11.3	4.5	.9	5.9	5	.9
1987	11.9	4.2	1.1	5.6	4.5	2
1988	12.[illegible]	4.2	1.5	7	5.2	1.8
1989	13.4	4.2	1.8	7.4	5.5	1.9
1990	13.9	4.4	2	7.5	5	2.5
1991	14.2	4.5	2.1	7.6	5.2	2.4
1992	14.3	4.5	2.1	7.6	5.3	2.3
1993	14.3	4.6	2.1	7.6	5.3	2.3

RATIO ANALYSIS

YEAR	RETURN ON ASSETS *	RETURN ON EQUITY *	DEBT TO EQUITY	RESERVES TO GROSS LOANS
1984	-5.9	-12.6	2	.5
1985	.5	1.9	3.7	.9
1986	.9	4.[illegible]	5.3	1.5
1987	2	12.8	5.4	2
1988	1.8	11	5	2.8
1989	1.9	11.3	5.1	3.6
1990	2.5	15.2	5	4.3
1991	2.4	14.1	4.8	4.9
1992	2.4	13.5	4.7	5.3
1993	2.3	13.3	4.7	5.7

* NOTE: BASED ON AVERAGE BALANCES

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CARIBBEAN FINANCIAL SERVICES CORPORATION
PROJECTED BALANCE SHEET
1984 THROUGH 1993
U.S. DOLLARS
MARKET DEMAND DOWN 25%-ALL PORTFOLIOS

YEAR	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
CURRENT ASSETS										
CASH	25750	26667	43917	37872	48292	55633	58076	68962	79333	89691
FIXED DEPOSITS	1349215	1868549	1897044	2202179	1223473	190511	0	0	0	0
INTEREST RECEIVABLE	35369	90459	154777	211503	252961	281990	323000	372593	425645	484641
TOTAL CURRENT ASSETS	1410334	1985774	2095737	2451554	1529727	528135	381076	441555	504978	574332
LOAN PORTFOLIOS										
DISCOUNTING	1500000	3277500	4058435	4232813	3057188	1769063	975000	112500	0	0
DIRECT LENDING	450000	1822500	3306531	4930818	7084309	9638892	11937395	14112841	16101665	18016323
FINANCIAL SERVICES	0	0	375000	750000	1194364	1487663	2000789	2438088	2938268	3509531
OTHER	0	0	0	0	0	0	0	0	0	0
TOTAL GROSS LOANS	1950000	5100000	7769968	9913631	11335361	12895618	14913185	16663429	19039952	21525554
LESS RESERVE FOR LOSSES	9000	45450	112950	202890	319964	466618	634913	817587	1012685	1222560
TOTAL NET LOANS	1941000	5054550	7657018	9710741	11015397	12429000	14278272	15845842	18027267	20303194
TOTAL ASSETS	3351334	7040324	9752755	12162295	12545624	12957134	14659348	16287397	18532245	20877526
CURRENT LIABILITIES	24125	55051	96900	117730	122570	126240	137639	162342	190607	224025
LONG TERM DEBT										
USAID LOAN#1	1977994	5116625	7758812	9842386	9842386	9842386	9842386	9842386	9842386	9842386
USAID LOAN#2	0	0	0	0	0	0	0	0	0	0
OTHER LONG TERM DEBT	0	0	0	0	0	0	1163139	2201136	3800715	5428529
TOTAL LONG TERM DEBT	1977994	5116625	7758812	9842386	9842386	9842386	11005525	12043522	13643101	15270915
TOTAL LIABILITIES	2002119	5171676	7855711	9960116	9964956	9968626	11143164	12205864	13833708	15494940
STOCKHOLDERS EQUITY										
PAID IN CAPITAL	1500000	2000000	2000000	2000000	2000000	2000000	2000000	2000000	2000000	2000000
RETAINED EARNINGS	-150785	-131351	-102956	202179	580668	988508	1516183	2081533	2698538	3382586
TOTAL EQUITY	1349215	1868549	1897044	2202179	2580668	2988508	3516183	4081533	4698538	5382586
TOTAL LIABILITIES AND EQUITY	3351334	7040324	9752755	12162295	12545624	12957134	14659348	16287397	18532245	20877526

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CARIBBEAN FINANCIAL SERVICES CORPORATION
PROJECTED INCOME STATEMENT
1984 TO 1993
U.S. DOLLARS
MARKET DEMAND DOWN 25%-ALL PORTFOLIOS

YEAR	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
OPERATING INCOME										
FIXED DEPOSITS	165715	144204	169456	184465	154379	63854	8573	0	0	0
DISCOUNTING	75000	276375	362297	416063	364500	241313	137203	54375	5625	0
DIRECT LENDING	31500	159075	359032	576614	841659	1170624	1510340	1823517	2115017	[illegible]
FINANCIAL SERVICES	0	0	28125	84375	145827	201152	261634	332916	403227	[illegible]
OTHER	0	0	0	0	0	0	0	0	0	0
FEE INCOME	0	0	3750	7500	12000	15000	20250	24750	30000	[illegible]
TOTAL OPERATING INCOME	212215	542754	928650	1269017	1517766	1691943	1935000	2235557	2553868	[illegible]
INTEREST EXPENSE										
[illegible] LOAN#1	45000	166870	299765	395176	393695	393695	393695	393695	393695	[illegible]
[illegible] LOAN#2	0	0	0	0	0	0	0	0	0	[illegible]
OTHER LONG TERM DEBT	0	0	0	0	0	0	40710	117750	210065	[illegible]
TOTAL INTEREST EXPENSE	45000	166870	299765	395176	393695	393695	434405	511445	603760	[illegible]
NET OPERATING INCOME	167215	375884	628895	873841	1124070	1298248	1503595	1724112	1950108	[illegible]
OTHER EXPENSES										
PROVISION FOR LOAN LOSSES	9000	36450	73500	114240	166074	222814	279011	331216	381106	[illegible]
ADMINISTRATIVE EXPENSES	309000	322000	527000	454465	579507	667592	696909	827546	951992	[illegible]
TOTAL OTHER EXPENSES	318000	358450	600500	568705	745581	890407	975920	1158763	1333103	[illegible]
INCOME BEFORE TAX	-150785	19434	28395	305135	378489	407840	527675	565349	617005	[illegible]
TAXES	0	0	0	0	0	0	0	0	0	0
NET INCOME	-150785	19434	28395	305135	378489	407840	527675	565349	617005	[illegible]

SOURCES AND USES OF WORKING CAPITAL

	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
SOURCES OF WORKING CAPITAL										
OPERATIONS	-150785	19434	28395	305135	378489	407840	527675	565349	617005	[illegible]
PROVISION FOR LOAN LOSSES	9000	36450	73500	114240	166074	222814	279011	331216	381106	[illegible]
PAID IN CAPITAL	500000	500000	0	0	0	0	0	0	0	0
INCREASE IN LONG TERM DEBT	1977994	3138631	2642187	2083574	0	0	1163139	1037997	1599579	1627214
TOTAL SOURCES	2336209	3694515	2744082	2502949	544563	630654	1969825	1934563	2597690	2742648
USES OF WORKING CAPITAL										
NET INCREASE IN LOANS PLACED	1950000	3150000	2675968	2167963	1471231	1635916	2128283	1898787	2562531	2706712
DIVIDENDS PAID	0	0	0	0	0	0	0	0	0	0
TOTAL USES	1950000	3150000	2675968	2167963	1471231	1635916	2128283	1898707	2562531	2706712
NET CHANGE IN WORKING CAPITAL	386209	544515	68114	334986	-926668	-1005262	-158458	35776	35159	35935

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CARIBBEAN FINANCIAL SERVICES CORPORATION
MARKET DEMAND DOWN 25%-ALL PORTFOLIOS

YIELD ANALYSIS::BASED ON AVERAGE GROSS LOANS AND FIXED DEPOSITS

YEAR	INTEREST INCOME	INTEREST EXPENSE	PROVISION EXPENSE	NET OP. INCOME LESS PROVISION	ADMINISTRATIVE EXPENSE	NET INCOME
1984	9.9	2.1	.4	7.4	14.4	-7
1985	10.6	3.3	.7	6.6	6.2	.4
1986	11.2	3.6	.9	6.7	6.3	.3
1987	11.7	3.6	1	7	4.2	2.8
1988	12.3	3.2	1.3	7.8	4.7	3.1
1989	13.2	3.1	1.7	8.4	5.2	3.2
1990	13.8	3.1	2	8.7	5	3.8
1991	14.2	3.2	2.1	8.8	5.2	3.6
1992	14.3	3.4	2.1	8.8	5.3	3.5
1993	14.3	3.5	2.1	8.7	5.3	3.4

RATIO ANALYSIS

YEAR	RETURN ON ASSETS *	RETURN ON EQUITY *	DEBT TO EQUITY	RESERVES TO GROSS LOANS
1984	-6.9	-12.8	1.5	.5
1985	.4	1.2	2.8	.9
1986	.3	1.5	4.1	1.5
1987	2.8	14.9	4.5	2
1988	3.1	15.8	3.9	2.8
1989	3.2	14.6	3.3	3.6
1990	3.8	16.2	3.2	4.3
1991	3.7	14.9	3	4.9
1992	3.5	14.1	2.9	5.3
1993	3.5	13.6	2.9	5.7

* NOTE: BASED ON AVERAGE BALANCES

CARIBBEAN FINANCIAL SERVICES CORPORATION
PROJECTED BALANCE SHEET
1984 THROUGH 1993
U.S. DOLLARS
MARKET DEMAND UP 25%-ALL PORTFOLIOS

YEAR	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
CURRENT ASSETS										
CASH	25759	25567	43917	63120	80467	92721	95793	114937	132222	149485
FIXED DEPOSITS	1385854	2045459	1491825	0	0	0	0	0	0	0
INTEREST RECEIVABLE	47477	126277	237420	312453	378718	452247	535952	620958	709408	807735
TOTAL CURRENT ASSETS	1459091	2215402	1773171	375573	459206	544968	632745	735925	841630	957220
LOAN PORTFOLIOS										
[illegible]	2500000	5462500	6814163	7054689	5095313	2942428	1625000	187500	0	0
DIRECT LENDING	750000	3037500	5514284	8218031	11807172	16364820	19335659	23521401	25936141	30027204
FINANCIAL SERVICES	0	0	625000	1250000	1991607	2479439	3324549	4063480	4597113	5849219
OTHER	0	0	0	0	0	0	0	0	0	0
TOTAL GROSS LOANS	3250000	5500000	12949947	16522718	18893102	21491696	24855208	27772282	31733254	35876423
LESS RESERVE FOR LOSSES	15000	75750	183250	338150	533273	777897	1058138	1362544	1657803	2037766
TOTAL NET LOANS	3235000	6424250	12766697	16184568	16359829	20715000	23797120	26409737	30045446	33838657
TOTAL ASSETS	4694091	10632652	14534858	16560141	18819035	21259968	24429865	27145662	30887075	34795877
CURRENT LIABILITIES	31625	82662	124461	165500	204231	243719	284659	332748	384284	444730
LONG TERM DEBT										
USAID LOAN#1	3276602	8564531	12000000	12000000	12000000	12000000	12000000	12000000	12000000	12000000
USAID LOAN#2	0	0	0	0	0	0	0	0	0	0
OTHER LONG TERM DEBT	0	0	0	1593138	3439725	5401183	7886012	9860181	12789141	15781833
TOTAL LONG TERM DEBT	3276602	8564531	12000000	13593138	15439725	17401183	19886012	21860181	24789141	27731833
TOTAL LIABILITIES	3308227	8597193	12124461	13758638	15644206	17644902	20170672	22192929	25172425	28226563
STOCKHOLDERS EQUITY										
PAID IN CAPITAL	1500000	2000000	2000000	2000000	2000000	2000000	2000000	2000000	2000000	2000000
RETAINED EARNINGS	-114136	45459	410387	801504	1175029	1615066	2259193	2952733	3714651	4569314
TOTAL EQUITY	1385864	2045459	2410387	2801504	3175029	3615066	4259193	4952733	5714651	6569314
TOTAL LIABILITIES AND EQUITY	4694091	10632653	14534858	16560141	18519035	21259968	24429865	27145662	30887075	34795877

CARIBBEAN FINANCIAL SERVICES CORPORATION
PROJECTED INCOME STATEMENT
1984 TO 1993
U.S. DOLLARS
MARKET DEMAND UP 25%-ALL PORTFOLIOS

YEAR	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
OPERATING INCOME										
FIXED DEPOSITS	107364	154410	159178	67133	0	0	0	0	0	0
DISCOUNTING	125000	393125	613828	693438	607500	402188	223672	90625	9375	0
DIRECT LENDING	52500	265125	598387	961024	1401765	1951040	2517234	3039194	3525028	3980434
FINANCIAL SERVICES	0	0	46875	140625	243046	335253	436057	554860	672045	805975
OTHER	0	0	0	0	0	0	0	0	0	0
FEE INCOME	0	0	6250	12500	20000	25000	33750	41250	50000	60000
TOTAL OPERATING INCOME	284854	817660	1424518	1874719	2272310	2713481	3215712	3725929	4256447	4846409
INTEREST EXPENSE										
USAID LOAN #1	75000	277314	410091	480000	480000	480000	480000	480000	480000	480000
USAID LOAN #2	0	0	0	0	0	0	0	0	0	0
OTHER LONG TERM DEBT	0	0	0	55760	176150	309432	465052	621117	792691	999949
TOTAL INTEREST EXPENSE	75000	277314	410091	535760	656150	789432	945052	1101117	1272691	1479949
NET OPERATING INCOME	209854	540345	1014428	1338959	1616160	1924049	2270660	2624812	2983756	3366460
OTHER EXPENSES										
PROVISION FOR LOAN LOSSES	15000	60750	122500	190400	276790	371357	465018	552027	635176	717976
ADMINISTRATIVE EXPENSES	309000	320000	527000	757442	965845	1112656	1161515	1379244	1586663	1793921
TOTAL OTHER EXPENSES	324000	380750	649500	947842	1242635	1484012	1626533	1931272	2221839	2511797
INCOME BEFORE TAX	-114136	159595	364928	391117	373525	440037	644127	693541	761917	854663
TAXES	0	0	0	0	0	0	0	0	0	0
NET INCOME	-114136	159595	364928	391117	373525	440037	644127	693541	761917	854663

SOURCES AND USES OF WORKING CAPITAL

	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
SOURCES OF WORKING CAPITAL										
OPERATIONS	-114136	159595	364928	391117	373525	440037	644127	693541	761917	854663
PROVISION FOR LOAN LOSSES	15000	60750	122500	190400	276790	371357	465918	552027	635176	717976
PAID IN CAPITAL	500000	500000	0	0	0	0	0	0	0	0
INCREASE IN LONG TERM DEBT	3276602	5227929	3495459	1593138	1846587	1961459	2484329	1974169	2927959	2993693
TOTAL SOURCES	3677456	5948275	3982896	2174654	2496902	2772852	3593974	3219737	4325053	4566331
USES OF WORKING CAPITAL										
NET INCREASE IN LOANS PLACED	3250000	5250000	4459947	3613271	2452051	2726527	3547138	3164645	4270884	4511187
DIVIDENDS PAID	0	0	0	0	0	0	0	0	0	0
TOTAL USES	3250000	5250000	4459947	3613271	2452051	2726527	3547138	3164645	4270884	4511187
NET CHANGE IN WORKING CAPITAL	427456	698275	-477051	-1438617	44851	46325	46836	55092	54169	55144

CARIBBEAN FINANCIAL SERVICES CORPORATION
MARKET DEMAND UP 25%-ALL PORTFOLIOS

YIELD ANALYSIS::BASED ON AVERAGE GROSS LOANS AND FIXED DEPOSITS

YEAR	INTEREST INCOME	INTEREST EXPENSE	PROVISION EXPENSE	NET OP. INCOME LESS PROVISION	ADMINISTRATIVE EXPENSE	NET INCOME
1984	10.1	2.7	.5	6.9	11	-4.1
1985	10.8	3.7	.8	6.3	4.2	2.1
1986	11.4	3.3	1	7.1	4.2	2.9
1987	12.1	3.5	1.2	7.4	4.9	2.5
1988	12.8	3.7	1.6	7.6	5.5	2.1
1989	13.4	3.9	1.8	7.7	5.5	2.2
1990	13.9	4.1	2	7.8	5	2.8
1991	14.2	4.2	2.1	7.9	5.2	2.6
1992	14.3	4.3	2.1	7.9	5.3	2.6
1993	14.3	4.4	2.1	7.8	5.3	2.5

RATIO ANALYSIS

YEAR	RETURN ON ASSETS #	RETURN ON EQUITY #	DEBT TO EQUITY	RESERVES TO GROSS LOANS
1984	-4	-9.6	2.4	.5
1985	2.1	9.3	4.2	.9
1986	2.9	16.4	5	1.5
1987	2.5	15	4.9	2
1988	2.1	12.5	4.9	2.8
1989	2.2	13	4.9	3.6
1990	2.8	16.4	4.7	4.3
1991	2.7	15.1	4.5	4.9
1992	2.6	14.3	4.4	5.3
1993	2.6	13.5	4.3	5.7

NOTE: BASED ON AVERAGE BALANCES

CARIBBEAN FINANCIAL SERVICES CORPORATION
PROJECTED INCOME STATEMENT
1984 TO 1993
U.S. DOLLARS
ADMINISTRATIVE EXPENSES UP 20%

YEAR	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
OPERATING INCOME										
FIXED DEPOSITS	103627	140489	166991	130727	45597	0	0	0	0	0
DISCOUNTING	100000	318500	491053	554750	436000	321750	192938	72500	7500	0
DIRECT LENDING	42000	212100	478710	768819	1121412	1560832	2013787	2431355	2920022	3184347
FINANCIAL SERVICES	0	0	37500	112500	194436	269203	348845	443888	537636	644780
OTHER	0	0	0	0	0	0	0	0	0	0
FEE INCOME	0	0	5000	10000	16000	20000	27000	33000	40000	49000
TOTAL OPERATING INCOME	245627	671099	1179263	1576796	1863445	2170785	2572570	2980743	3405158	3877127
INTEREST EXPENSE										
USAID LOAN#1	60000	222176	376234	446764	450000	480000	480000	480000	480000	480000
USAID LOAN#2	0	0	0	0	0	0	0	0	0	0
OTHER LONG TERM DEBT	0	0	0	0	19407	98108	231866	368135	520096	704012
TOTAL INTEREST EXPENSE	60000	222176	376234	446764	499407	578108	711866	848135	1000096	1184012
NET OPERATING INCOME	185627	448913	803029	1130032	1364039	1592677	1860703	2132608	2405062	2693115
OTHER EXPENSES										
PROVISION FOR LOAN LOSSES	12000	48500	98000	152320	221432	297085	372014	441622	508141	574381
ADMINISTRATIVE EXPENSES	370800	384000	632400	727145	927211	1068149	1115055	1324074	1523196	1722068
TOTAL OTHER EXPENSES	382800	432500	730400	879465	1148643	1365235	1487069	1765696	2031337	2296449
INCOME BEFORE TAX	-197173	16313	72629	250568	215395	227442	373634	366912	373725	396666
TAXES	0	0	0	0	0	0	0	0	0	0
NET INCOME	-197173	16313	72629	250568	215395	227442	373634	366912	373725	396666

SOURCES AND USES OF WORKING CAPITAL

	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
SOURCES OF WORKING CAPITAL										
OPERATIONS	-197173	16313	72629	250568	215395	227442	373634	366912	373725	396666
PROVISION FOR LOAN LOSSES	12000	48500	98000	152320	221432	297085	372014	441622	508141	574381
PAID IN CAPITAL	500000	500000	0	0	0	0	0	0	0	0
INCREASE IN LONG TERM DEBT	2629388	4182316	3526489	1661807	554488	1694115	2127541	1765853	2575884	2678872
TOTAL SOURCES	2944215	4747229	3697117	2064695	991315	2218642	2873189	2574387	3457750	3649919
USES OF WORKING CAPITAL										
NET INCREASE IN LOANS PLACED	2600000	4200000	3567957	2890617	1961641	2181222	2837710	2531716	3416708	3608950
DIVIDENDS PAID	0	0	0	0	0	0	0	0	0	0
TOTAL USES	2600000	4200000	3567957	2890617	1961641	2181222	2837710	2531716	3416708	3608950
NET CHANGE IN WORKING CAPITAL	344215	547229	129160	-825922	-970326	37420	35479	42671	41042	40969

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CARIBBEAN FINANCIAL SERVICES CORPORATION
PROJECTED BALANCE SHEET
1984 THROUGH 1993
U.S. DOLLARS
ADMINISTRATIVE EXPENSES UP 20%

YEAR	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
CURRENT ASSETS										
CASH	30900	32000	52700	60595	77268	89012	92921	110340	126933	143506
FIXED DEPOSITS	1302827	1819140	1891769	1013276	0	0	0	0	0	0
INTEREST RECEIVABLE	40938	111648	196544	262799	310574	361797	428762	496791	567526	646188
TOTAL CURRENT ASSETS	1374665	1962788	2141013	1336671	387842	450810	521683	607130	694459	789694
LOAN PORTFOLIOS										
[illegible]	2000000	4370000	5451250	5643750	4076250	2358750	1300000	650000	0	0
DIRECT LENDING	600000	2430000	4408707	6574424	9445746	12851856	15916527	18317121	21468913	24021763
FINANCIAL SERVICES	0	0	500000	1000000	1592486	1983551	2667719	3250784	3917690	4679375
OTHER	0	0	0	0	0	0	0	0	0	0
TOTAL GROSS LOANS	2600000	6800000	10359957	13219174	15114482	17194157	19884246	22217905	25386603	28701138
LESS RESERVE FOR LOSSES	12000	60600	153600	270520	426619	622157	846550	1090115	1350247	1630213
TOTAL NET LOANS	2588000	6739400	10206357	12947654	14687863	16572000	19037696	21127790	24036356	27070926
TOTAL ASSETS	3962665	8702388	12350370	14284325	15075705	17022810	19559379	21734920	24730816	27860619
CURRENT LIABILITIES	39450	71544	120409	141989	163486	189033	224427	267203	313490	367756
LONG TERM DEBT										
USAID LOAN#1	2620388	6811704	10338193	12000000	12000000	12000000	12000000	12000000	12000000	12000000
USAID LOAN#2	0	0	0	0	0	0	0	0	0	0
OTHER LONG TERM DEBT	0	0	0	0	554488	2243602	4376143	6141996	8717880	11396751
TOTAL LONG TERM DEBT	2620388	6811704	10338193	12000000	12554488	14243602	16376143	18141996	20717880	23396751
TOTAL LIABILITIES	2659838	6883248	10458601	12141989	12717973	14437636	16600570	18409199	21031370	23764507
STOCKHOLDERS EQUITY										
PAID IN CAPITAL	1500000	2000000	2000000	2000000	2000000	2000000	2000000	2000000	2000000	2000000
RETAINED EARNINGS	-197173	-180860	-108231	142337	357732	585174	958308	1325720	1699446	2096112
TOTAL EQUITY	1302827	1819140	1891769	2142337	2357732	2585174	2958308	3325720	3699446	4096112
TOTAL LIABILITIES AND EQUITY	3962665	8702388	12350370	14284325	15075705	17022810	19559379	21734920	24730816	27860619

CARIBBEAN FINANCIAL SERVICES CORPORATION
ADMINISTRATIVE EXPENSES UP 20%

YIELD ANALYSIS::BASED ON AVERAGE GROSS LOANS AND FIXED DEPOSITS

YEAR	INTEREST INCOME	INTEREST EXPENSE	PROVISION EXPENSE	NET OP.INCOME LESS PROVISION	ADMINISTRATIVE EXPENSE	NET INCOME
1984	10	2.4	.5	7.1	15.1	-8
1985	10.7	3.5	.8	6.4	6.1	.3
1986	11.3	3.6	.9	6.8	6.1	.7
1987	11.9	3.4	1.2	7.4	5.5	1.9
1988	12.7	3.4	1.5	7.8	6.3	1.5
1989	13.4	3.6	1.8	8	6.6	1.4
1990	13.9	3.8	2	8	6	2
1991	14.2	4	2.1	8	6.3	1.7
1992	14.3	4.2	2.1	8	6.4	1.6
1993	14.3	4.4	2.1	7.8	6.4	1.5

RATIO ANALYSIS

YEAR	RETURN ON ASSETS #	RETURN ON EQUITY #	DEPT TO EQUITY	RESERVES TO GROSS LOANS
1984	-7.9	-17.1	2	.5
1985	.3	1	3.8	.9
1986	.7	3.9	5.5	1.5
1987	1.9	12.4	5.7	2
1988	1.5	9.6	5.4	2.8
1989	1.4	9.2	5.6	3.6
1990	2	13.5	5.6	4.3
1991	1.8	11.7	5.5	4.9
1992	1.6	10.6	5.7	5.3
1993	1.5	10.2	5.8	5.7

NOTE: BASED ON AVERAGE BALANCES

CARIBBEAN FINANCIAL SERVICES CORPORATION
PROJECTED BALANCE SHEET
1984 THROUGH 1993
U.S. DOLLARS
INTEREST RATES FALL BY 1%

YEAR	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
CURRENT ASSETS										
CASH	25750	26657	43917	50496	64390	74177	77434	91950	105778	119588
FIXED DEPOSITS	1341667	1862931	1940558	1082200	0	0	0	0	0	0
INTEREST RECEIVABLE	37111	101954	179769	241515	285579	334874	397853	461705	527856	601115
TOTAL CURRENT ASSETS	1404528	1991562	2164244	1374211	350969	409051	475297	552655	633633	720703
LOAN PORTFOLIOS										
DISCOUNTING	2000000	4370000	5451250	5643750	4076250	2358750	1300000	150000	0	0
DIRECT LENDING	600000	2430000	4408707	6574424	9445746	12351856	15916527	18817121	21468913	24921763
FINANCIAL SERVICES	0	0	500000	1000000	1592486	1983551	2667719	3250784	3917690	4879375
OTHER	0	0	0	0	0	0	0	0	0	0
TOTAL GROSS LOANS	2600000	6800000	10359957	13218174	15114482	17194157	19884246	22217905	25386603	28701139
LESS RESERVE FOR LOSSES	12000	60600	150600	270520	426619	622157	846550	1090115	1350247	1630213
TOTAL NET LOANS	2588000	6739400	10209357	12947654	14687863	16572000	19037696	21127790	24036356	27070926
TOTAL ASSETS	3992528	8730962	12373601	14321865	15038832	16981050	19512993	21681445	24669990	27791628
CURRENT LIABILITIES	27875	68913	115954	136834	155695	176518	206222	241609	279922	324381
LONG TERM DEBT										
USAID LOAN#1	2622985	6799217	10317086	12000000	12000000	12000000	12000000	12000000	12000000	12000000
USAID LOAN#2	0	0	0	0	0	0	0	0	0	0
OTHER LONG TERM DEBT	0	0	0	0	466742	2123823	4210129	5901116	8370018	10908276
TOTAL LONG TERM DEBT	2622986	6799217	10317089	12000000	12466742	14123823	16210129	17901116	20370018	22908276
TOTAL LIABILITIES	2650861	6868130	10433043	12136834	12622437	14300341	16416351	18142925	20649940	23232677
STOCKHOLDERS EQUITY										
PAID IN CAPITAL	1500000	2000000	2000000	2000000	2000000	2000000	2000000	2000000	2000000	2000000
RETAINED EARNINGS	-158333	-137069	-59441	185032	416394	680709	1096642	1538519	2020050	2558951
TOTAL EQUITY	1341667	1862931	1940559	2185032	2416394	2680709	3096642	3538519	4020050	4558951
TOTAL LIABILITIES AND EQUITY	3992528	8730962	12373601	14321865	15038832	16981050	19512993	21681444	24669990	2779162

CARIBBEAN FINANCIAL SERVICES CORPORATION
PROJECTED INCOME STATEMENT
1984 TO 1993
U.S. DOLLARS
INTEREST RATES FALL BY 1%

YEAR	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
OPERATING INCOME										
FIXED DEPOSITS	93567	128194	152140	120910	43268	0	0	0	0	0
DISCOUNTING	[illegible]	285550	441956	499275	437400	289575	164544	65250	6750	0
DIRECT LENDING	[illegible]	195950	444516	713904	1041311	1449344	1869945	2257687	2618592	2956894
FINANCIAL SERVICES	0	0	35000	105000	181474	250323	325589	414295	501793	601795
OTHER	0	0	0	0	0	0	0	0	0	0
FEE INCOME	0	0	5000	10000	16000	20000	27000	33000	40000	48000
TOTAL OPERATING INCOME	222657	611794	1078612	1449089	1719473	2009242	2387178	2770232	3167135	3606689
INTEREST EXPENSE										
USAID LOAN#1	60000	221919	375984	446342	480000	480000	480000	480000	480000	480000
USAID LOAN#2	0	0	0	0	0	0	0	0	0	0
OTHER LONG TERM DEBT	0	0	0	0	14002	77717	190019	303337	428134	578349
TOTAL INTEREST EXPENSE	[illegible]	221919	375984	446342	494002	557717	670019	783337	908134	1058349
NET OPERATING INCOME	162657	389854	702627	1002747	1225471	1451525	1717159	1986895	2259001	2548339
OTHER EXPENSES										
PROVISION FOR LOAN LOSSES	[illegible]	48600	98000	152320	221432	297085	372014	441622	508141	574381
ADMINISTRATIVE EXPENSES	[illegible]	320000	527000	605954	772676	890124	929212	1103395	1269330	1435057
TOTAL OTHER EXPENSES	[illegible]	368600	625000	758274	994108	1187210	1301227	1545017	1777471	2009438
INCOME BEFORE TAX	-158333	21264	77627	244473	231363	264315	415932	441878	481530	538902
TAXES	0	0	0	0	0	0	0	0	0	0
NET INCOME	-158333	21264	77627	244473	231363	264315	415932	441878	481530	538902

SOURCES AND USES OF WORKING CAPITAL

	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
SOURCES OF WORKING CAPITAL										
OPERATIONS	-158333	21264	77627	244473	231363	264315	415932	441878	481530	538902
PROVISION FOR LOAN LOSSES	12000	48600	98000	152320	221432	297085	372014	441622	509141	574381
PAID IN CAPITAL	500000	500000	0	0	0	0	0	0	0	0
INCREASE IN LONG TERM DEBT	2622986	4176231	3517871	1682912	465742	1657081	2086307	1690986	2468902	2538278
TOTAL SOURCES	2976653	4746096	3693498	2079705	919537	2218481	2874253	2574486	3458573	3651560
USES OF WORKING CAPITAL										
NET INCREASE IN LOANS PLACED	2600000	4200000	3567957	2890617	1961641	2181222	2837710	2531716	3416708	3608950
DIVIDENDS PAID	0	0	0	0	0	0	0	0	0	0
TOTAL USES	2600000	4200000	3567957	2890617	1961641	2181222	2837710	2531716	3416708	3608950
NET CHANGE IN WORKING CAPITAL	376653	546096	125541	-810912	-1042104	37259	36543	42770	41866	42610

CARIBBEAN FINANCIAL SERVICES CORPORATION
INTEREST RATES FALL BY 1%

YIELD ANALYSIS::BASED ON AVERAGE GROSS LOANS AND FIXED DEPOSITS

YEAR	INTEREST INCOME	INTEREST EXPENSE	PROVISION EXPENSE	NET OP. INCOME LESS PROVISION	ADMINISTRATIVE EXPENSE	NET INCOME
1984	9	2.4	.5	6.1	12.5	-6.4
1985	9.7	3.5	.8	5.4	5.1	.3
1986	10.3	3.6	.9	5.8	5	.7
1987	10.9	3.4	1.1	6.4	4.6	1.8
1988	11.7	3.4	1.5	6.8	5.2	1.6
1989	12.4	3.5	1.8	7.1	5.5	1.6
1990	12.9	3.6	2	7.3	5	2.2
1991	13.2	3.7	2.1	7.3	5.2	2.1
1992	13.3	3.8	2.1	7.4	5.3	2
1993	13.3	3.9	2.1	7.3	5.3	2

RATIO ANALYSIS

YEAR	RETURN ON ASSETS *	RETURN ON EQUITY *	DEBT TO EQUITY	RESERVES TO GROSS LOANS
1984	-6.3	-13.5	2	.5
1985	.3	1.3	3.7	.9
1986	.7	4.1	5.4	1.5
1987	1.8	11.9	5.6	2
1988	1.6	10.1	5.2	2.8
1989	1.7	10.4	5.3	3.6
1990	2.3	14.4	5.3	4.3
1991	2.1	13.3	5.1	4.9
1992	2.1	12.7	5.1	5.3
1993	2.1	12.6	5.1	5.7

* NOTE: BASED ON AVERAGE BALANCES

CARIBBEAN FINANCIAL SERVICES CORPORATION
PROJECTED BALANCE SHEET
1984 THROUGH 1993
U.S. DOLLARS
LOAN LOSS PROVISION SET AT 2.5%

YEAR	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
CURRENT ASSETS										
CASH	25750	26667	43917	50414	64282	74023	77204	91572	105194	118762
FIXED DEPOSITS	1364398	1941021	2110351	1424651	38284	0	0	0	0	0
INTEREST RECEIVABLE	41400	112224	199123	267405	313585	351504	427746	495071	564807	642198
TOTAL CURRENT ASSETS	1431547	2080911	2353390	1742479	416151	425526	504949	586643	670001	760960
LOAN PORTFOLIOS										
DISCOUNTING	2000000	4370000	5451250	5643750	4076250	2352750	1300000	150000	0	0
DIRECT LENDING	600000	2430000	4410884	6562031	9429141	12825092	15359188	18738601	21349687	23852738
FINANCIAL SERVICES	0	0	500000	1000000	1590607	1979441	2659715	3238665	3897576	4650108
OTHER	0	0	0	0	0	0	0	0	0	0
TOTAL GROSS LOANS	2600000	6800000	10362134	13205781	15095999	17163284	19328903	22127266	25245463	28502846
LESS RESERVE FOR LOSSES	15000	75750	188250	338100	532971	776767	1056132	1358815	1681403	2027867
TOTAL NET LOANS	2585000	6724250	10173584	12867681	14563028	16386517	19772771	20768450	23565060	26474979
TOTAL ASSETS	4016547	8805161	12527274	14610160	14979179	16822043	19277721	21355093	24235061	27235939
CURRENT LIABILITIES	27875	68826	115935	136712	152141	169653	200496	237263	276634	323163
LONG TERM DEBT										
USAID LOAN#1	2624275	6795315	10300989	12000000	12000000	12000000	12000000	12000000	12000000	12000000
USAID LOAN#2	0	0	0	0	0	0	0	0	0	0
OTHER LONG TERM DEBT	0	0	0	0	0	1445894	3342009	4826776	7068898	9363376
TOTAL LONG TERM DEBT	2624275	6795315	10300989	12000000	12000000	13445894	15342009	16826776	19068898	21363376
TOTAL LIABILITIES	2652150	6864141	10416924	12136712	12152141	13615557	15542505	17064039	19345572	21686539
STOCKHOLDERS EQUITY										
PAID IN CAPITAL	1500000	2000000	2000000	2000000	2000000	2000000	2000000	2000000	2000000	2000000
RETAINED EARNINGS	-135602	-58979	110351	473448	827038	1206487	1735216	2291054	2889469	3549400
TOTAL EQUITY	1364398	1941021	2110351	2473448	2827038	3206487	3735216	4291054	4889469	5549400
TOTAL LIABILITIES AND EQUITY	4016548	8805161	12527274	14610160	14979179	16822043	19277721	21355093	24235061	27235939

CARIBBEAN FINANCIAL SERVICES CORPORATION
PROJECTED INCOME STATEMENT
1984 TO 1993
U.S. DOLLARS
LOAN LOSS PROVISION SET AT 2.5%

YEAR	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
OPERATING INCOME										
FIXED DEPOSITS	106398	148744	182312	159076	65933	1723	0	0	0	0
DISCOUNTING	100000	318500	491063	554750	465000	321750	182938	72500	7500	0
DIRECT LENDING	42000	212100	478862	768104	1119382	1557796	2008500	2422545	2876124	3164114
FINANCIAL SERVICES	0	0	37500	112500	194296	267754	347937	442378	535218	641576
OTHER	0	0	0	0	0	0	0	0	0	0
FEE INCOME	0	0	5000	10000	16000	20000	27000	33000	40000	45000
TOTAL OPERATING INCOME	248398	679344	1194736	1604430	1981510	2169023	2566474	2970424	3368842	3853190
INTEREST EXPENSE										
USAID LOAN#1	60000	221971	375906	446020	450000	480000	480000	480000	480000	480000
USAID LOAN#2	0	0	0	0	0	0	0	0	0	0
OTHER LONG TERM DEBT	0	0	0	0	0	50606	167577	285907	416348	575129
TOTAL INTEREST EXPENSE	60000	221971	375906	446020	480000	530606	647577	765907	896346	1055129
NET OPERATING INCOME	188398	457373	818830	1158410	1401510	1638417	1918897	2204516	2472494	2798061
OTHER EXPENSES										
PROVISION FOR LOAN LOSSES	15000	60750	122500	190350	276538	370696	463723	549814	631736	713007
ADMINISTRATIVE EXPENSES	309000	320000	527000	604962	771382	888272	926445	1098863	1262323	1425142
TOTAL OTHER EXPENSES	324000	380750	649500	795312	1047920	1258968	1390168	1648678	1894059	2138150
INCOME BEFORE TAX	-135602	76623	169330	363097	353590	379449	528729	555839	598435	659911
TAXES	0	0	0	0	0	0	0	0	0	0
NET INCOME	-135602	76623	169330	363097	353590	379449	528729	555839	598435	659911

SOURCES AND USES OF WORKING CAPITAL

YEAR	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
SOURCES OF WORKING CAPITAL										
OPERATIONS.	-135602	76623	169330	363097	353590	379449	528729	555839	598435	659911
PROVISION FOR LOAN LOSSES	15000	60750	122500	190350	276538	370696	463723	549814	631736	713007
PAID IN CAPITAL	500000	500000	0	0	0	0	0	0	0	0
INCREASE IN LONG TERM DEBT	2624275	4171040	3505674	1699011	0	1445894	1896115	1484767	2242112	2294489
TOTAL SOURCES	3003673	4808413	3797504	2252459	630128	2196038	2888567	2590420	3472283	3667407
USES OF WORKING CAPITAL										
NET INCREASE IN LOANS PLACED	2600000	4200000	3572134	2884146	1971885	2194185	2849978	2545493	3428346	3622926
DIVIDENDS PAID	0	0	0	0	0	0	0	0	0	0
TOTAL USES	2600000	4200000	3572134	2884146	1971865	2194185	2849978	2545493	3428346	3622926
NET CHANGE IN WORKING CAPITAL	403673	608413	225370	-631688	-1341757	1854	38590	44926	43937	44480

CARIBBEAN FINANCIAL SERVICES CORPORATION
LOAN LOSS PROVISION SET AT 2.5%

YIELD ANALYSIS::BASED ON AVERAGE GROSS LOANS AND FIXED DEPOSITS

YEAR	INTEREST INCOME	INTEREST EXPENSE	PROVISION EXPENSE	NET OP. INCOME LESS PROVISION	ADMINISTRATIVE EXPENSE	NET INCOME
1984	10	2.4	.6	7	12.4	-5.5
1985	10.7	3.5	1	6.2	5	1.2
1986	11.3	3.5	1.2	6.6	5	1.6
1987	11.8	3.3	1.4	7.1	4.5	2.7
1988	12.6	3.2	1.9	7.6	5.2	2.4
1989	13.4	3.3	2.3	7.9	5.5	2.3
1990	13.9	3.5	2.5	7.9	5	2.9
1991	14.2	3.7	2.6	7.9	5.2	2.6
1992	14.3	3.8	2.7	7.9	5.3	2.5
1993	14.3	3.9	2.7	7.8	5.3	2.5

RATIO ANALYSIS

YEAR	RETURN ON ASSETS *	RETURN ON EQUITY *	DEBT TO EQUITY	RESERVES TO GROSS LOANS
1984	-5.4	-11.5	1.9	.6
1985	1.2	4.6	3.3	1.1
1986	1.6	8.4	4.9	1.8
1987	2.7	15.8	4.9	2.6
1988	2.4	13.3	4.3	3.5
1989	2.4	12.6	4.2	4.5
1990	2.9	15.2	4.2	5.3
1991	2.7	13.9	4	6.1
1992	2.6	13	4	6.7
1993	2.5	12.6	3.9	7.1

* NOTE: BASED ON AVERAGE BALANCES

CARIBBEAN FINANCIAL SERVICES CORPORATION
PROJECTED BALANCE SHEET
1984 THROUGH 1993
U.S. DOLLARS
DIVIDEND PAYOUT AT 25% OF NET INCOME

YEAR	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
CURRENT ASSETS										
CASH	25750	26667	43917	50496	64390	74177	77434	91950	105778	119538
FIXED DEPOSITS	1367539	1957054	2153970	1322878	0	0	0	0	0	0
INTEREST RECEIVABLE	41423	113368	199538	267081	312896	361797	428762	496791	567526	646188
TOTAL CURRENT ASSETS	1434712	2097088	2396525	1640456	377286	435975	506196	588740	673304	765726
LOAN PORTFOLIOS										
DISCOUNTING	2000000	4320000	5451250	5643750	4076250	2358750	1300000	150000	0	0
DIRECT LENDING	600000	2430000	4408707	6574424	9445746	12851856	15916527	18817121	21468913	24021763
FINANCIAL SERVICES	0	0	500000	1000000	1592486	1983551	2667719	3250784	3917690	4679375
OTHER	0	0	0	0	0	0	0	0	0	0
TOTAL GROSS LOANS	2600000	6800000	10359957	13218174	15114482	17194157	19884246	22217905	25386603	28701138
LESS RESERVE FOR LOSSES	12000	60600	150600	270520	426619	622157	845550	1090115	1350247	1630212
TOTAL NET LOANS	2588000	6739400	10209357	12947654	14687863	16572000	19037696	21127790	24036356	27070926
TOTAL ASSETS	4022712	8836488	12605892	14588110	15065149	17007974	19543892	21716530	24709660	27836702
CURRENT LIABILITIES	27875	68856	116011	136932	153614	173885	207454	247216	290012	340304
LONG TERM DEBT										
USAID LOAN#1	2627298	6810578	10336801	12000000	12000000	12000000	12000000	12000000	12000000	12000000
USAID LOAN#2	0	0	0	0	0	0	0	0	0	0
OTHER LONG TERM DEBT	0	0	0	0	162162	1757424	3812475	5472281	7913220	10430731
TOTAL LONG TERM DEBT	2627298	6810578	10336801	12000000	12162162	13757424	15812475	17472281	19913220	22430731
TOTAL LIABILITIES	2655173	6879434	10452812	12136932	12315776	13931309	16019929	17719497	20203232	22771035
STOCKHOLDERS EQUITY										
PAID IN CAPITAL	1500000	2000000	2000000	2000000	2000000	2000000	2000000	2000000	2000000	2000000
RETAINED EARNINGS	-132461	-42946	153970	451178	749373	1076666	1523963	1997032	2506428	3065667
TOTAL EQUITY	1367539	1957054	2153970	2451178	2749373	3076666	3523963	3997032	4506428	5065667
TOTAL LIABILITIES AND EQUITY	4022712	8836488	12605892	14588110	15065149	17007974	19543891	21716530	24709660	27836701

CARIBBEAN FINANCIAL SERVICES CORPORATION
PROJECTED INCOME STATEMENT
1984 TO 1993
U.S. DOLLARS
DIVIDEND PAYOUT AT 25% OF NET INCOME

YEAR	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
OPERATING INCOME										
FIXED DEPOSITS	106539	149607	184956	156418	59530	0	0	0	0	0
DISCOUNTING	100000	318500	491063	554750	486000	321750	182939	72500	7500	0
DIRECT LENDING	42000	212100	478710	768819	1121412	1560832	2013787	2431355	2820022	3184347
FINANCIAL SERVICES	0	0	37500	112500	194436	268203	348945	443888	537636	644760
OTHER	0	0	0	0	0	0	0	0	0	0
FEE INCOME	0	0	5000	10000	16000	20000	27000	33000	40000	48000
TOTAL OPERATING INCOME	248539	680207	1197228	1502487	1877378	2170785	2572570	2980743	3405158	3877127
INTEREST EXPENSE										
USAID LOAN#1	60000	222092	376212	446736	480000	480000	480000	480000	480000	480000
USAID LOAN#2	0	0	0	0	0	0	0	0	0	0
OTHER LONG TERM DEBT	0	0	0	0	5676	67185	194946	324966	468493	642038
TOTAL INTEREST EXPENSE	60000	222092	376212	446736	485676	547185	674946	804966	948493	1122038
NET OPERATING INCOME	188539	458115	821016	1155751	1391702	1623599	1897623	2175777	2456665	2755089
OTHER EXPENSES										
PROVISION FOR LOAN LOSSES	12000	48600	98000	152320	221432	297085	372014	441622	508141	574321
ADMINISTRATIVE EXPENSES	309000	320000	527000	605954	772676	890124	929212	1103395	1269330	1435157
TOTAL OTHER EXPENSES	321000	368600	625000	758274	994108	1187210	1301227	1545017	1777471	2009478
INCOME BEFORE TAX	-132461	89515	196016	397477	397594	436390	596396	630759	679194	745651
TAXES	0	0	0	0	0	0	0	0	0	0
NET INCOME	-132461	89515	196016	397477	397594	436390	596396	630759	679194	745651

SOURCES AND USES OF WORKING CAPITAL

SOURCES OF WORKING CAPITAL										
OPERATIONS	-132461	89515	196016	397477	397594	436390	596396	630759	679194	745651
PROVISION FOR LOAN LOSSES	12000	48600	98000	152320	221432	297095	372014	441622	508141	574381
PAID IN CAPITAL	500000	500000	0	0	0	0	0	0	0	0
INCREASE IN LONG TERM DEBT	2627298	4183280	3526223	1663199	162162	1595262	2055051	1659806	2440939	2517511
TOTAL SOURCES	3006837	4821395	3820239	2212996	781188	2328737	3023462	2732187	3628274	3837543
USES OF WORKING CAPITAL										
NET INCREASE IN LOANS PLACED	2600000	4200000	3567957	2890617	1961641	2181222	2837710	2531716	3416708	3608950
DIVIDENDS PAID	0	0	0	99369	99399	109097	149099	157690	169799	186413
TOTAL USES	2600000	4200000	3567957	2989986	2061039	2290319	2986809	2689406	3586506	3795363
NET CHANGE IN WORKING CAPITAL	406837	621395	252281	-776990	-1279851	38417	36653	42782	41768	42180

CARIBBEAN FINANCIAL SERVICES CORPORATION
DIVIDEND PAYOUT AT 25% OF NET INCOME

YIELD ANALYSIS::BASED ON AVERAGE GROSS LOANS AND FIXED DEPOSITS

YEAR	INTEREST INCOME	INTEREST EXPENSE	PROVISION EXPENSE	NET OP. INCOME LESS PROVISION	ADMINISTRATIVE EXPENSE	NET INCOME
1984	10	2.4	.5	7.1	12.4	-5.3
1985	10.7	3.5	.8	6.4	5	1.4
1986	11.3	3.5	.9	6.8	5	1.8
1987	11.8	3.3	1.1	7.4	4.5	2.9
1988	12.7	3.3	1.5	7.9	5.2	2.7
1989	13.4	3.4	1.8	8.2	5.5	2.7
1990	13.9	3.6	2	8.2	5	3.2
1991	14.2	3.8	2.1	8.2	5.2	3
1992	14.3	4	2.1	8.2	5.3	2.9
1993	14.3	4.1	2.1	8.1	5.3	2.8

RATIO ANALYSIS

YEAR	RETURN ON ASSETS #	RETURN ON EQUITY #	DEBT TO EQUITY	RESERVES TO GROSS LOANS
1984	-5.3	-11.2	1.9	.5
1985	1.4	5.4	3.5	.9
1986	1.8	9.5	4.9	1.5
1987	2.9	17.3	5	2
1988	2.7	15.3	4.5	2.8
1989	2.7	15	4.5	3.6
1990	3.3	18.1	4.5	4.3
1991	3.1	16.8	4.4	4.9
1992	2.9	16	4.5	5.3
1993	2.8	15.6	4.5	5.7

NOTE: BASED ON AVERAGE BALANCES

CARIBBEAN FINANCIAL SERVICES CORPORATION
PROJECTED BALANCE SHEET
1984 THROUGH 1993
U.S. DOLLARS
DIVIDEND PAYOUT AT 10% OF PAID IN CAPITAL

YEAR	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
CURRENT ASSETS										
CASH	25750	26667	43917	50496	64390	74177	77434	91950	105778	119558
FIXED DEPOSITS	1367539	1957054	2153070	1219327	0	0	0	0	0	0
INTEREST RECEIVABLE	41423	113368	199538	265297	312112	361797	428762	496791	567526	646188
TOTAL CURRENT ASSETS	1434712	2097088	2396525	1535120	376502	435975	506196	588740	673304	765776
LOAN PORTFOLIOS										
DISCOUNTING	2000000	4370000	5451250	5643750	4076250	2258750	1300000	150000	0	0
DIRECT LENDING	600000	2430000	4408707	6574424	9445746	12351856	15916527	18617121	21468913	24021763
FINANCIAL SERVICES	0	0	500000	1000000	1592486	1983551	2657719	3250784	3917690	4679375
OTHER	0	0	0	0	0	0	0	0	0	0
TOTAL GROSS LOANS	2600000	6800000	10359957	13218174	15114482	17194157	19884246	22217905	25386603	28701138
LESS RESERVE FOR LOSSES	12600	60600	150600	270520	426619	622157	846550	1090115	1350247	1630215
TOTAL NET LOANS	2588300	6739400	10209357	12947654	14687863	16572000	19037696	21127790	24036356	27070926
TOTAL ASSETS	4022712	8936438	12605862	14482774	15064365	17007974	19543892	21716530	24709660	27836702
CURRENT LIABILITIES	27875	68856	116011	136932	155500	178599	213763	254802	298783	350088
LONG TERM DEBT										
USAID LOAN#1	2627298	6810578	10336801	12000000	12000000	12000000	12000000	12000000	12000000	12000000
USAID LOAN#2	0	0	0	0	0	0	0	0	0	0
OTHER LONG TERM DEBT	0	0	0	0	377677	2080653	4210246	5941427	8446466	11015688
TOTAL LONG TERM DEBT	2627298	6810578	10336801	12000000	12377677	14080653	16210246	17941427	20446466	23015688
TOTAL LIABILITIES	2655173	6879434	10452812	12136932	12533177	14259252	16424008	18196229	20745249	23365776
STOCKHOLDERS EQUITY										
PAID IN CAPITAL	1500000	2000000	2000000	2000000	2000000	2000000	2000000	2000000	2000000	2000000
RETAINED EARNINGS	-132461	-42946	153070	345842	531188	748722	1119583	1520301	1964411	2470925
TOTAL EQUITY	1367539	1957054	2153070	2345842	2531188	2748722	3119583	3520301	3964411	4470925
TOTAL LIABILITIES AND EQUITY	4022712	8936438	12605862	14482774	15064365	17007974	19543892	21716530	24709660	27836702

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CARIBBEAN FINANCIAL SERVICES CORPORATION
PROJECTED INCOME STATEMENT
1984 TO 1993
U.S. DOLLARS
DIVIDEND PAYOUT AT 10% OF PAID IN CAPITAL

YEAR	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
OPERATING INCOME										
FIXED DEPOSITS	106539	149607	184956	151713	54825	0	0	0	0	0
DISCOUNTING	100000	319500	491063	554750	486000	321750	182938	72500	7500	0
DIRECT LENDING	42000	212100	476710	768919	1121412	1560632	2013787	2431355	2820022	3184347
FINANCIAL SERVICES	0	0	37500	112500	194435	269203	348345	447888	537636	644780
OTHER	0	0	0	0	0	0	0	0	0	0
FEE INCOME	0	0	5000	10000	16000	20000	27000	33000	40000	48000
TOTAL OPERATING INCOME	248539	680207	1197228	1597782	1872673	2170785	2572570	2980743	3405158	3877127
INTEREST EXPENSE										
USAID LOAN 1	60000	222092	376212	446736	480000	480000	480000	480000	480000	480000
USAID LOAN 2	0	0	0	0	0	0	0	0	0	0
OTHER LONG TERM DEBT	0	0	0	0	13219	86042	220181	355309	503576	681175
TOTAL INTEREST EXPENSE	60000	222092	376212	446736	493219	566042	700181	835309	983576	1161175
NET OPERATING INCOME	188539	458115	821016	1151046	1379454	1604743	1872398	2145435	2421582	2715952
OTHER EXPENSES										
PROVISION FOR LOAN LOSSES	12000	48600	98000	152320	221432	297085	372014	441622	508141	574381
ADMINISTRATIVE EXPENSES	309000	320000	527000	605954	772676	890124	929212	1103395	1269330	1435057
TOTAL OTHER EXPENSES	321000	368600	625000	758274	994108	1187210	1301227	1545017	1777471	2009438
INCOME BEFORE TAX	-132461	89515	196016	392772	385346	417534	571161	600417	644111	706514
TAXES	0	0	0	0	0	0	0	0	0	0
NET INCOME	-132461	89515	196016	392772	385346	417534	571161	600417	644111	706514

SOURCES AND USES OF WORKING CAPITAL

	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
SOURCES OF WORKING CAPITAL										
OPERATIONS	-132461	89515	196016	392772	385346	417534	571161	600417	644111	706514
PROVISION FOR LOAN LOSSES	12000	48600	98000	152320	221432	297085	372014	441622	508141	574381
PAID IN CAPITAL	500000	500000	0	0	0	0	0	0	0	0
INCREASE IN LONG TERM DEBT	2627296	4183280	3526223	1663199	377677	1702976	2129592	1731181	2505039	2569222
TOTAL SOURCES	3006837	4821395	3820239	2208291	984455	2417595	3072768	2773221	3657290	3850117
USES OF WORKING CAPITAL										
NET INCREASE IN LOANS PLACED	2600000	4200000	3567957	2890617	1961641	2181222	2837710	2531716	3416708	3608950
DIVIDENDS PAID	0	0	0	200000	200000	200000	200000	200000	200000	200000
TOTAL USES	2600000	4200000	3567957	3090617	2161641	2381222	3037710	2731716	3616708	3808950
NET CHANGE IN WORKING CAPITAL	406837	621395	252281	-882326	-1177185	36373	35058	41505	40583	41167

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CARIBBEAN FINANCIAL SERVICES CORPORATION
DIVIDEND PAYOUT AT 10% OF PAID IN CAPITAL

YIELD ANALYSIS: BASED ON AVERAGE GROSS LOANS AND FIXED DEPOSITS

YEAR	INTEREST INCOME	INTEREST EXPENSE	PROVISION EXPENSE	NET OP. INCOME LESS PROVISION	ADMINISTRATIVE EXPENSE	NET INCOME
1984	10	2.4	.5	7.1	12.4	-5.3
1985	10.7	3.5	.8	6.4	5	1.4
1986	11.3	3.5	.9	6.8	5	1.8
1987	11.9	3.3	1.1	7.4	4.5	2.9
1988	12.7	3.3	1.5	7.8	5.2	2.6
1989	13.4	3.5	1.8	8.1	5.5	2.6
1990	13.9	3.8	2	8.1	5	3.1
1991	14.2	4	2.1	8.1	5.2	2.9
1992	14.3	4.1	2.1	8	5.3	2.7
1993	14.3	4.3	2.1	7.9	5.3	2.6

RATIO ANALYSIS

YEAR	RETURN ON ASSETS *	RETURN ON EQUITY *	DEBT TO EQUITY	RESERVES TO GROSS LOANS
1984	-5.3	-11.2	1.9	.5
1985	1.4	5.4	3.5	.9
1986	1.8	9.5	4.9	1.5
1987	2.9	17.5	5.2	2
1988	2.6	15.8	5	2.8
1989	2.6	15.8	5.2	3.6
1990	3.1	19.5	5.3	4.3
1991	2.9	18.1	5.2	4.9
1992	2.8	17.2	5.2	5.3
1993	2.7	16.8	5.2	5.7

* NOTE: BASED ON AVERAGE BALANCES

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CARIBBEAN FINANCIAL SERVICES CORPORATION
PROJECTED BALANCE SHEET
1984 THROUGH 1993
U.S. DOLLARS
DIVIDEND PAYOUT AT 15% OF PAID IN CAPITAL

YEAR	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
CURRENT ASSETS										
CASH	25750	26667	43917	50496	64390	74177	77434	91950	105778	119588
FIXED DEPOSITS	1367539	1957054	2153070	1114431	0	0	0	0	0	0
INTEREST RECEIVABLE	41423	113368	199538	265518	311333	361797	428762	496790	567526	646158
TOTAL CURRENT ASSETS	1434712	2097089	2396525	1430445	375723	435975	506196	588740	673304	765776
LOAN PORTFOLIOS										
DISCOUNTING	2000000	4370000	5451250	5643750	4076250	2358750	1300000	150000	0	0
DIRECT LENDING	600000	2430000	4408707	6572424	9445746	12851856	15716527	18817121	21468913	24021763
FINANCIAL SERVICES	0	0	500000	1000000	1592486	1983551	2867719	3250784	3917690	4679375
OTHER	0	0	0	0	0	0	0	0	0	0
TOTAL GROSS LOANS	2600000	6800000	10359957	13216174	15114482	17194157	19884246	22217905	25386603	28701138
LESS RESERVE FOR LOSSES	12000	60600	150600	270520	426619	622157	846550	1090115	1350247	1630213
TOTAL NET LOANS	2588000	6739400	10209357	12945654	14687863	16572000	19037696	21127790	24036356	27070926
TOTAL ASSETS	4022712	8836488	12605882	14378099	15063586	17007974	19543892	21716530	24709660	27836702
CURRENT LIABILITIES	27875	68956	116011	136932	157374	183371	220656	263969	310385	364300
LONG TERM DEBT										
USAID LOAN#1	2627298	6810578	10336801	12000000	12000000	12000000	12000000	12000000	12000000	12000000
USAID LOAN#2	0	0	0	0	0	0	0	0	0	0
OTHER LONG TERM DEBT	0	0	0	0	591871	2411816	4666860	6532434	9181447	11904907
TOTAL LONG TERM DEBT	2627298	6810578	10336801	12000000	12591871	14411816	16666860	18532434	21181447	23904907
TOTAL LIABILITIES	2655173	6879534	10452812	12136932	12749245	14595187	16887515	18796403	21491832	24269206
STOCKHOLDERS EQUITY										
PAID IN CAPITAL	1500000	2000000	2000000	2000000	2000000	2000000	2000000	2000000	2000000	2000000
RETAINED EARNINGS	-132461	-42946	153070	241167	314341	412787	656376	920127	1217828	1567495
TOTAL EQUITY	1367539	1957054	2153070	2241167	2314341	2412787	2656376	2920127	3217828	3567495
TOTAL LIABILITIES AND EQUITY	4022712	8836489	12605882	14378099	15063586	17007974	19543892	21716530	24709660	27836702

CARIBBEAN FINANCIAL SERVICES CORPORATION
PROJECTED INCOME STATEMENT
1984 TO 1993
U.S. DOLLARS
DIVIDEND PAYOUT AT 15% OF PAID IN CAPITAL

YEAR	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
OPERATING INCOME										
FIXED DEPOSITS	106539	149607	184956	147638	50149	0	0	0	0	0
DISCOUNTING	100000	318500	491663	554750	486000	321750	182938	72500	7500	0
DIRECT LENDING	42000	212100	478710	768819	1121412	1560832	2013787	2431355	2820022	3184347
FINANCIAL SERVICES	0	0	37500	112500	194436	268203	348845	443888	537636	644780
OTHER	0	0	0	0	0	0	0	0	0	0
FEE INCOME	0	0	5000	10000	16000	20000	27000	33000	40000	48000
TOTAL OPERATING INCOME	248539	680207	1197228	1593107	1867998	2170785	2572570	2980743	3405158	3877127
INTEREST EXPENSE										
USAID LOAN#1	60000	222092	376212	446736	480000	480000	480000	480000	480000	480000
USAID LOAN#2	0	0	0	0	0	0	0	0	0	0
OTHER LONG TERM DEBT	0	0	0	0	20715	105129	247754	391975	549986	738022
TOTAL INTEREST EXPENSE	60000	222092	376212	446736	500715	585129	727754	871975	1029986	1218022
NET OPERATING INCOME	188539	458115	821016	1146371	1367282	1585656	1844916	2108768	2375172	2659105
OTHER EXPENSES										
PROVISION FOR LOAN LOSSES	12000	48600	98000	152320	221432	297085	372014	441622	508141	574381
ADMINISTRATIVE EXPENSES	309000	320000	527000	605954	772676	890124	929212	1103395	1269330	1435057
TOTAL OTHER EXPENSES	321000	368600	625000	758274	994108	1187210	1301227	1545017	1777471	2009438
INCOME BEFORE TAX	-132461	89515	196016	388097	373174	398446	543589	563751	597701	649667
TAXES	0	0	0	0	0	0	0	0	0	0
NET INCOME	-132461	89515	196016	388097	373174	398446	543589	563751	597701	649667

SOURCES AND USES OF WORKING CAPITAL

	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
SOURCES OF WORKING CAPITAL										
OPERATIONS	-132461	89515	196016	388097	373174	398446	543589	563751	597701	649667
PROVISION FOR LOAN LOSSES	12000	48600	98000	152320	221432	297085	372014	441622	508141	574381
PAID IN CAPITAL	500000	500000	0	0	0	0	0	0	0	0
INCREASE IN LONG TERM DEBT	2627298	4183280	3526223	1663199	591871	1919945	2255043	1865575	2649013	2723460
TOTAL SOURCES	3006837	4821395	3820239	2203616	1186477	2615477	3170647	2870947	3754855	3947508
USES OF WORKING CAPITAL										
NET INCREASE IN LOANS PLACED	2600000	4200000	3567957	2890617	1961641	2181222	2837710	2531716	3416708	3608950
DIVIDENDS PAID	0	0	0	300000	300000	300000	300000	300000	300000	300000
TOTAL USES	2600000	4200000	3567957	3190617	2261641	2481222	3137710	2831716	3716708	3908950
NET CHANGE IN WORKING CAPITAL	406837	621395	252281	-987001	-1075164	34255	32937	39231	38147	38558

CARIBBEAN FINANCIAL SERVICES CORPORATION
DIVIDEND PAYOUT AT 15% OF PAID IN CAPITAL

YIELD ANALYSIS::BASED ON AVERAGE GROSS LOANS AND FIXED DEPOSITS

YEAR	INTEREST INCOME	INTEREST EXPENSE	PROVISION EXPENSE	NET OP. INCOME LESS PROVISION	ADMINISTRATIVE EXPENSE	NET INCOME
1984	10	2.4	.5	7.1	12.4	-5.3
1985	10.7	3.5	.8	6.4	5	1.4
1986	11.3	3.5	.9	6.8	5	1.9
1987	11.9	3.3	1.1	7.4	4.5	2.9
1988	12.7	3.4	1.5	7.8	5.2	2.5
1989	13.4	3.6	1.8	8	5.5	2.5
1990	13.9	3.9	2	7.9	5	2.9
1991	14.2	4.1	2.1	7.9	5.2	2.7
1992	14.3	4.3	2.1	7.8	5.3	2.5
1993	14.3	4.5	2.1	7.7	5.3	2.4

RATIO ANALYSIS

YEAR	RETURN ON ASSETS #	RETURN ON EQUITY #	DEBT TO EQUITY	RESERVES TO GROSS LOANS
1984	-5.3	-11.2	1.9	.5
1985	1.4	5.4	3.5	.9
1986	1.8	9.5	4.9	1.5
1987	2.9	17.7	5.4	2
1988	2.5	16.4	5.5	2.8
1989	2.5	16.9	6	3.6
1990	3	21.4	6.4	4.3
1991	2.7	20.2	6.4	4.9
1992	2.6	19.5	6.7	5.3
1993	2.5	19.1	6.8	5.7

NOTE: BASED ON AVERAGE BALANCES

ECONOMIC ANALYSIS

I. Macroeconomic Considerations

The private sector bank or "financiera" to be established under this project will provide to private investors in the productive sectors of the English-speaking Caribbean a wide array of non-traditional financial services, including, among others, (a) term financing via term loans up to 12 years, and (b) other services which may consist of working capital financing, leasing, venture capital and guarantees. The services provided under this project are expected to have a significant positive impact on investment, employment, GDP, and the balance of payments. Any increase in investment, employment, GDP and foreign exchange earnings would help arrest the economic stagnation in the Eastern Caribbean. The Eastern Caribbean has been hard hit by a number of adverse external economic developments recently, most notably the recession in North America and Western Europe and the appreciation of the U.S. dollars against Western European currencies, in particular the pound sterling.

A Investment

Growth of private manufacturing* investment--both foreign and indigenous--is required if (a) output increases are to be achieved, (b) additional employment opportunities to be provided, and (c) foreign exchange to be generated. Already significant increases in foreign investment have been achieved in the region. These increases primarily have taken the form of foreign enclave operations, which have linked foreign private capital and knowhow to trainable, highly educated, low cost domestic labor forces. On the other hand, concomitant increases have not taken place in investment by indigenous concerns.

Initially, private manufacturing investment in the region primarily took place on an import-substitution basis behind CARICOM's common external tariff (CXT). The states, however, found it difficult to compete behind the tariff walls on world markets. In response to the difficulty, the states turned to foreign enclave operations. These operations have fared remarkably well. In addition to high quality, low cost labor supplies, the operations

*Most of the clients of the private sector bank are presumed to be manufacturing concerns.

have been attracted by the region's political stability, well developed economic infrastructure, extensive fiscal incentives, proximity to the U.S., and liberal treatment under the Multifiber Agreement (MFA). Garments and textiles and electronic components have been especially successful. Foreign enclave operations in garments and textiles were established in all states, while Barbados, Montserrat, St. Kitts and St.Vincent became active in the assembly of electronic components. By operating on a market larger than the CARICOM market, the foreign enclave operations were able to achieve economies of scale and, hence, to grow rapidly.

While the foreign enclave operations have achieved a measure of success, indigenous private investment has stagnated. We expect the services to be provided by the proposed private sector bank to boost indigenous private investment. Substantial opportunities for indigenous investment lie in the areas of light industry, agro-processing, and tourism.

Under this project, USAID will be providing a $12 million loan and a $400,000 grant; the region's private sector will be furnishing equity funds of $2 million to the bank. With a total financial backing of more than $14 million, we project loan volume of 2.6 million in 1984, and $28.7 million over 1984-93. (see following table).

Private Sector Bank: Gross Loan Volume
(US$)

TOTAL	28,701,138
1984	2,600,000
1985	4,200,000
1986	3,559,957
1987	2,858,217
1988	1,696,308
1989	2,079,675
1990	2,690,089
1991	2,333,659
1992	3,108,698
1993	3,314,535

For two reasons, these data on gross loan volume represent only a portion of the total investment that the private sector bank is expected to generate. First, a portion of the private sector bank's loans will go to concerns who traditionally have not had access to commercial bank credit. The availability of long term credit from the private sector bank may make these concerns eligible for commercial bank financing that otherwise would not have been available. To the extent that these concerns may now also secure funds from commercial banks, the private sector bank will generate investment above and beyond the value of its loans. Second, in addition to securing loan funds, enterprises in financing projects also make equity contributions. For instance, in Barbados, equity financing represents anywhere from 25 to 50 percent of total project financing. In sum, we project that for every dollar of loans extended by the private sector bank $1.75 of investment will be generated. Thus, we estimate that over 1984-1993 the private sector bank will generate gross investment of $52.1 million (see following table).

Private Sector Bank: Gross Investment

	(US$)
TOTAL	52,148,000
1984	4,550,000
1985	7,350,000
1986	6,244,000
1987	5,059,814
1988	3,434,000
1989	3,817,000
1990	4,967,000
1991	4,431,000
1992	5,980,000
1993	6,316,000

B. Employment

Unemployment and underemployment are two of the most pervasive problems in the Eastern Caribbean. Open unemployment rates range as high as 27 percent (St. Lucia) and 30 percent (Jamaica). Among some sectors of the populace the rates are much higher. For instance, youth unemployment rates range as high as 50 percent. With the economic deterioration that has taken place in the region over the past several years, the unemployment problem is becoming especially severe. For example, in 1982 the unemployment rate in Barbados increased 2.7 percentage points to 13.6 percent.

We expect this project's activities to have a significant impact on employment. Most enterprises in the region opt for labor-intensive technology; while labor forces are well trained and highly educated, they are low cost, especially in the LDCs. Consequently, the income-generating capital created by the bank will provide substantial new employment opportunities.

To estimate the employment to be generated by the bank, we developed empirical data on investment capital per job. In 1981, the Barbados Industrial Development Corporation (BIDC)--the country's industrial promotion agency--attracted investment capital totalling over $5.6 million; the investment capital resulted in the creation of 585 new full-time jobs. Consequently,on the average the investment capital per job was $9,602 with the figure ranging from $1,327 for an apparel industry, $8,462 for resistors to $15,882 for machine tools. For the East Caribbean LDCs, Jamaica, and Guyana, we expect the investment that is required to create a job to be somewhat lower than for Barbados because of lower labor costs in these countries.In sum, we project that across all the Eastern Caribbean states that each full time job will require on the average investment capital of $8,000. Consequently, the investment capital induced by the private sector bank divided by the $8,000 yields the number of permanent full time job-years generated by the bank.

Employment also will be generated temporarily when plant facilities are erected. We estimate that erection of facilities will be roughly 50 percent of investment; for instance, in Barbados, construction of facilities range from 30 to 70 percent of total investment. We also estimate that one man year of construction employment will be generated by $25,000 of construction.

To project total employment earnings, we used data on manufacturing wages, as a proxy for wages derived in the full time jobs created by the bank, and construction wages, as a measure of the wages secured in the temporary jobs produced by the bank.In Barbados, average annual wages in manufacturing and construction are, respectively, $4,000 and $5,000. For the region as a whole, we expect that wages will be roughly one-third lower or $2,700 for manufacturing and $3,400 for construction.

In sum, over the next ten years, we estimate that the private sector bank will generate 36,948 job-years of employment and earnings of$100.5 million (see table below). These data are very conservative. They only account for first round effects. Any multiplier effects would add significantly to the employment and earnings estimates.

Private Sector Bank: Employment and Employment Earnings Generation

	Total Employment (Job-Years)	Manu-facturing Employment (Job-Years)	Con-struction Employment (Job-Years)	Total Earnings US$(000)	Manu-facturing Earnings US$(000)	Con-struction Earnings US$(000)
TOTAL	36,948	35,909	1,039	100,488	96,953	3,535
1984	91	0	91	309	0	309
1985	716	569	147	2,036	1,536	500
1986	1,556	1,431	125	4,289	3,864	425
1987	2,163	2,062	101	5,910	5,567	343
1988	2,535	2,468	67	6,892	6,664	228
1989	2,683	2,607	76	7,297	7,039	258
1990	2,850	2,751	99	7,765	7,428	337
1991	3,078	2,991	87	8,375	8,076	299
1992	3,223	3,103	120	8,786	8,378	408
1993	3,478	3,352	126	9,478	9,050	428
1994	3,569	3,569		9,636	9,636	
1995	2,917	2,917		7,876	7,876	
1996	2,322	2,322		6,269	6,269	
1997	1,819	1,819		4,911	4,911	
1998	1,394	1,394		3,764	3,764	
1999	1,032	1,032		2,786	2,786	
2000	713	713		1,925	1,925	
2001	497	497		1,342	1,342	
2002	233	233		629	629	
2003	79	79		213	213	

C. Real Output

As of year end 1981, GDP per capita in the Eastern Caribbean ranged from St. Vincent's $660 to $3,700 in Barbados with most countries well under $1,200. Over the past year, little, if any, increases in real output have been recorded in the region. Barbados--the wealthiest country in the region--has been especially hard hit. The region ,relying heavily on tourism, light industry, sugar and bananas, has been hard hit by a number of adverse external, as well as domestic, economic developments.
In sum, while we do not expect the private sector bank to arrest completely the region's economic decline--only a recovery in the industrialized states of the West is capable of doing that--we do anticipate the bank to make a start in the right direction.

According to our projections, the private sector bank will produce increases in GNP in 1985 of $1.5 million rising to $9.7 million in 1994. These projections are based on the assumptions (a) that investments become industrial capital in one year's time, (b) a 10 percent depreciation rate, and (c) an estimated gross return on capital of 34 percent. (For derivations of the estimated return on capital, see cost-benefit analysis which follows.)

Private Sector Bank: Income Generation
(US $ 000

TOTAL	97,666
1984	0
1985	1,547
1986	3,891
1987	5,610
1988	6,713
1989	7,091
1990	7,484
1991	8,137
1992	8,439
1993	9,118
1994	9,707
1995	7,934
1996	6,315
1997	4,947
1998	3,790
1999	2,806
2000	1,938
2001	1,352
2002	633
2003	214

D. Balance of Payments

All the states in the region rely heavily on external markets and these markets have been depressed. Consequently, revenues from the region's main exports--tourism, manufacturing, bananas and sugar--are either down or stagnating. Declining export revenues together with the region's traditional heavy reliance on consumer and capital goods imports means that the region is now encountering a severe balance of payments crisis. Additional exports are a critical need; additional export proceeds would enable those countries that have adopted austerity programs especially Barbados, Jamaica and Dominica, to consider reflating with the concomitant positive impact on domestic employment opportunities. The private sector bank is expected to have a favorable impact on foreign exchange earnings in the region. A sizable portion of the bank's loan activities will be in the areas of either export promotion or import substitution. In addition, since most enterprises in the region use labor-intensive production techniques, any imported capital inputs resulting from the private sector bank's loan activities will be kept to a minimum, reducing the drain on foreign exchange reserves.

Difficulties arise in quantifying the bank's impact on the region's balance of payments. In 1980, manufacturing in the region generated export earnings of $171.8 million. In Barbados alone, the figure was $99.0 million. This suggests that the bank's impact may be significant. Consequently, as a rough estimate, the bank will produce an improvement in the region's balance of payments equal to 50 percent of the investment income generated by the bank. This means that over 1984-2003 foreign exchange savings of $48.8 million will be generated (see table below).

Private Sector Bank: Foreign Exchange Savings
(U.S.$ 000)

TOTAL	48,840
1984	0
1985	773
1986	1,946
1987	2,805
1988	3,356
1989	3,555
1990	3,742
1991	4,068
1992	4,219
1993	4,559
1994	4,854
1995	3,967
1996	3,157
1997	2,473
1998	1,895
1999	1,403
2000	969
2001	676
2002	316
2003	107

II. Cost-Benefit Analysis

Under this project, the private sector bank will extend credit to clients who will use this credit, together with any equity contributions and funding from other sources such as commercial banks, to generate investment capital. This capital, in turn, will be utilized to generate income. Consequently, broadly speaking, the economic costs of this project are the funds employed in producing the capital, while economic benefits consist of the income generated from the capital.

In an economic-cost benefit analysis, incremental costs and benefits are measured. Under this project, the private sector bank will (a) provide discounts, (b) engage in direct lending, and (c) furnish "creative" financing. These activities are not intended to displace ongoing credit activities in the region; however, to the extent that such displacement occurs, incremental benefits would not be realized. For the purposes of our analysis, we assume that no displacement occurs.

To assess the project's viability, an internal rate of return was calculated. Economic costs of the project consist primarily of two components: (a) the gross investment induced by the private sector bank and (b) the bank's operating expenses. Gross investments are made up of the credit extended by the bank to clients, any other funding secured by bank clients, and client equity contribitions. The bank's operating expenses include administrative expenses and interest expenses on loans secured by the bank to fund its operations.

In seeking to delineate the project's benefits, the returns generated from the investment capital that the bank created were calculated. To do this, we hypothesized that the bank will engage only in "profitable" activities. This enable us to use the return currently achieved on ongoing capital investment projects in the region as a benchmark for computing the returns on the investment capital created by the bank. Currently, the region is securing yields in the neighborhood of 17 percent on investment capital. These yields, however, are after tax. Since taxes merely represent a transfer from the enterprise to the government, yields are understated. Given that the tax rate is roughly 50 percent, a return of roughly 34 percent can be expected on the capital generated by the bank. To compute the total income that the bank will generate, data on investment capital was required. To secure such data it was assumed (a) that investment takes one year on average to become income-generating capital and (b) that depreciation is 10 percent per year.

Prior to calculating the project's internal rate of return, two adjustments were made. First, under this project, workers will be employed (a) when physical plants are being erected and (b) upon completion of construction of the physical plants when the concern begins full time operation. To some extent, the total wages paid to these workers should not be considered an economic cost. While some of the workers will already have jobs and hence will have to be attracted away from these jobs, others will be drawn from the ranks of the unemployed. Unemployment and underemployment is a severe problem in the region; for instance, in Barbados, a termination of the four year construction boom has resulted in the layoff of many construction workers. The opportunity cost to the economy as a whole of hiring individuals who were previously unemployed is zero. Therefore, to the extent that such individuals are hired, financial costs exceed economic costs. Consequently, an economic benefit 50 percent of the total wages paid by the private sector bank's clients to (a) construction workers and (b) permanent full-time employees was included.

Second, a comparison of the recent inflation performance in the region's states, whose currencies, for the most part, are pegged to the U.S. dollar, with that of the U.S. suggests that currencies of the region's states, especially the Barbadian dollar and the East Caribbean dollar, are "overvalued." For instance, over 1976-82 the U.S.'s average annual inflation rate stood at 8.7 percent while that of the English-speaking Eastern Caribbean was 12.7 percent. This suggests that a portion of the foreign exchange savings produced by this project should be included as a benefit. Hence, as a rough estimate, economic benefits of 10 percent of the foreign exchange savings generated by the bank were added.

Having made these adjustments, an internal rate of return of 34 percent was calculated. This return is nominal. Using an expected rate of inflation of 10 percent, a real rate of 24 percent is obtained, suggesting that the project is a viable economic proposition.

PRIVATE SECTOR BANK: COST-BENEFIT ANALYSIS
US $000

	ECONOMIC COSTS				ECONOMIC BENEFITS				NET BENEFITS
Year	Administrative Expense	Interest Expense	Gross Industrial Investment	TOTAL COSTS	Gross Return on Capital (34%)	Employment	Foreign Exchange	TOTAL BENEFITS	
1984	309	60	4,550	4,919	-0-	155	-0-	155	-4,764
1985	320	222	7,350	7,892	1,547	1,018	77	2,642	-5,250
1986	527	376	6,244	7,147	3,891	2,144	145	6,180	-967
1987	606	447	5,059	6,112	5,610	2,955	281	8,846	2,734
1988	773	480	3,434	4,687	6,713	3,446	336	10,495	5,808
1989	890	530	3,817	5,237	7,091	3,649	355	11,095	5,858
1990	929	645	4,967	6,541	7,484	3,882	374	11,740	5,199
1991	1,103	762	4,431	6,296	8,137	4,188	407	12,732	6,436
1992	1,269	891	5,980	8,140	8,439	4,393	422	13,254	5,114
1993	1,435	1,047	6,316	8,798	9,118	4,739	456	14,313	5,515
1994					9,707	4,818	485	15,010	15,010
1995					7,934	3,938	397	12,269	12,269
1996					6,315	3,134	316	9,765	9,765
1997					4,947	2,456	247	7,650	7,650
1998					3,790	1,882	190	5,862	5,862
1999					2,806	1,393	140	4,339	4,339
2000					1,938	962	97	2,997	2,997
2001					1,352	671	68	2,091	2,091
2002					633	314	32	979	979
2003					214	107	11	332	332

SOCIAL SOUNDNESS ANALYSIS

A traditional social analysis examines the project design to determine the cultural context in which the project activities are to be undertaken and the social impact such activities might have on the intended target group. Such an analysis has not been undertaken for two reasons. First, the project deals most directly with existing financial institutions, such as commercial banks, which operate through well establisthed procedures. Second, the proposed project does not include any activities which will affect the existing relationship between borrower and lenders, other than the provision of longer-term financing and other financial services which do exist to a limited degree throughout the region.

Nonetheless, the social analysis has examined the social context in which the project will be implemented, the projected beneficaries and the need to ensure non-discrimination vis a vis involvement of women.

Cultural

(1) Context

The countries constituting the English-speaking Caribbean are experiencing very rapid social change. Current conditions reflect a blend of fading colonial systems and emerging societies which are being increasingly drawn into extra-regional based economies. This emergence expresses itself in all levels of society from the family to the nation. The manner in which social mobility relates to individual productive sectors best reflects the full significance of this development. For example, off-farm migration to work in light manufacturing and tourism, both substantially higher wage sectors, pulls at the social fabric of the society while at the same time it introuduces individuals to horizons well beyond the nation. Often, this is further reflected in out-migration, either to seasonal employment in other Caribbean countries or to permanent jobs in North America and Europe.
As a result of these changes, the traditional agricultural planter class in the Caribbean social order has declined. This is occurring as there has equally been a marked upward advancement of non-white professionals, businesspersons, and politicians resulting in an expansion of the middle class.

Ethnically, Caribbean society reflects a complex patterning of parallel social hierarchies of African, and European heritage, each with their own upper, middle and lower class. The bulk of the Caribbean population, however, is still composed of a large segment of native small "peasant farmers", landless agrarian laborers, urban workers, and the unemployed. In comparison to the expanding middle class and existing upper class, these groups are characterized by low per capita incomes, poor health, inadequate housing, and high rates of unemployment and underemployment. Of the restraints to their development, the lack of job-opportunities for these groups constitutes one of the region's major social problem.

(2) Projected Beneficiaries

Although through secondary and ancillary benefits all levels of Caribbean society stand to benefit from the Caribbean Financial Services Corporation Project, three target groups can be identified: existing small-to-medium businesses, emerging entrepreneurs, and the laboring class, especially off-farm migrants.

Given the wide range of small-to-medium size enterprises conceivably eligible for support, it is difficult to generalize about the characteristics of this group. Many are middle, income family owned operations which, except for new manufacturing activities, have well established businesses, albeit small in comparison to developed countries.

For the emerging entrepreneur, it is envisioned that they will be drawn from all ethnic groups of the Caribbean with a disproportionate percentage being from the emerging non-white middle class and the less affluent West Indian population. As most of the activities are project financing related, it is further envisioned that those individuals who are aggressive in terms of upward mobility and education will seek access to the credit facilities to be provided.

The activities financed under this project will directly expand employment. Either through expansion of existing productive enterprises or through the establishment of new ones, higher levels of employment will be generated. The majority of laborers in these enterprises will typically be lower-class West

Indians of African descent. Although reflecting significant regional variation, the rates of unemployment among this group, especially young adults (14-24 years of age), are extremely high. This is particularly true in the LDCs where in addition to unemployment the lower class is characterized by high birth rates, high morbidity and mortality, inadequate nutrition and substandard housing. Although an estimated 90 percent of the laborers have completed primary schools, many have regressed into functional illiteracy through lack of continued exposure. In addition, a gap exists between educational preparation and the realities of employment opportunities which are often extremely limited. An aversion to rural life and low agricultural pay has contributed to migratory flows from rural to urban areas and to overseas.

(3) Role of Women

Labor force participation and renumeration among females in the region is much lower than for working age males. Reasons for the low female participation are directly related to the family pattern of early teenage pregnancy and marriage. Moreover, women working in urban establishments and as domestics have continuously received low wages. They remain poorly represented in managerial positions, white collar jobs, public service, and the teaching profession. Modernizing influences, however, are beginning to redefine the women's role in Caribbean Society. The project will support the expansion of employment opportunities of women. As has been proven in the region's enclave industries, women are particularly adept in refined assembly line work (e.g. food processing, electronics, packing, garment works).

(4) Entrepreneurial Behavior

The West Indian businessman has been characterized as a "risk minimizers", more comfortable in trading activities and services than in the higher risk areas of manufacturing. While no quantifiable studies have been undertaken to varify this characterization, it is a view frequently expressed by the business community itself.

It may be argued that the risk aversion attitude is a reasonable response to the business environment which prevails in the English-speaking Caribbean and the higher relative risks associated with new enterprises. In addition, key private sector decision-makers cite issues such as limitations on managerial capacity and inappropriate financing as reasons inhibiting decisions to invest in new enterprises.

While no one intervention can in itself modify the overall environment in which investment decisions are made, the CFSC project should make investment opportunties more attractive and stimulate individual entrepreneurs to consider investing in a manufacturing/productive enterprise by making it possible to tailor a financial package to the needs of a specific investment and its expected returns. Term with longer-term amortization (5 years and longer) financing and initial grace periods on capital repayment are tangible changes in the decision-making environment.

In addition, other changes such as the trade incentives included in the proposed Caribbean Basin Initiative legislation and a growing source of involvement in and commitment to the strengthening of the private sector in the Region, are influencing the investment environment. The latter is expressed for example through support for the activities of the Caribbean Association of Industry and Commerce and the affilitated Chambers of Commerce and Manufacturers Association.

The CFSC is seen by regional leaders in the private sector as their instrument to foment indigenous investment. As such, its existence and initiation of operations will create more fertile ground for the expansion of the Caribbean productive private sector.

ANNEX VII

DRAFT LEGISLATION FOR THE CARIBBEAN FINANCIAL SERVICES CORPORATION ACT OF 1983

The following pages present the draft of the "Caribbean Financial Services Act (1983)".

Special Legislation

A Barbados Bill entitled "Barbados Financial Services Act (1983)".

An Act to incorporate within Barbados a private sector financial institution for developing financial and commercial opportunities within the Caribbean and to provide for such other matters as are incidental, ancillary, consequential or related thereto.

Preamble

WHEREAS the Caribbean Association of Industry and Commerce, hereinafter called the "Association", wishes to set up a financial institution to provide venture capital and term-financing to the private sectors in Antigua and Barbuda, Belize, Barbados, Dominica, Grenada, Guyana, Monserrat, St. Kitts/Nevis, St. Lucia, St. Vincent and the Grenadines, Trinidad and Tobago, and to the private sectors in other countries within the Caribbean region; and

WHEREAS the Association believes that such an institution would provide a catalyst for private sector development in those countries in which the institution would carry on its activities; and

WHEREAS initially the financial institution will be capitalised in United States dollars and for that reason and because of the nature of its activities it will need special legislation to enable it to obtain and maintain a large capital and reserve base, to acquire special tax incentives and receive foreign exchange control exemptions and to have special legislation in relation to other matters required to support the objectives of the institution; and

WHEREAS the Association has by its petition prayed for special legislation for such purposes; and

WHEREAS it is expedient to grant the prayer of the petition· NOW THEREFORE:

BE IT ENACTED by the Parliament of Barbados as follows:

Citation

Short title

1. This Act may be cited as the Caribbean Financial Services Act, 1983.

Interpretation

Definitions

2. In this Act,

1982-54

(a) "Companies Act" refers to the Companies Act, 1982;

(b) "Corporation" means the Caribbean Financial Services Corporation created under this Act.

Nature of Corporation 1982-54

3. For the purposes of the Companies Act, the Corporation is a company incorporated under Division A of Part I of the Companies Act, and Schedule I of this Act constitutes its Articles of Incorporation, which may be dealt with in all respects pursuant ot the Companies Act as if the Corporation had been incorporated under that Act.

Business restriction

4. The Corporation shall not carry on a domestic banking business; that is to say, the business of

(a) receiving money from the general public of Barbados on current accounts, deposit accounts or other similar accounts and paying and collecting cheques drawn on or paid in on those accounts, or

(b) receiving money from the general public of Barbados on savings accounts repayable on demand or after a period of notice;

but the receiving, paying or collecting of money on current, deposit, savings or other accounts kept by the Corporation otherwise in the ordinary course of its business, and the paying and collecting of cheques relating thereto, does not constitute domestic banking business within the meaning of this section.

Application of 1982-4

5. (1) The notices of registered office and directors as required under Division A of Part I of the Companies Act shall be sent to the Registrar of Companies under that Act; and for the purposes of that Act, this section constitutes the Certificate of Incorporation of the Corporation in lieu of the Corporation's Certificate of Incorporation under section 8 of the Companies Act.

(2) Except as otherwise expressly provided in this Act, the Companies Act applies in respect of the Corporation whether or not the Companies Act has been brought into operation in whole or in part; and where any matter may be or must be deposited with or done by the Registrar under that Act it is to be deposited with or done by the Registrar of the Supreme Court until a Registrar is appointed under the Companies Act.

(3) Until such time as appropriate regulations have been made and are in force under the Companies Act, The Minister may make such reasonable regulations as are necessary to enable the Corporation to comply with the requirements of that Act in carrying on its affairs and business.

(4) Except where a contrary intention is evident, words and expressions used in this Act and the Companies Act have the meanings given them in the Companies Act and are intended to be similarly construed.

Standing Order 57. 2 Formula

6. Except as provided in this Act, nothing in this Act affects the rights of Her Majesty, her heirs and successors, all bodies politic and corporate, and all others except such as are mentioned in this Act, and those claiming by, from or under them.

PART I

CORPORATE ACTIVITIES

Commencement of Corporation

7. (1) The Corporation comes into existence on the day this Act comes into operation.

(2) The Corporation shall not commence business until its stated capital account amounts to two million Barbados dollars or the equivalent amount in other currencies.

In other countries

8. (1) Subject to subsection (2), the Corporation shall not carry on or continue to carry on any business or any of its affairs in any other country in the Caribbean unless under the laws of that country the Corporation receives similar incentives, benefits and exemptions as are granted the Corporation under Part II of this Act.

(2) The shareholders of the Corporation may, by extraordinary resolution, authorise the Corporation to carry on any business or any of its affairs in a Caribbean country in which it does not receive substantially similar incentives, benefits and exemptions under the laws of that country if the directors report that it is in the best interests of the Corporation to do so.

Stated capital

9. (1) The Corporation shall maintain

(a) a stated capital account in any currency in a minimum amount that is equal to or greater than two million Barbados dollars, and

(b) a reserve fund invested in securities approved by resolution of its shareholders in an amount determined under subsection (2).

(2) Out of its net profits of each year and before any dividend is paid, the Corporation must transfer to its reserve fund an amount equal to not less than fifteen percent of those profits whenever

the amount of its reserve fund is less than its stated capital account.

Off-shore banking 1979-26

10. (1) The Corporation may carry on the business of off-shore banking, within the meaning of the Off-Shore Banking Act, 1979, subject to such terms and conditions as the Minister may prescribe, without acquiring a licence to do so under that Act.

(2) Nothing in this section affects the capacity of the corporation to carry on any other lawful business within or outside Barbados.

1979-26

(3) In respect of any off-shore banking business carried on by the Corporation from within Barbados, the Off-Shore Banking Act, 1979 applies to the Corporation with such modifications as are necessary to accord with this Act.

(4) In the conduct of any off-shore banking business, the Corporation may, from within Barbados or elsewhere, engage in any generally acceptable banking activities.

PART II

SPECIAL TAXATION PROVISIONS

Residents and Non-Residents of Barbados

Residents

11. (1) For the purposes of this Act, the following are residents, namely:

(a) a natural person ordinarily resident in Barbados or a citizen with a residence in Barbados;

(b) any incorporated or other body, incorporated, formed or organised in Barbados, the majority of the shares or other ownership of which is beneficially held by persons who are residents within the meaning of paragraph (a);

(c) any incorporated or other body, wherever incorporated, formed or organised, that is controlled directly or indirectly by a person described in paragraph (a) or (b);

(d) any incorporated body or other body that is controlled by a body described in paragraph (c), by the Government of Barbados or any agency thereof.

(e) the Crown in right of Barbados;

(f) a trust

(i) established by a resident as defined in any of paragraphs (a) to (e), other than a trust for the administration of funds for the benefit of persons a majority of whom are persons resident outside Barbados, or

(ii) in which residents as defined in any of paragraphs (a) to (e) have fifty percent or more of the beneficial interest; or

(g) any incorporated or unincorporated body that is controlled directly or indirectly by a trust defined in this section as a resident of Barbados.

(2) A reference in this Part to any beneficial interest or to any thing being beneficially owned or held includes ownership through a trsut, legal representative, agent or other intermediary.

Non-residents

12. Persons are not residents for the purposes of this Part if they are not residents within the meaning of subsection (1) of section 11.

Tax Exemptions

Exemption from tax

13. (1) Except as provided by this Part, no income tax, capital gains tax, or other direct tax or impost may be levied in Barbados upon the profits or gains of the Corporation in respect of any business it carries on within or from without Barados.

(2) Except as provided in this Part, no income tax, capital gains tax or other direct tax or impost may be levied in Barbados in respect of any securities or assets of the Corporation that are beneficially owned by the Corporation or by a customer of the Corporation who is not a resident.

(3) Except as provided by this Part, no estate, inheritance, succession or similar tax or impost may be levied in Barbados in respect of any securities or assets of the Corporation that are beneficially owned by the Corporation or a customer of the Corporation who is not a resident.

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(4) Except as provided in this Part, no tax, duty or impost may be levied upon the increment in value of the property or other assets in Barbados or elsewhere of the Corporation other than upon such of them as are distributed to shareholders of the Corporation who are residents by way of a distribution of undistributed profits or upon a winding up of the Corporation.

No assets transfer tax

14. (1) Except as provided by this Part, no tax, duty, or other impost may be levied upon the Corporation, its security holders or transferees in respect of the transfer of all or any part of its securities or other assets to a person who is not a resident.

(2) When the Corporation or a person who is not a resident transfers shares of the Corporation to a person who is not a resident or to the Corporation, the transfer is exempt from the payment of any tax, duty or other impost thereon.

(3) Except as provided by this Part,

(a) no income tax or capital gains tax, and

(b) no other direct tax or impost,

may be levied or collected in Barbados, in respect of any dividends, interest or other returns from any shares, securities, deposits or borrowings of the Corporation or any assets managed by the Corporation if the dividends, interest or other returns are in respect of shares, securities, deposits, borrowings or assets beneficially owned by a person who is not a resident; but the onus of establishing ownership lies upon the Corporation.

Withholding tax and report
Cap 73

15. (1) Notwithstanding any provision of the Income Tax Act but subject to subsection (2), the Corporation need not withhold any portion of any dividend, interest or other returns payable to any person in respect of any borrowings of the Corporation from that person or in respect of securities of the Corporation held by that person.

(2) All dividends, interest or other returns attributable to the securities of, or the management of securities by, thr Corporation that are payable to a resident who is known to be a resident by the Corporation must be reported to the Commissioner of Inland Revenue by the Corporation.

Exempt trusts

16. When a settlor who is not a resident establishes a trust in favour of the Corporatio or in favour of a person who is not a resident, the trust is exempt from any tax, duty or impost in Barbados, if the funds of the trust consist of currency and securities (other than Barbadian?) and the trust is under the management of the Corporation.

General income tax Cap 73

17. (1) By way of income tax but in lieu of income tax at the rates specified in the Income Tax Act, there shall be paid to the Commissioner of Inland Revenue by the Corporation tax at the rate of tax levied under sub-section (2) on the profits, gains, dividends, interest, royalties, fees and other income, gains, profits, revenues and increments of the Corporation, hereinafter referred to as "income and profits".

Tax on dividends Cap 73

18. (1) By way of income tax but in lieu of income tax at the rates specified in the Income Tax Act, there shall be paid to the Commissioner of Inland Revenue in respect of any dividends paid by the Corporation on its shares in any income year, within the meaning of that Act,

(a) a tax rate of 10% of the amount of the dividend in the case of a shareholder who is not a resident, and

(b) a tax at the rate of 12½% of the amount of the dividend in the case of a shareholder who is a resident;

and in either case, the tax shall be withheld from the dividend and paid by the Corporation to the Commissioner.

(2) For the purposes of this provision, "dividend" includes any payment from the Corporation for the benefit of shareholders, by way of participation in the earnings and profits of the Corporation, whether by way of money, issue of shares or securities of the Corporation, or other shares or securities, or goods or otherwise; but a dividend is only taxable under this provision in respect of the income year in which it is actually paid by the Corporation.

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(3) Dividends paid by the Corporation are not taxable income under the Income Tax Act for any purpose except for the application of section 25.

(4) An amount withheld under this section by the Corporation from any dividend paymetn to a shareholder is, in respect of the amount so withheld, a full discharge of any obligation incurred by the Corporation to the shareholder and relating to the dividend.

Tax guarantees

19. When in the opinion of the Minister it is in the public interest to do so, the Minister may by agreement give such assurance or guarantee on behalf of the Government regarding the future taxing of the Corporation as the Corporation requires.

Service charges

20. Nothing in this Part exempts the Corporation from the payment of any charge by the Government or any agency of the Government in the nature of a service charge or utility charge.

(2) A service or utility charge includes a charge or fee levied or imposed in respect of any corporate documents, registrations or licences required in Barbados.

Customs relief
Cap 66

21. The Minister may by order exempt the Corporation from all or so much of any duty payable under the Customs Act or of any other customs impost or surcharge,

(a) in respect of any goods imported by the Corporation for its business, as the Minister thinks reasonable, if the Corporation satisfies the Minister that the goods concerned

(i) are not being made or manufactured in Barbados,

(ii) are essential as equipment or fixtures for carrying on its business within or from without Barbados, and

(iii) are not merely goods that will be used up or expended in the ordinary course of its business.

(b) in respect of any building materials, building machinery and equipment improted by the Corporation to provide the Corporation with the office space it requires for its business within the Caribbean and elsewhere, if the Corporation satisfies the Minister that the materials, machinery or equipment are essential to the construction of the building and are not obtainable within Barbados.

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Specialist Incentives

22. (1) When the Minister is satisfied that the Corporation needs to use the services of specially qualified individuals in order to do its business effectively from within Barbados and that

(a) it is unable to acquire those services in Barbados, and

(b) it is unable to retain or hire those services from outside Barbados without special benefits being made available,

the Minister may authorise a special benefit provisio for the employment of those specially qyalified individuals.

(2) A special benefit provision is one by which a prescribed percentage of an employee's or contractor's salary or fees from the Corporation

(a) is exempt from income or other tax in Barbados, and

(b) is payable

(i) in a foreign currency into a trust account without being liable to income or other tax in Barbados as to the amount paid or any earnings thereon, or

(ii) in some other prescribed manner in another currency or otherwise without being liable to be taxed thereon in Barbados,

Ca. 73
Cap 71

notwithstanding any provision of the Income Tax Act or the Exchange Control Act.

Exchange controls

Cap 71

23. (1) The dividends, royalties, interest, foreign securities, funds, gains and assets generated or managed by the Corporation in the course of its business are exempt from the provisions of the Exchange Control Act; but in respect of any funds held by the Corpo tion in Barbados dollar accounts the Corporation must comply with any reasonable regulations placed thereon by the Central Bank of Barbados.

(2) Section 11 (2) of Part IV of the Exchange Control Act does not apply to the Corporation nor to any company incorporated by the Corporation.

Stamp duties
Cap 91

24. (1) The Stamp Duty Act applies in respect of the transactions of the Corporation as though

(a) after paragraph (b) of the exemptions under the heading "BILL OF EXCHANGE" in the First Schedule to that Act, there were the words "Bills drawn by or payable to the Caribbean Financial Services Corporation",

(b) after the words and figure "NOTARIAL ACT of any kind... $5.00", in the First Schedule, there were the words and figures:

"Documents of the Caribbean Financial Corporation

every agreement, assignment, bill of exchange, bond, covenant, debenture of deed made or executed in Barbados in the course of carrying on the business of the Caribbean Financial Services Corporation ..... $10.00".

Application of tax laws

25. Except to the extent that they are inconsistent with or repugnant to this Part or to regulations made under section 30, the laws of Barbados relating to income tax and applicable to companies carrying on business in Barbados apply, with such necessary modifications as the circumstances require, to the Corporation in respect of the levying, calculating and collecting of tax under this Part, the assessment and determination of the amount of the tax, and in respect of appeals therefrom.

Allowable tax credits

Cap 73

26. For the purposes of this Part, any tax paid by the Corporation in a foreign jurisdiction with which a tax convention for the relief of double taxation is in effect is a foreign tax in the computation of allowable tax credits for the purposes of the Income Tax Act.

Limited tax holiday
Cap 73

27. In respect of the first ten income years, within the meaning of the Income Tax Act, that the Corporation carries on business within Barbados, the Corporation is exempt from tax of any kind under that Act on the income and profits accruing to the Corporation.

PART III

CONSEQUENTIAL AND RELATED MATTERS

Rates of Interest Cap 316

28. (1) The Rates of Interest Act does not apply in respect of any borrowings made outside Barbados, in any currency, to the Corporation.

(2) When a loan is made in a currency other than Barbados currency by the Corporation to a person in Barbados, the Corporation shall be demmed to be an exempted person uner the Rates of Interest Act.

(3) When a loan is made in a currency other than Barbados currency by the Corporation to a person in Barbados, the Rates of Interest Act does not apply, but the Corporation must comply with any general policy regulations made by the Minister of Finance or the Central Bank of Barbados in relation to loans of the like nature.

Non-applying statutes

29. The following Acts do not apply in respect of the Corporation or its business, namely:

Cap 322 — (a) the Banking Act;

Cap 308 — (b) the Companies Act, being chapter 308 of the Laws of Barbados, 1970;

Cap 77 — (c) the International Business Corporations (Exemption from Income Tax) Act.

PART IV

ADMINISTRATION

Regulations

30. The Minister may make regulations

(a) providing for tax returns to be submitted by the Corporation and governing the information to be furnished for the purposes of computing and collecting any tax imposed pursuant to this Part;

(b) prescribing for any matters required to be prescribed for the purpsoes of this Part; and

(c) generally to give effect to the provisions of this Part.

Commencement

Coming into operation

31. This Act comes into operation on proclamation.

SCHEDULE I

ARTICLES OF INCORPORATION
(Section 3)

1. Name of the Company:

THE CARIBBEAN FINANCIAL SERVICES CORPORATION

2. The place where the registered office is to be situated is:

(ADDRESS?)

3. The classes and any maximum number of shares that the Corporation is authorised to issue:

THE COMPANY IS AUTHORISED TO ISSUE AN UNLIMITED NUMBER OF COMMON SHARES WITHOUT PAR VALUE.

4. Restrictions if any on share transfers:

NOT APPLICABLE

5. Number of Directors:

THE MINIMUM NUMBER OF DIRECTORS IS SEVEN.

6. Restrictions if any on business the Corporation may carry on:

THE COMPANY SHALL NOT CARRY ON A DOMESTIC BANKING BUSINESS IN BARBADOS, WITHIN THE MEANING OF THE CARIBBEAN FINANCIAL SERVICES ACT, 1983.

7. Other provisions if any:

THE COMPANY SHALL COMPLY WITH THE REQUIREMENTS OF PART I OF THE CARIBBEAN FINANCIAL SERVICES ACT, 1983.

8. Incorporators:

Names	Addresses
Sidney Knox	Neal and Massy Group of Companies, Port-of-Spain, Trinidad.
John Stanley Goddard	Goddard Enterprises Ltd., C.F. Harrison's Building Broad Street, Bridgetown, Barbados.
Patterson Thompson	Caribbean Association of Industry and Commerce Barclays Bank Building Wildey Plaza, St. Michael Barbados.
William Kelsick	S.L. Horsford & Co. Ltd. Basseterre, St. Kitts

TECHNICAL ASSISTANCE COST ANALYSIS

1. Project Coordinator

Cost estimates assures a contract with an individual for up to six months.

-	Salary @ \$250/day (22 days x 250 x 6)	\$33,000
	Per Diem @ \$100/day (30 x 100)	3,000
	International Travel	1,000
	Regional Travel	1,000
	Miscellaneous	2,000
		\$40,000

2. Executive Search

A cost estimate based on a fixed fee of \$25,000.

3. Systems Development

Cost estimates assume a contract with a firm for various financial advisory services totally 3.0 person months.

-	Salary and Overhead @ 600/day (600 x 3 x 22)	\$39,600
-	International travel @ 1,000/trip (6 x 1,000)	6,000
	Per Diem @ \$100/day (100 x 3 x 30)	9,000
	Miscellaneous	5,400
		\$60,000

2'17

4. Market Development

Assumes 6 person-months of consultant assistance: 3 in 1984 and 3 in 1985 and 3 in 1987.

-	Salary and Overhead @ 600/day (600 x 6 x 22)	$79,200
-	International Travel @ 1,000/trip (12 x 1,000)	12,000
-	Regional Travel @ $250/trip (12 x 250)	3 750
-	Per diem @ 100/day (160 x 100)	18,000
-	Miscellaneous and Contingency	$ 7,050
		120.000

5. Evaluation

Project evaluation assumes a total of six person-months of consultant assistance with interim evaluations scheduled for March of 1985 and 1986 with a final evaluation in 1987.

-	Salary and Overhead @ 600/day (600 x 6 x 22)	$79,200
-	International travel @ 1,000 (6 x 1,000)	6,000
-	Per Diem @ 100/days (100 x 6 x 30)	18,000
-	Miscellaneous and Contingency	4,800
		$108,000

FINANCIAL PLAN

U.S.$000

CATEGORY	1983	1984	1985	1986	1987	TOTAL
Proj. Coordr.	40	-	-	-	-	40
Exe. Search	25	-	-	-	-	25
Systems Dev.	60	-	-	-		60
Market Dev.	-	60	60			120
Evaluation	-	-	36	36	36	108
SUBTOTAL	125	60	96	36	36	353
INFLATION (90%)	-	5	18	10	14	47
TOTAL	125	65	114	46	50	400

CENTRAL BANK OF BARBADOS

COURTNEY N. BLACKMAN,
Governor

P. O. BOX 1016
BRIDGETOWN, BARBADOS

March 25, 1983

1983 -03- 2 8

RECEIVED

Mr. P.A. Thompson
Executive Director
Caribbean Association of
Industry and Commerce
Wildey Plaza
St. Michael

Dear Mr. Thompson,

Thanks for your letter dated February 28, 1983 in regard to the establishment of a private sector development bank. Stated below is Central Bank's position, in principle, in regard to the queries raised under Foreign Exchange and Lending within Barbados.

1. Capital

   Capital subscription can be permitted in Barbados dollars for Barbadian residents, in regional dollars for other Caricom residents and in hard funds for extra-regional participants. Barbados and regional currencies may be converted to U.S. dollars for normal operational purposes.

2. Convertibility

   As we understand the proposition, it relates to loans that will be made by the proposed bank to Barbadian interests. The Central Bank's position is as follows.

   A Barbadian borrower, with exchange control permission, can receive a U.S. dollar loan and hold a U.S. dollar account to support payments of principal and interest.

Mr. P.A. Thompson
Caribbean Association of
of Industry and Commerce

Where, however, it can be demonstrated that a loan in U.S. dollars to a Barbadian resident would create such extreme exchange risk exposure as might prejudice the success of the venture, the Central Bank would be prepared:

i) to purchase U.S. dollars from the CAIC bank in exchange for Barbados dollars, and

ii) to enter a forward contract with the CAIC bank for the future sale of U.S. dollars. The CAIC bank would be required to secure the forward contract by effecting an annual premium payment (insurance) to guarantee the rate of conversion.

3. Exemption from Exchange Control Regulations

The Central Bank is not prepared to give blanket exemption to the CAIC bank. However, the CAIC bank would be allowed to hold a U.S. dollar account and to report transactions at periods to be agreed. The staff of the CAIC bank would be subject to the provisions of the Exchange Control Act, Cap. 71.

Lending within Barbados

The Central Bank would not require the proposed bank to maintain reserves with the Central Bank provided that, apart from capital subscription, no deposits are taken from the public. Furthermore, although the proposed bank would not be restricted by the Central Bank's directives on average lending rates, it would have to observe the provisions of the Rate of Interest Act, or successor regulations, in regard to loans made in Barbados.

Sincerely,

[signature]

ANNEX X

By-Laws of the Company

The following pages constitute the draft By-Laws of the Company, as included in the proposed "Caribbean Financial Services Act (1983)".

I N D E X

BY-LAW NO. 1

ARTICLE 05 - Officers | PAGE

ARTICLE 06 - Protection of Directors and Officers

ARTICLE 07 - Shares

ARTICLE 08 - Dividends and Rights

ARTICLE 09 - Meetings of Shareholders

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BY-LAW NO 1

A BY-LAW RELATING GENERALLY TO THE AFFAIRS AND BUSINESS OF

THE CARIBBEAN FINANCIAL SERVICES CORPORATION

ARTICLE 01

INTERPRETATION

01.00 Definitions.

In these and other by-laws of the Corporation, unless the context otherwise requires:

(a) "Act" means the Caribbean Financial Services Act, 1983 as from time to time amended, and any Act that is substituted therefor;

(b) "articles " means the articles set out in Schedule I of the Act, and subsequent articles of amalgamation, if any, as from time to time amended or restated;

(c) "Board" means all of the directors of the Corporation;

(e) "by-laws" means this by-law and all other by-laws of the Corporation from time to time in force and effect;

(f) "Companies Act" means the Companies Act, 1982, as from time to time amended, and any Act substituted therefor;

(g) "Corporation" means the company that has adopted these by-laws and to which these by-laws apply;

(h) "holding company" means a body corporate referred to in section 442 of the Companies Act;

(i) "individual" means a natural person;

(j) "meeting of shareholders" includes an annual meeting of shareholders and a special meeting of shareholders;

(k) "non-business day" means Saturday and any other day that is a public holiday as defined in section 39(9) of the Interpretation Act as from time to time amended;

(l) "recorded address" means in the case of a shareholder his address as recorded in the register of shareholders; and in the case of joint shareholders the address appearing in the register of shareholders in respect of such joint holding or the first address so appearing if there are more than one; and in the case of a director, officer, auditor or member of a committee of the Board, his latest address as recorded in the records of the Corporation;

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(m) "section" unless otherwise indicated means a section of these by-laws;

(n) "signing officer" means, in relation to any instrument, any person authorised to sign it on behalf of the Corporation by or pursuant to section 1.02.03; and

(o) "special meeting of shareholders" includes a meeting of the holders of any classes of shares and a special meeting of all shareholders entitled to vote at an annual meeting of shareholders;

(p) "unanimous shareholder agreement" means a written agreement among all the shareholders of the Corporation, or among all the shareholders and any person who is not a shareholder, or a written declaration of the beneficial owner of all of the issued shares of the Corporation, that restricts in whole or in part the powers of the Board to manage the business and affairs of the Corporation.

01.01 Interpretation.

Unless the context otherwise requires, words and expressions defined in the Act or in the Companies Act have the same meanings when used in these bylaws; and in particular,

(a) words importing the singular number include the plural and vice versa;

(b) words importing gender include the masculine, feminine and neuter genders; and

(c) words importing a person include an individual, partnership, association and body corporate and a trustee, executor, administrator and other personal representative of any person.

ARTICLE 02

AFFAIRS OF THE CORPORATION

02.00 Registered Office.

The registered office of the Corporation shall be at such location within Barbados as the Board may from time to time determine.

02.01 Corporate Seal.

Until changed by the Board, the corporate seal of the Corporation shall be in the form impressed hereon.

02 Financial Year.

The financial year of the Corporation shall be established by the Board from time to time.

03 Execution of Instruments.

(1) Deeds, transfers, assignments, contracts, obligations, certificates and other instruments may be signed on behalf of the Corporation by any person holding the office of Chairman of the Board, Managing Director, President, Vice-President, Secretary, Treasurer, Assistant Secretary or Assistant Treasurer or any other office created by by-law or by resolution of the Board.

(2) In addition, the Board may from time to time direct the manner in which, and the person or persons by whom, any particular instrument or class of instruments is to be signed.

(3) Any signing officer may affix the corpororate seal to any instrument requiring the seal.

2.04 Banking Arrangements.

(1) The banking needs of the Corporation including, without limiting the generality of the phrase "banking needs", the borrowing of money and the giving of security therefor, shall be transacted with such banks, trust companies or other bodies corporate or organisations as may from time to time be designated by or under the authority of the Board.

(2) The banking needs of the Corporation or any part of those needs shall be transacted under such agreements, instruments and delegations of powers as the Board may from time to time prescribe

2.05 Voting Rights in Other Bodies Corporate.

(1) The signing officers of the Corporation may execute and deliver proxies and arrange for the issuance of voting certificates or other evidence of the right to exercise the voting rights attaching to any shares held by the Corporation, hereafter referred to as "voting instruments".

(2) Voting instruments shall be in favour of such persons as may be determined by the officers executing or arranging for the voting instruments or any voting rights atttached to shares held by the Corporation.

(3) In addition, the Board may from time to time direct the manner in which and the persons by whom any particular voting rights or classes of voting rights are to be exercised.

.06 Divisions

(1) The Board may cause the business and operations of the Corporation or any part of its business or operations to be divided into one or more divisions upon such basis, including, without limiting the generality of the foregoing, types of business or operations, geographical territories, product lines or goods or services, as the Board considers appropriate.

(2) From time to time the Board, or, if authorised by the Board, the chief executive officer, may authorise, upon such basis as may be considered appropriate in each case,

(a) the further division of the business and operations of any division into sub-units and the consolidation of the business and operations of any divisions and sub-units;

(b) the designation of any division or sub-unit by, and the carrying on of the business and operations of any division or sub-unit under a name other than the name of the Corporation; but the Corporation must set out its name in legible characters in all contracts, invoices, negotiable instruments and orders for goods or services issued or made by or on behalf of the Corporation; and

(c) the appointment of officers for any division or sub-unit, the determination of their powers and duties, and the removal of any officer so appointed without affecting the officer's rights under any employment contract or in law; but the officers appointed for any division or sub-unit must not, as such, be officers of the Corporation.

ARTICLE 03

BORROWING AND SECURITIES

03.00 Borrowing Power

(1) Without limiting the borrowing powers of the Corporation as set out in the Companies Act, but subject to the articles and any unanimous shareholder agreement, the Board may from time to time on behalf of the Corporation, without authorisation of the shareholders,

(a) borrow money upon the credit of the Corporation;

(b) issue, re-issue, sell or pledge bonds, debentures, notes or other evidences of indebtedness or guarantees of the Corporation, whether secured or unsecured;

(c) to the extent permitted by the Companies Act, give a guarantee on behalf of the Corporation to secure performance of any present or future indebtedness, liability or obligation of any person; and

(d) mortgage, pledge or otherwise create a security interest in all or any currently owned or subsequently acquired real or personal, movable or immovable, property of the Corporation including book debts, rights, powers, franchises and undertakings, to secure any such bonds, debentures, notes or other evidences of indebtedness or guarantees or any other present or future indebtedness, liability or obligation of the Corporation.

(2) Nothing in this section limits or restricts the borrowing of money by the Corporation on bills of exchange or promissory notes made, drawn, accepted or endorseed by or on behalf of the Corporation.

·1 Delegation

The Board may from time to time, by resolution, delegate to a committee of the Board, a director or an officer of the Corporation or any other person as may be designated by the Board all or any of the powers conferred on the Board by section 1.03.00 or by the Companies Act to such extent and in such manner as the Board may by resolution determine at the time of such delegation.

.2 Prohibited Financial Assistance

Except as permitted under section 1.03.03 the Corporation shall not, directly or indirectly, give financial assistance by means of a loan, guarantee or otherwise:

(a) to a shareholder or director of the Corporation or of any affiliated company,

(b) to an associate of a shareholder or director of the Corporation or of an affiliated company, or

(c) to any person for the purpose of or in connection with a purchase of a share issued or to be issued by the Corporation or an affiliated company,

if there are reasonable grounds for believing that

(d) the Corporation is, or after giving the financial assistance would be, unable to pay its liabilities as they become due, or

(e) the realisable value of the Corporation's assets, excluding the amount of any financial assistance in the form of a loan or in the form of assets pledged or encumbered to secure a guarantee, after giving the financial assistance, would be less than the aggregate of the Corporation's liabilities and stated capital of all classes.

Permitted Financial Assistance

The Corporation may give financial assistance by way of loan, guarantee or otherwise:

(a) to any person in the ordinary course of its business if the lending of money is part of the ordinary business of the Corporation;

(b) to any person on account of expenditures incurred or to be incurred on behalf of the Corporation;

(c) to a holding body corporate if the Corporation is a wholly owned subsidiary of the holding body corporate;

(d) to a subsidiary body corporate of the Corporation; and

(e) to employees of the Corporation or any of its affiliates,

  (i) to enable or assist them to purchase or erect living accommodation for their own occupation, or

  (ii) in accordance with a plan for the purchase of shares of the Corporation or any of its affiliates to be held by a trustee.

ARTICLE 04

DIRECTORS

Number of Directors

(1) The Board shall consist of the number of directors provided for in the articles.

(2) Where the articles do not provide for a fixed number of directors, the Board shall consist of not fewer than the minimum number and not more than the maximum number provided for in the articles; and the actual number of directors from time to time shall be established by resolution of the shareholders of the Corporation.

Qualifications

(1) The following persons may not be directors of the Corporation:

  (a) a person who is bankrupt;

  (b) an individual who is less than 18 years of age;

  (c) an individual who has been found by a court to be a person of unsound mind.

(1) A director need not be a shareholder of the Corporation.

4.02 Term of Office

(1) Each director named in the notice of registered office and notice of directors filed with the Registrar under section 5(1) of the Act holds office from the commencement of the Act until the first meeting of shareholders.

(2) Elections of directors shall take place at the first meeting of shareholders and at each succeeding annual meeting.

(3) All directors in office immediately before the meeting at which elections are to take place retire at the close of the meeting.

(4) A retiring director is eligible for re-election.

(5) The number of directors to be elected at any meeting at which elections are to take place is the number of directors in office immediately before the meeting, or such other number as the shareholders determine by ordinary resolution.

(6) Elections shall be by ordinary resolution.

(7) Where the shareholders adopt an amendment to the articles to increase the number or the minimum number of directors, the shareholders may, at the meeting at which the amendment is adopted, elect the additional number of directors authorised by the amendment.

(8) If directors are not elected at a meeting of shareholders at which elections are to take place, the incumbent directors continue in office until their successors are elected.

4.03 Vacancy

(1) A director ceases to hold office;

(a) when he dies;

(b) when he resigns, but his resignation is effective only at the time his writtten resignation is sent to the Corporation or at the time specified in the written resignation, whichever is later;

(c) when he becomes a person referred to in section 1.04.01, or

(d) when he is removed by the shareholders.

(2) The shareholders may remove a director from office by ordinary resolution passed at a special meeting duly called for that purpose;

(3) If the holders of any class or series of shares of the Corporation are entitled to elect one or more directors, then a director so elected may be removed only by ordinary resolution passed at a meeting of the holders of that class or series;

(4) A vacancy created by the removal of a director may be filled at the meeting of the shareholders at which the director is removed or, if not so filled, may be filled by the Board.

04.04 Board to Manage

Subject to any unanimous shareholder agreement, the Board shall manage the business and affairs of the Corporation.

04.05 Board to act by Resolution

The powers of the Board shall be exercised

(a) by resolution passed at a meeting at which a quorum is present, subject to section 1.04.07; or

(b) by resolution in writing, signed by all of the directors entitled to vote on the resolution at a meeting of the Board.

04.06 Quorum

(1) Three directors, or such greater number of directors as the Board may from time to time determine, constitute a quorum of the Board.

(2) Where there is a vacancy on the Board the remaining directors may continue to act, if a quorum of directors remains in office.

04.07 Meeting by Telephone

A director may participate in a meeting of the Board or of a committee of the Board by means of telephone or other communications mode that permits all persons participating in the meeting to hear each other, and a director participating in such a meeting by such means is deemed to be present at the meeting.

04.08 Place of Meetings

Meetings of the Board may be held at any place in or outside Barbados.

04.09 Calling of Meetings

Meetings of the Board shall be held from time to time at such time and place as the Board, the Chairman of the Board, the managing

Director, the President or any two directors may determine.

4.10 Notice of Meetings

(1) Notice of the time and place of each meeting of the Board shall be given in the manner provided in Article 10 to each director not less than 48 hours before the time when the meeting is to be held.

(2) A notice of a meeting of directors need not specify the purpose of or the business to be transacted at the meeting unless the Companies Act requires such purpose or business to be specified including, if required by the Companies Act, any proposal,

(a) to submit to the shareholders any question or matter requiring approval of the shareholders;

(b) to fill a vacancy among the directors or in the office of auditor;

(c) to issue shares or to issue bonds, debentures or other instruments evidencing a debt of the Corporation;

(d) to declare dividends;

(e) to purchase, redeem or otherwise acquire shares issued by the Corporation;

(f) to pay a commission for the sale of shares;

(g) to approve a management proxy circular;

(h) to approve a take-over bid circular or directors' circular;

(i) to approve any annual financial statements; or

(j) to adopt, amend or repeal by-laws.

.04.11 Waiver of Notice

A director may in any manner waive a notice of a meeting of the Board, and the attendance of a director at a meeting is a waiver of notice of the meeting, except where a director attends a meeting for the express purpose of objecting to the transaction of any business on the grounds that the meeting is not lawfully called.

.04.12 First Meeting of New Board

If a quorum of directors is present, each newly elected Board may, without notice, hold its first meeting immediately after meeting of shareholders at which the Board is elected.

04.13 Adjourned Meeting

Notice of an adjourned meeting of the Board is not required if the time and place of the adjourned meeting is announced at the original meeting.

04.14 Regular Meetings

(1) The Board may appoint a day or days in any month or months for regular meetings of the Board at a place and time to be named.

(2) A copy of any resolution of the Board fixing the place and time of the regular meetings shall be sent to each director forthwith after being passed.

(3) No other notice is required for any regular meeting unless the Companies Act requires the purpose thereof or the business to be tránsacted thereat to be specified.

04.15 Chairman

(1) The chairman of any meeting of the Board is the first mentioned of such of the following officers as have been appointed if he is a director and present at the meeting:

(a) the Chairman of the Board,

(b) the President, or

(c) a Vice-President.

(2) If no officer mentioned in subsection (1) is present, the directors present shall appoint one of their number to be chairman.

04.16 Votes to Govern

(1) At all meetings of the Board every question shall be decided by a majority of the votes cast on the question.

(2) In case of an equality of votes the chairman of the meeting is entitled to a second or casting vote.

04.17 Conflict of Interest

A director who is a party to or who is a director or officer of, or has a material interest in, any person who is a party to a material contract with the Corporation shall disclose in writing the nature and extent of his interest at the time and in the manner provided by the Companies Act; and a director so interested shall not vote on any resolution to approve the contract except as provided by the Companies Act.

4.18 Remuneration and Expenses

(1) Subject to any unanimous shareholder agreement, the directoı shall be paid such remuneration for their services as tł Board may from time to time determine.

(2) The directors are entitled also to be reimbursed fo travelling and other expenses properly incurred by them i attending meeting of the Board or any committee thereof.

(3) Nothing contained in this provision precludes any directoı from serving the Corporation in any other capacity and re· ceiving remuneration therefor.

Committee of the Board

The Board may appoint one or more committees of the Board, however designated, and delegate to any committee any of the powers of the Board except those that pertain to items that, under the Companies Act, a committee of the Board has no authority to exercise.

1.20 Business of Committee

(1) Subject to section 1.04.10, the powers of a committee of the Board shall be exercised by resolution passed at a meeting at which a quorum is present or by resolution in writing signed by all members of the committee who would have been entitled to vote on that resolution at a meeting of the committee.

(2) Meetings of committees of the Board may be held at any place in or outside Barbados.

14.21 Advisory Bodies

The Board may from time to time appoint such advisory bodies as it may deem advisable.

.4.22 Procedure of Committee

(1) Unless otherwise determined by the Board, each committee and advisory body may fix its quorum at not less than a majority of its members and may elect its chairman.

(2) The committee's procedure in other respects shall follow the rules of procedure that would govern the proceedings of the Board.

ARTICLE 05

OFFICERS

.00 Appointment

(1) Subject to any unanimous shareholder agreement, the Board may from time to time appoint a President, one or more Vice-Presidents (to which title may be added words indicating seniority or function), a Secretary, a Treasurer and such other officers as the Board may determine, including one, or more assistants to any of the officers so appointed.

(2) The Board may specify the duties of the officers and, in accordance with this by-law and subject to the Companies Act, delegate to such officers powers to manage the business and affairs of the Corporation.

(3) Subject to sections 1.05.01 and 1.05.02, an officer may, but need not, be a director, and one person may hold more than one office.

05.01 Chairman of the Board

(1) The Board may from time to time appoint a director to be Chairman of the Board.

(2) If a Chairman of the Board is appointed, he is the chief executive officer of the Corporation and the Board may assign to him such powers and duties as the Board specifies.

05.02 Managing Director

(1) The Board may also from time to time appoint a director to be Managing Director of the Corporation, who has such powers and duties as the Board specifies.

(2) During the absence or disability of the President, or if no President has been appointed, the Managing Director also has the powers and duties of that office.

.05.03 President

(1) The President is the chief operating officer, and, subject to the authority of the Board, has general supervision of the business of the Corporation and such other powers and duties as the Board specifies.

(2) During the absence or disability of the Chairman of the Board, or if no Chairman has been appointed, the President also has the powers and duties of that office, unless the President is not a director.

05.04 Vice-President

A Vice President has such powers and duties as the Board or the Chairman of the Board specifies.

.05.05 Secretary

(1) The Secretary shall attend and be the Secretary of all meetings of the Board, shareholders and committees of the Board and shall enter or cause to be entered in records kept for that purpose minutes of all proceedings thereat.

(2) The Secretary shall give or cause to be given, as and when instructed, all notices to shareholders, directors, officers, auditors and members of committees of the Board.

(3) The Secretary is the custodian of the stamp or mechanical device generally used for affixing the corporate seal of the Corporation and of all books, papers, records, documents and instruments belonging to the Corporation

(4) The Secretary shall certify any documents of the Corporation, except when some other officer or agent has been appointed for any such purpose.

(5) The Secretary has such other powers and duties as the Board or the Chairman of the Board specifies.

.05.06 Treasurer

(1) The Treasurer shall keep proper accounting records in compliance with the Companies Act and is responsible for the deposit of money, the safekeeping of securities and the disbursement of the funds of the Corporation.

(2) The Treasurer shall render to the Board whenever required an account of all his transactions as Treasurer and of the financial position of the Corporation.

(3) The Treasurer has such other powers and duties as the Board or the Chairman of the Board specifies.

05.07 Other Officers

(1) The powers and duties of all other officers are such as the terms of their engagement call for or as the Board or the Chairman of the Board specifies.

(2) Any of the powers and duties of an officer to whom an assistant has been appointed may be exercised and performed by his assistant, unless the Board or the Chairman of the Board otherwise directs.

..05.08 Variation of Powers and Duties

The Board may from time to time and subject to the provisions of the Companies Act, vary, add to or limit the powers and duties of any officer.

..05.09 Term of Office

(1) The Board, in its discretion, may remove any officer of the Corporation.

(2) Each officer appointed by the board holds office until his successor is appointed, or until his earlier resignation.

05.10 Conflict of Interest

An officer shall, in accordance with the Companies Act, disclose his interest in any material contract or proposed material contract with the Corporation.

05.11 Agents and Attorney

The Corporation, by or under the authority of the Board, shall have power from time to time to appoint agents or attorneys for the Corporation in or outside Barbados with such powers (including the power to sub-delegate) of management, administration or otherwise as may be thought fit.

ARTICLE 06

PROTECTION OF DIRECTORS AND OFFICERS

06.00 Duty of Management

In discharging his duties and exercising his powers, it is the duty of every director and officer of the Corporation to act honestly and in good faith with a view to the best interests of the Corporation and to exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

06.01 Indemnity

Subject to the Companies Act, the Corporation shall indemnify a director or officer, a former director or officer, or a person who acts or acted at the Corporation's request as a director or officer of a body corporate of which the Corporation is or was a shareholder or creditor, and his heirs and personal representatives, against all costs, charges and expenses, including an amount paid to settle an action or satisfy a judgment, reasonably incurred by him in respect thereof.

ARTICLE 07

SHARES

07.02 Allotment of Shares

Subject to the Companies Act, the articles and any unanimous shareholder agreement, the Board may from time to time allot or grant options to purchase, any or all of the authorised and unissued shares of the Corporation at such times and to such persons and for such consideration as the Board determines, but no share may be issued until it is fully paid as provided by the Companies Act.

.01 Commissions

The Board may from time to time authorise the Corporation to pay a reasonable commission to any person in consideration of his purchasing or agreeing to purchase shares of the Corporation, whether from the Corporation or from any other person, or procuring or agreeing to procure purchasers for any such shares.

.02 Registration of Transfer

Subject to the Companies Act, no transfer of a share shall be registered in the register of the Corporation except upon

(a) presentation of the certificate representing the share with an endorsement that complies with the Companies Act made thereon or delivered therewith duly executed by an appropriate person as provided by the Companies Act, together with such reasonable assurance that the endorsement is genuine and effective as the Board may from time to time prescribe,

(b) payment of all applicable taxes and any reasonable fees prescribed by the Board, and

(c) compliance with such restrictions on transfer as are authorised by the articles.

7.03 Transfer Agents and Registrars

(1) The Board may from time to time appoint one or more agents to maintain a central register and one or more branch securities registers in respect of each class of shares of the Corporation.

(2) An agent may be designated as transfer agent or registrar according to his functions and one person may be designated both registrar and transfer agent.

(3) The Board may at any time terminate the appointment of an agent.

07.04 Non-Recognition of Trusts

Subject to the Companies Act, the Corporation may treat the registered holder of any share as the person exclusively entitled to vote, to receive notices, to receive any dividend or other payments in respect of the share, and otherwise to exercise all the rights and powers of an owner of the share.

'7.05 Share Certificates

(1) Every registered holder of one or more shares of the Corporation is entitled to a share certificate stating the number and class of series of shares held by him as shown on the register of shareholders.

(2) Share certificates must be in such form as the Board may from time to time approve.

(3) A share certificate shall be signed in accordance with section 1.02.03 and need not be under the corporate seal, unless the Board otherwise determines.

(4) Share certificates representing shares of a class for which a transfer agent or registrar has been appointed are not valid unless countersigned by or on behalf of the transfer agent or registrar.

(5) The signature of one of the signing officers or, in the case of a certificate for shares of a class for which a transfer agent or registrar has been appointed, the signature of the transfer agent or registrar, and in the case of a share certificate that does not require a manual signature under the Companies Act, the signatures of both signing officers, may be printed or mechanically reproduced in facsimile.

(6) Every such facsimile signature shall for all purposes be deemed to be the signature of the officer and any share certificate executed as provided in this provision is valid notwithstanding that one or both of the officers whose facsimile signature appears thereon no longer holds office at the date of issue of the certificate.

)7.06 Replacement of Share Certificates

On such terms as to indemnity, reimbursement of expenses and evidence of loss and of title as the Board may from time to time prescribe, whether generally or in any particular case, the Board or any officer or agent designated by the Board, in its or his discretion, may, on payment of a reasonable fee, direct the issue of a new share certificate or other certificate in lieu of and upon cancellation of a certificate that has been mutilated or in substitution for a certificate claimed to have been lost, destroyed or wrongfully taken.

'7.07 Joint Holders

(1) If two or more persons are registered as joint holders of any share, the Corporation is not bound to issue more than one shre certificate in respect thereof, and delivery of the certificate to one of those persons is sufficient delivery to all of them.

(2) Any one of the persons who are registered as joint holder of any share may give effectual receipts for the share certificate issued in respect of the share or for any dividend, bonus, return of capital or other money payable or rights to acquire shares of the Corporation issuable in respect of the share.

(3) In any dispute as to which of the joint owners of any share is entitled to vote, the right to vote the share accrues to the joint owner first named on the share certificate.

.08 Deceased Shareholders

In the event of the death of a holder, or of one of the joint holders, of any share, the Corporation is not required to make any entry in the register of shareholders in respect thereof or to make any dividend or other payments in respect thereof except upon production of all such documents as are required by law and upon compliance with the reasonable requirements of the Corporation and its transfer agents.

ARTICLE 08

DIVIDENDS AND RIGHTS

.00 Dividends

(1) Subject to the Companies Act, the Board may from time to time declare dividends payable to the shareholders according to their respective rights and interests in the Corporation.

(2) The declaration of a dividend in favour of any one class of shares does not imply any right to any other class of shares to receive the same or any dividend.

(3) Dividends may be paid in money or property or by issuing fully paid shares of the Corporation.

08.01 Record Date for Dividends and Rights

(1) The Board may fix in advance a date, preceding by not more than 50 days the date for the payment of any dividend or the date for the issue of rigts to subscribe for or acquire shares of the Corporation,

(a) as a record date for the determination of the persons entitled to receive payment of a dividend or to exercise the right to subscribe for shares of the Corporation,

(b) as a record date for the determination of the persons entitled to receive payment of a dividend or to exercise the right to subscribe for shares.

(2) Notice of any record date shall, in the manner provided by

the Companies Act, be given not less than 7 days before the record date.

(3) If no record date is so fixed, the record date for the determination of the persons entitled to receive payment of any dividend or to exercise the right to subscribe for shares of the Corporation is the close of business on the day on which the resolution relating to the dividend or right to subscribe is passed by the Board.

3.02 Unclaimed Dividends

Any dividend unclaimed after a period of 6 years from the date on which the dividend was payable is forfeited and the dividend reverts to the Corporation.

ARTICLE 09

MEETINGS OF SHAREHOLDERS

.09.00 Annual Meetings

The annual meeting of shareholders shall be held at such time in each year and, subject to section 1.09.02, at such place as the Board, the Chairman of the Board, or the President may from time to time determine, for the purpose of considering the financial statements and reports required by the Companies Act to be placed before the annual meeting, electing directors, appointing an auditor and for the transaction of such other business as is properly brought before the meeting.

.09.01 Special Meetings.

The Board, the Chairman of the Board, or the President may at any time call a special meeting of shareholders.

.09.02 Place of Meetings

Meetings of shareholders shall be held at such place in Barbados as the Board shall determine, or, if all the shareholders entitled to vote at the meeting so agree, at some place outside Barbados.

.09.03 Notice of Meetings

(1) Notice of the time and place of each meeting of shareholders shall be given, in the manner provided in Article 10 and not less than 21 and not more than 50 days before the date of the meeting, to each director, to the auditor, and to each shareholder who, at the close of business on the record date for notice, is shown on the register of shareholders as the holder of one or more shares carrying the right to notice of and to vote at the meeting.

(2) Notice of a meeting of shareholders called for any purpose

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other than consideration of the financial statements and auditor's report, election of directors and reappointment of the incumbent auditor, shall state the nature of the business of the meeting in sufficient detail to permit the shareholder to form a reasoned judgment thereon and shall state the text of any special resolution to be submitted to the meeting.

).04 Shareholders List

(1) For every meeting of shareholders, the Corporation shall prepare a list of shareholders entitled to receive notice of the meeting, arranged in alphabetical order and showing the number of shares held by each shareholder entitled to vote at the meeting.

(2) If a record date for the meeting is fixed pursuant to section 1.09.05, the shareholders listed shall be those registered at the close of business on that record date.

(3) If no record date is fixed, then the shareholders listed shall be those registered at the close of business on the day immediately preceding the day on which notice of the meeting is given or, if no such notice is given, then on the day on which the meeting is held.

(4) The list shall be available for examination by any shareholder during usual business hours at the registered office of the Corporation or at the place where the central register of shareholders is maintained and at the meeting for which the list was prepared.

(5) Where a list of shareholders has not been prepared, the persons shown in the register of shareholders at the requisite time as the holders of one or more shares carrying the right to vote at that meeting shall be deemed to be the list of shareholders.

09.05 Record Date for Notice

(1) The Board may fix in advance a date, preceding the date of any meeting of shareholders by not more than 50 days and not less than 21 days, as a record date for the determination of the shareholders entitled to notice of the meeting.

(2) Notice of the record date shall, in the manner required by the Companies Act, be given not less than 7 days before the record date.

(3) If no record date is fixed, the record date for the determination of the shareholders entitled to receive notice of the meeting shall be at the close of business on the day immediately preceding the day on which the notice is given or, if no notice is given, the day on which the meeting is held.

J6 Meetings Without Notice

(1) A meeting of shareholders may be held without notice at any time and place permitted by the Companies Act.

(a) if all the shareholders entitled to vote thereat are present in person or by proxy or duly represented, or if those not present or represented waive notice of or otherwise consent to the meeting being held, and

(b) if the auditors and the directors are present or waive notice of or otherwise consent to the meeting being held;

unless the shareholders, auditors or directors present attend for the express purpose of objecting to the transaction of any business on the grounds that the meeting is not lawfully called.

(2) At a meeting described in subsection (1), any business may be transacted that the Corporation is entittled to transact at a meeting of shareholders.

(3) If the meeting is held at a place outside Barbados, shareholders not present or duly represented, but who have waived notice of or otherwise consented to the holding of the meeting, shall also be deemed to have consented to the holding of the meeting outside Barbados.

37 Chairman, Secretary and Scrutineers

(1) The chairman of any meetings of shareholders shall be the first mentioned of such of the following officers as have been appointed and who are present at the meeting and a shareholder of the Corporation, namely: the President, the Chairman of the Board, or a Vice-President.

(2) If no officer mentioned in subsection (1) is present within fifteen minutes from the time fixed for holding the meeting, the persons present and entitled to vote at the meeting shall choose one of their number to be chairman.

(3) If the Secretary of the Corporation is absent, the chairman shall appoint some person, who need not be a shareholder, to act as secretary of the meeting.

(4) If desired, one or more scrutineers, who need not be shareholders, may be appointed by a resolution or by the chairman with the consent of the meeting.

3 Persons Entitled to be Present

(1) Subject to the Companies Act, the only persons entitled to be

present at a meeting of shareholders are those entitled to notice of the meeting and the directors and auditors of the Corporation.

(2) Other persons may only be admitted on the invitation of the chairman of the meeting with the consent of the meeting.

.09 Quorum

(1) Subject to the Companies Act, a quorum for the transaction of business at any meeting of shareholders consists of two persons present in person, each being either a shareholder entitled to vote at the meeting or a duly appointed proxyholder or representative for a shareholder so entitled.

(2) If a quorum is present at the opening of any meeting of shareholders, the shareholders present or represented may proceed with the business of the meeting notwithstanding that a quorum is not present throughout the meeting.

(2) If a quorum is not present at the opening of any meeting of shareholders, the shareholders present or represented may adjourn the meeting to a fixed time and place but may not transact any other business.

9.10 Right to Vote

Every person named in the list referred to in section 1.09.04 is, at the meeting to which the list relates, entitled to vote the shares shown thereon opposite his name, except to the extent that

(a) if the Corporation has fixed a record date in respect of the meeting, the person has transferred any of his shares after the record date, or if the Corporation has not fixed a record date in respect of the meeting, the person has transferred any of his shares after the date on which the list is prepared, and

(b) the transferee, having produced properly endorsed certificates evidencing the shares or having otherwise established that he owns the shares, has demanded, not later than 10 days before the meeting, that his name be included in the list;

in which case the transferee is entitled to vote the transferred shares at the meeting.

09.11 Representatives

(1) Every shareholder entitled to vote at a meeting of shareholders may by means of a proxy appoint a proxyholder and one or more alternate proxyholders, who need not be shareholders, to attend and act as his representative at the meeting in the manner and to the extent authorised and with the authority conferred by the proxy.

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(2) A proxy shall be in writing executed by the shareholder or his attorney and shall conform with the requirements of the Companies Act and the regulations thereunder.

(3) Every shareholder that is a body corporate or association may authorise, by resolution of its directors or governing body, an individual, who need not be a shareholder, to represent it at a meeting of shareholders, and that individual may exercise on the shareholder's behalf, all the powers that the shareholder could exercise were it both an individual and a shareholder.

(4) The authority of an individual referred to in subsection (3) shall be established by depositing with the Corporation a certified copy of the authorising resolution or in such other manner as is satisfactory to the Secretary of the Corporation or the chairman of the meeting.

.12 Time for Deposit of Proxies

(1) The Board may, in a notice calling a meeting of shareholders, specify a time, preceding the time of the meeting or any adjournment thereof by not more than 48 hours exclusive of non-business days, before which proxies to be used at the meeting must be deposited.

(2) A proxy shall be acted upon only if, before the time for deposit specified in the notice of the meeting at which it is to be acted upon, the proxy has been deposited with the Corporation or an agent of the Corporation named in the notice, or, if no such time is specified in the notice, the proxy has been received by the Secretary of the Corporation, or by the chairman of the meeting or any adjournment thereof, before the time of voting.

).13 Joint Shareholders

If two or more persons hold shares jointly, any one of them present in person or duly represented at a meeting of shareholders may, in the absence of the other or others, vote the shares; but if two or more of those persons are present, in person or by proxy, and vote, they shall vote as one the shares jointly held by them.

).14 Votes to Govern

(1) At any meeting of shareholders every question shall, unless otherwise required by the articles or by-laws or by the Companies Act, be determined by a majority of the votes cast on the question.

(2) In case of an equality of votes either upon a show of hands or upon a poll, the chairman of the meeting is not entitled

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to a second or casting vote.

Show of Hands

When a vote by show of hands has been taken upon a question, unless a ballot thereon is required or demanded,

(a) a declaration by the chairman of the meeting that the vote upon the question has been carried or carried by a particular majority or not carried, and

(b) an entry to that effect in the minutes of the meeting,

is *prima facie* proof of that fact without proof of the number or proportion of the votes cast in favour of or against any resolution or other proceeding in respect of the question; and the result of the vote so taken is the decision of the shareholders upon the question.

.6 Ballots

(1) On any question proposed for consideration at a meeting of shareholders, whether or not a show of hands has been taken, the chairman may require a ballot, or any shareholder or proxyholder who is entitled to vote on the question may demand a ballot.

(2) A ballot required or demanded under subsection (1) shall be taken in such manner as the chairman directs.

(3) A requirement or demand for a ballot may be withdrawn at any time before the taking of the ballot.

(4) If a ballot is taken, each shareholder present in person or by proxy is, in respect of the shares that he is entitled to vote at the meeting, entitled to the number of votes provided by the Companies Act or the articles; and the result of the ballot so taken is the decision of the shareholders upon the question.

9.17 Adjournment

The chairman at a meeting of shareholders may, with the consent of the meeting and subject to such conditions as the meeting decides, adjourn the meeting from time to time and from place to place.

9.18 Resolution in Writing

A resolution in writing signed by all the shareholders entitled to vote on that resolution at a meeting of shareholders is as valid as if it had been passed at a meeting of the shareholders.

ARTICLE 10

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BYLAW NO. 1

ION DRAFT

NOTICES

.0 Notices

The word "notice" includes any communication or document; and "given" includes sent, delivered or served, as well as given.

.01 Method of giving notice

(1) When a notice is to be given pursuant to the Companies Act, the regulations thereunder, the articles, the by-laws or otherwise, to a shareholder, director, officer, auditor or member of a committee of the Board, it is sufficiently given if it is given personally to the person to whom it is to be given or is given to his recorded address or if mailed to him at his recorded address by any means of prepaid, transmitted or recorded communication.

(2) A notice so given shall be deemed to have been given when it is given personally at his recorded address or given in the ordinary course of mail addressed to his recorded address; and a notice so given shall be deemed to have been given at the time it would be received in the ordinary course or mail.

(3) A notice given by means of transmitted or recorded communication shall be deemed to have been given when dispatched or conveyed to the appropriated communication company or agency or its representative for dispatch.

(4) The Secretary of the Corporation may change the recorded address of any shareholder, director, officer, auditor or member of a committee of the Board in accordance with any information believed by him to be reliable.

'.02 Notice to Joint Shareholders.

If two or more persons are registered as joint holders of any share, any notice may be addressed to all of the joint holders, but notice addressed to one of those holders is sufficient notice to all of them.

'.03 Computation of Time

In computing the date when notice must be given under any provisison requiring notice of a specified number of days or other period for any meeting or other event, the date of giving the notice is to be excluded and the date of the meeting or other event is to be included.

'.04 Undelivered Notice

If any notice given to a shareholder pursuant to sections 1.10.01 is returned on three consecutive occasions because he cannot be found, the Corporation is not required to give any further notices to the shareholder until he informs the Corporation in writing of his new address.

.05 Omissions and Errors

The accidental omission to give any notice to any shareholder, director, officer, auditor or member of a committee of the Board, the non-receipt of any notice by any such person, or any error in any notice not affecting the substance of the notice does not invalidate any thing done at any meeting held pursuant to the notice or otherwise founded thereon.

.6 Entitlement by Operation of Law

Every person who, by operation of law, transfer, death of a shareholder or otherwise, becomes entitled to any share is bound by every notice in respect of the share that is duly given to the shareholder from whom he derives his title before

(a) he furnished the Corporation with proof of authority or evidence of entitlement as prescribed by the Companies Act, and

(b) his name and address were entered on the register of shareholders,

whether the notice was given before or after the happening of the event upon wich he became so entitled.

.07 Waiver of Notice

(1) Any shareholder, proxyholder, director, officer, auditor or member of a committee of the Board, or any other person entitled to attend a meeting of shareholders may at any time waive any notice, or waive or abridge the time for any notice, required to be given to him under the Companies Act, the regulations thereunder, the articles, the by-laws or otherwise

(2) A waiver or abridgement pursuant to subsection (1), whether given before, at or after the meeting or other event of which notice is required to be given, cures any default in the giving or in the time of the notice, as the case may be.

(3) A waiver or abridgement must be in writing, but a waiver of a notice of a meeting of shareholders, of the Board, or of a committee of the Board may be given in any manner.

ARTICLE 11

EFFECTIVE DATE

.00 Effe[illegible] Date

This by-law comes into force when made by the Board in accordance with the Act

1.11.10 Repeal [FOR USE AFTER ENACTMENT OF FIRST BYLAWS]

(1) All previous by-laws of the Corporation relating to the matters provided for in this by-law are repealed on the commencement of this by-law.

(2) Subsection (1) does not affect the previous operation of any by-law so repealed, nor does it affect

(a) the validity of any act done under, or any right, privilege, obligation or liability acquired or incurred under any such by-law before its repeal,

(b) the validity of any contract or agreement made pursuant to any such by-law before itds repeal, or

(c) the validity of any articles or predecessor memorandum or articles obtained pursuant to any such by-law before its repeal.

(3) All officers and persons acting under any by-law repealed under subsection (1) shall continue to act as if appointed under this by-law.

(4) Any resolution with continuing effect, either of the shareholders, the Board or any committee of the Board, that was passed under any repealed by-law continues, until amended or repealed, to be valid to the extent that the resolution is not inconsistent with this by-law.

MADE BY THE DIRECTORS, THIS DAY OF 19

CONFIRMED BY THE SHAREHOLDERS IN ACCORDANCE WITH THE ACT, THIS DAY OF 19

CONGRESSIONAL NOTIFICATION

R Otto
Revised
to LEG 7/11 11AM

AGENCY FOR INTERNATIONAL DEVELOPMENT
ADVICE OF PROGRAM CHANGE

Date:

Country	:	Caribbean Regional
Project Title	:	Caribbean Financial Services Corporation
Project Number	:	538-0084
FY 83 CP Reference	:	None
Appropriation Category	:	Selected Development Activities (SDA) and Economic Support Funds (ESF)
Life of Project Funding	:	SDA - $9,000,000 (L) $ 400,000 (G) ESF - $4,000,000 (L)
Intended FY 83 Obligation	:	$13,000,000 (L), $400,000 (G)
Loan Terms	:	20 year term at 2% interest on outstanding balance from first disbursement through grace period, 3% interest through remainder of term

This is to advise that A.I.D. intends to obligate $13,000,000 in loan and $400,000 in grant funds in FY 1983 for the Caribbean Financial Services Corporation project. This is a new project which was not included in the FY 1983 Congressional Presentation.

The purpose of the project is to establish a private sector development finance institution to provide term financing and other financial services not traditionally available to private sector productive enterprises in the English-speaking Caribbean in order to stimulate private sector development of productive employment and investment opportunities.

The $4 million of ESF included in this project is part of the $85 million of ESF specified by the Congress to be used for development projects.

Annex: Activity Data Sheet

PROGRAM: Caribbean Regional

AGENCY FOR INTERNATIONAL DEVELOPMENT
ACTIVITY DATA SHEET

CP 81 05 (8-79)

TITLE: Caribbean Financial Services Corporation	FUNDING SOURCE: Economic Support Funds; Selected Development Activities	PROPOSED OBLIGATION (In thousands of dollars): FY 83 SDA $9,000 (L); $400 (G); ESF $4,000 (L)	LIFE OF PROJECT (Auth.) 13,000 (L) 400 (G)
NUMBER 538-0084 GRANT [X] LOAN [X] / NEW [X] CONTINUING [ ]	PRIOR REFERENCE: None	INITIAL OBLIGATION FY 83 / ESTIMATED FINAL OBLIGATION FY 83	ESTIMATED COMPLETION DATE OF PROJECT FY 88

Purpose: To establish a private sector development finance institution to provide term financing and financial services not available to private sector enterprises in the English-speaking Caribbean in order to stimulate increases in employment, productivity, output and government revenues.

Background: To reverse the overall downward economic trend of the English-speaking Caribbean, increases in employment and production in the productive private sector must be achieved. There is a general consensus that prospects for private sector growth in the region are positive, particularly in agro-industry, manufacturing and tourism. A successful program of expanding productive private sector investment in these sectors will increase tax revenues which in turn will permit governments to maintain adequate level of infrastructure investment and social services.

Financing for private sector investment is a major constraint to growth, particularly term financing. Key business leaders in the Eastern Caribbean have requested AID's assistance in establishing a regional private sector development bank, the Caribbean Financial Services Corporation (CFSC).

Project Description: The CFSC will be a private sector-owned financial institution serving the English-speaking Caribbean. Initial target countries will include Barbados and the Less Developed Countries of Antigua and Barbuda, Belize, Dominica, Montserrat, Grenada, St. Kitts/Nevis, St. Lucia and St. Vincent and the Grenadines. It will be incorporated in Barbados with an initial paid-in equity base of $2 million. Equity will be contributed by the Caribbean private sector and the major international banks operating in the Region.

CFSC will on-lend through the existing commercial banking system in Barbados and the LDCs and undertake direct lending throughout the English-speaking Caribbean including development of creative financing instruments not currently available (inventory financing, leasing, venture capital). Funds will be available to finance investments in agribusiness, manufacturing, tourism and any service companies directly and substantially benefiting these sectors. Limited grant funds will be used to accelerate the initiation of CFSC's lending by providing technical assistance to its Board of Directors and General Manager and to provide periodic evaluations.

Relationship of Project to AID Strategy: In support of the Caribbean Basin Initiative , AID's private sector development strategy is designed to address the major constraints facing that development. These include: financing, human resources, uncertain investment climate, governmental policies, deficiencies in physical infrastructure, and marketing. The CFSC project will focus on the resolution of the Region's private sector financing problems while other elements of AID's Caribbean Regional program address the other constraints. The proposed project is the centerpiece of AID's private sector strategy which responds to the initiative and commitment of the Region's private sector opinion leaders.

Beneficiaries: The project will generate an estimated 36,948 person years of employment and $100.5 million in employment earnings as well as proportionate increases in public revenues. Laborers in small to medium sized enterprises and off-farm migrant workers will be primary beneficiaries.

Host Country and Other Donors: The Caribbean Project Development Facility of the International Finance Corporation will provide technical guidance to the firm. Once established, CFSC will attract funds from the donor community. The Region's governments are supporting the creation of the CFSC. Barbados for example is prepared to offer significant tax and other incentives to strengthen its financial base.

Major Outputs:	All Years
Employment (36,948 person years)	$100.5 million
On-lending through commercial banks	$ 6 million
Direct Term Lending	$ 7 million
Direct Creative Financing	$1 million
Private Sector Financial Institutions	X
Foreign Exchange Savings	$ 48.8 million

AID-Financial Inputs:	Life of Project ($000)
Grant	
Technical Assistance	$260
Evaluation	140
	400
Loan	
Loan Capital	13,000
	13,000

U.S. FINANCING (In thousands of dollars)	Obligations	Expenditures	Unliquidated
Through September 30, 1981	–	–	–
Estimated Fiscal Year 1982	–	–	
Estimated Through September 30, 1982	–	–	–
		Future Year Obligations	Estimated Total Cost
Proposed Fiscal Year 1983	13,000(L);400(G)	–	13,000(L);400(G)

PRINCIPAL CONTRACTORS OR AGENCIES

TO BE SELECTED

ANNEX IX
Page 3 of 3

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