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AGRICULTURAL CREDIT BANK OF JAMAICA LIMITED

AGRO-INDUSTRIAL DEVELOPMENT FUND

AGRO-INDUSTRIAL DEVELOPMENT PROJECT NO. 532-0081

FINAL REPORT

Cecchi and Company  
1730 Rhode Island Avenue, N.W.  
Washington, D.C. 20036

March 31, 1986

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## I. INTRODUCTION

### A. PURPOSE OF THE PROJECT AND SPECIFIC OBJECTIVES OF THE CHECCHI AND COMPANY CONTRACT

The basic purpose of the Agro-Industrial Development Fund (ADF) is to strengthen existing agro-industries and to assist in the establishing of agro-industrial enterprises through providing essential long term credit and technical assistance. The stated specific objectives of the Technical Assistance Contract are to assist the Agricultural Credit Bank of Jamaica Limited (AC Bank) to:-

- "Develop the capability of the Agro-Industrial Development Unit (ADU) to process agri-business credit to individual private agri-business firms through commercial banks to facilitate the investment of capital for production purposes, and to increase employment and foreign exchange earnings and savings;
- Encourage development of the commercial banks' capacity to manage term financing programs for agri-businesses;
- Increase the supply of inputs for the agricultural sector;
- Increase domestic capital formation providing a portion of the funds required to expand existing agri-businesses;
- Promote the expansion of agri-business enterprises to generate additional production in the rural areas to meet the growing consumption requirements of the urban sector and for export."

The effective date of the Checchi and Company Technical Assistance Contract was July 1, 1983; the completion date was March 31, 1986. The present Chief of Party, Carl W. Robinson, arrived in Jamaica August 14, 1985. He is the principal author of this report.

B. ORGANIZATION OF REPORT

The Checchi and Company contract stipulates that the Final Report include an "analysis of obstacles that may have impeded accomplishment and recommendations." This appears to reflect the innovative nature of the undertaking which is designed to achieve development banking results through loans to commercial banks (CBs) on-lent to eligible agro-industries as sub-borrower CB clients and with the CBs assuming full credit risk. As anticipated, there have been obstacles that have delayed the hoped for rate of accomplishment.

The desire to make a constructive analysis of obstacles that have impeded progress and recommendations for overcoming or avoiding such obstacles in future projects of a similar nature has shaped the organization of the Final Report. It is presented under the following section headings.

- I. INTRODUCTION. This Section
- II. PROJECT BACKGROUND
- III. IMPLEMENTATION - PHASE I (July 1983 - February 1984)
- IV. IMPLEMENTATION - PHASE II (March 1984 - June 1985)
- V. IMPLEMENTATION - PHASE III (July 1985 - February 1986)
- VI. PROJECTIONS

## II. PROJECT BACKGROUND

### A. PROBLEM IDENTIFICATION

There were two studies of Jamaican agro-industry completed in 1982 that played a substantial role in identifying the importance of strengthening agro-industry and in shaping the specific focus of the Agro-Industrial Development Fund component of the overall Agro-Industrial Development Project.

1. The Jamaican Medium and Large Scale Agri-business Survey, June 1982, commonly referred to as the SRDI Survey. This broad survey was "XXX aimed at providing AID and other interested entities with a more complete understanding of the problems and potentials of medium and large scale agri-business in Jamaica." The survey, among many other things, identified lack of adequate credit and foreign exchange for purchase of essential imported materials, equipment, spare parts as particularly serious constraints to growth and improved efficiency of Jamaican agro-industry. A predominant interest of the medium size firms to invest in new or additional equipment was identified and regarded as indicative of a technological lag in these enterprises and their relative inability to access foreign exchange for imported machinery.

Credit was identified as the highest priority constraint for medium scale agri-business but considerably lower in priority for large firms. This was viewed as an almost natural result coming from the more substantial assets of the larger firms and their better ability to deal with banks.

Forty-nine percent (49%) of the medium scale agro-industry indicated a wish to borrow funds during the coming year (1983) even at the commercial bank rates. The estimated average amount of loan

desired was J\$157,000, (conversion rate used in 1982 SRDI Survey was J\$1.75 = US\$1.00), and the estimated total demand in this sector was J\$17,443,000.\* It should be noted here that in the SRDI Survey, agro-businesses with 6 - 25 employees were classified as medium scale. This was approximately half the size of what was later classified as "second tier" agro-industry in the A. D. Little Study and in the Agro-Industrial Development Fund.

2. THE A. D. LITTLE STUDY which followed the SRDI Survey and concentrated its analysis on "second tier" private agro-industrial firms. Second tier firms were defined as agro-industries "estimated to have between 6 and 60 employees, measured in fulltime equivalent; fixed assets, other than land, of less than US\$500,000; and fixed assets per employee of less than US\$15,000." The rationale for narrowing the target group for analysis was explained as being "XXX based on observations during field visits that these businesses often face situations beyond their capability to resolve, whereas, large organizations tend to possess or have access to human and financial resources adequate to address most recurring business issues."

The A. D. Little findings reinforced the earlier observations concerning lack of adequate credit and inadequate access to foreign exchange as particularly serious constraints to growth and improved efficiency of the "second tier" of Jamaican agro-industry. Also, as a part of the wide range of data developed there were several additional findings that influenced the design of the Agro-Industrial Development Fund:

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\* SRDI SURVEY - Page 17

- The importance of long term loans to finance expansion was analyzed and the virtual absence of long term credit documented. The study stressed that short-term credit was generally available from commercial banks, longer term (over 5 years) credit needed for capital investment was basically non-existent.
- Field visits and plant observations indicated that part of the problems blamed on inadequate credit and foreign exchange, shortage of spare parts, outdated equipment, etc., could be traced to inadequate technical and managerial background and insights, Inadequate financial/accounting, lack of technical knowledge to diagnose machinery problems, plant layout problems, mismatching of equipment, inadequate procurement/purchasing plans were cited as factors contributing to the identified constraints to growth and efficiency of agro-industry.

A. D. Little estimated that 128 "second tier" agro-industries could be seeking long term credit. The total credit required by second tier firms could be as much as US\$31.4 million, US\$23.8 million of this being foreign exchange. It was estimated that US\$14.2 million could be required for equipment. The average size loan desired by second tier firms was estimated at US\$291,000. About 79.1% or US\$230,000 of the average size loan would be for expansion, most of the balance for "consolidation of debts."

It should be noted here that of the 206 agro-industries identified as the target group "second tier" agro-industries in the A. D. Little paper, 54% or 111 were bakeries. Bakeries ultimately were eliminated from participation in the Agro-Industrial Development Fund. This left 95 agro-industries existing at the time of the Survey in 1982, plus any new agro-industries that might subsequently be established and meet eligibility criteria as the target group for credit and technical assistance from the Agro-Industrial Development Fund.

## B. PROJECT DESIGN

The Project Development Committee was directly responsive to four key findings of the SRDI and ADL studies summarized in the preceding section.

- Target Group for Assistance
- Need for Long Term Credit
- Need for Foreign Exchange
- Need for Technical Assistance

1. Target Group for Assistance. The target group for participation in the Agro-Industrial Development Fund was established as those Jamaican agro-industries meeting the following conditions:

- Must have management and majority ownership which is private;
- Must be dependent upon Jamaican agriculture such that at least 65% of the factory gate value of the raw materials they process are products of Jamaica;
- Must have more than 6 but less than 51 employees;
- Combined with any other enterprise in Jamaica under the same ownership, must not have fixed assets other than land having a book value exceeding US\$500,000;
- Must not have fixed assets per employee in excess of US\$15,000.

2. Need for Long Term Credit. The project design accepted the need for long term credit for expansion as of critical importance rather than short term credit generally available from the commercial banks. The maximum term for loans was set at ten years with a grace period on principal payment not exceeding 24 months. The minimum term for loans was set at six years.

3. Need for Foreign Exchange. The Project Development Committee anticipated a first round of loans for financing agro-industrial expansion, amounting to a total combined value of US\$8,300,000. Of this amount, US\$5,000,000 was in foreign exchange. The balance was in Jamaican dollars equivalent to US\$3,300,000.\* They also estimated annual disbursement rates (Year 1 - 21%, Year 2 - 36% and Year 3 - 43%) depending upon the rate at which the AC Bank, Agro-Industrial Development Unit could be expected to process loans through commercial banks. These projections are much lower than the earlier survey estimates of loans desired for expansion. They also appear to reflect some advance understanding of the amount of time that might be required to initiate a development banking program through commercial banks with the commercial banks assuming the full credit risk. We will comment on this element of the Agro-Industrial Development Fund later as this was an innovative approach that has some very substantial values but also has special problems that must be dealt with if a development banking project that includes this provision is to move ahead at a reasonable pace.

4. Need for Technical Assistance. The project design accepted the findings of studies that technical and managerial weaknesses amplified the principal constraints to expansion and improved efficiency of middle sized agro-industries. It provided for a substantial training and advisory assistance budget for the development of an Agro-Industrial Development Unit (ADU) and for technical assistance training to commercial banks who elected to participate in the program of providing long term loans to medium size agro-industries.

The Project Paper approved October 25, 1982, and the Loan Agreement dated September 30, 1982, anticipated the need for substantial technical assistance in the development of an ADU capable of providing technical assistance to:-

- Agro-Industry Sub-borrowers. It was anticipated that the ADU would work with potential sub-borrowers in identifying credit needs, as well as technical and managerial assistance required to effectively implement sub-loans.
- Commercial Banks. It was anticipated that participating commercial banks would need technical assistance since agro-industrial long term financing would be a relatively new activity. It was expected that technical assistance through the ADU staff would emphasize the development of criteria for evaluating credit worthiness through pre-investment studies and a firm's cash flow and business development plan. It also was anticipated that assistance should be extended to commercial banks through special courses organized by the ADU to train commercial banks loan officers and branch managers in project evaluation techniques. It was expected that ACB would absorb the cost of ADU assistance with a portion of the interest spread retained.\*

Finally, in order to provide the technical assistance to sub-borrowers and commercial banks at a level needed to move ahead over a target period of 3 years, it was estimated that the ADU should consist of ten professionals and a supporting staff of ten: secretaries - 5, clerks - 2, driver - 1, messenger - 1 and office attendant - 1. It should be noted that this concept of developing a substantial professional ADU staff of ten capable of providing useful technical assistance to sub-borrowers and commercial banks appears in the Project Loan Agreement dated September 30, 1982, and in the "CORRECTED VERSION" of the Loan Agreement expressed through Implementation Letter No. 21, dated June 12, 1985. The complete Project Loan Agreement is included as a useful reference document - APPENDIX I.

#### C. SPECIAL FEATURES OF PROJECT DESIGN

It was not clear from the Project Paper, at what point it was decided that the loans from the Agro-Industrial Development Fund should be made through commercial banks to eligible agro-industries as sub-borrowers. However, the decision was reached, and is reflected throughout the Project Paper and Loan Agreement. As part of this, it

was stipulated that the commercial banks would have to take the full credit risk for the loans disbursed by AC Bank to a commercial bank and on-lent to an agro-industry sub-borrower. This has the obvious and very worthwhile advantages of forcing a practical commercial banking review of the credit worthiness of each loan, and of reducing the risk of overly soft loans and losses of the type that have undermined many government owned development banks.

The foregoing arrangement also creates a set of conditions under which the Project cannot move ahead unless the management of the commercial banks (at all levels) understand the objectives, terms and conditions of the Project and are convinced that the benefits to their banks justify active participation. Developing this kind of understanding and acceptance proved difficult during the initial 18 - 24 months of the Project. This is reviewed in some detail in the Sections which analyse obstacles which may have impeded progress and recommendations for overcoming such obstacles.

It should be noted here that the Project Development Committee appears to have anticipated the need to make the commercial banks' role worthwhile and designed elements into the project that appear intended to make commercial banks' participation attractive to the commercial banks.

- The AC Bank loans to commercial banks utilizing the Agro-Industrial Development Funds are medium to long term and as such entail the risk of continuing devaluation of the Jamaican dollar. The commercial banks avoid this risk by using money from the Agro-Industrial Development Fund;
- The foreign exchange risk for the US dollar component of the loans also is assumed by the Agro-Industrial Development Fund by converting the US dollar portion of the loans into Jamaican dollars for purposes of establishing the combined total amount of the loan to be repaid over a 6 to 10 year period;

- A variable loan guarantee program was established for loans up to US\$100,000. Up to 50% of the credit risk for projects supported by feasibility studies acceptable to AC Bank can be negotiated by commercial banks;
- Provision was made for advances to sub-borrowers for pre-investment studies and/or technical consultancy services related to an approved sub-borrower project. The total amount of such an advance up to US\$20,000 is permitted to be financed as part of the long term loan for fixed assets and with the same terms and conditions;
- Provision was made to provide technical assistance to sub-borrowers by a substantial ADU staff supported by a consultant team charged with assisting in the development of the ADU staff;
- Provision was made for the ADU staff and the supporting consultant team to provide technical assistance to the participating commercial banks. Quote: "XXX Assistance through special courses organized by the Development Unit will train commercial bank's loan officers and branch managers in project evaluation techniques, Development Unit staff will work with the advisor/trainer staff in carrying out these training programs and providing assistance in evaluating technical feasibility and overall merits of sub-loan applicants XXX."
- Provision was made for the commercial banks to receive a maximum 3% spread on loans to sub-borrowers, or 2% for projects supported by feasibility studies accepted by the banks. Periodic adjustments in the interest spread were to be permitted depending upon inflationary trends and changes in GOJ interest rate policy.

### III. IMPLEMENTATION - PHASE I (July 1983 - February 1984)

There are a number of events and related dates that provide a useful time frame for assessing implementation actions and accomplishments. These follow:

- Signing of Project Loan Agreement - September 30, 1982
- Estimated Project Assistance Completion Date (PACD) - September 30, 1985
- Extended PACD - September 30, 1987
- Effective Date of Checchi and Company Contract - July 1, 1983
- Estimated Completion Date - July 30, 1985
- Extended Estimated Completion Date - March 31, 1986

#### A. OVERALL IMPLEMENTATION PERIOD

The results expected from the project generally have been related to what accomplishments might be realized during a three year implementation period from the signing of the Project Loan Agreement, September 30, 1982, to the original estimated PACD, September 30, 1985. A more realistic time frame for evaluation of accomplishments would be the three years, July 30, 1983 to July 30, 1986. The reason for this are clear when the following points are taken into account:

- \*The Project Loan Agreement specified that AC Bank would establish an Agro-Industrial Development Unit (ADU) expected to consist of 10 individuals supported by existing bank infrastructure. It was also expected that a team of trainer/advisor consultants would assist in the creation of the Unit and in training the ADU staff members in "XXX Agro-Industrial Development Fund management, development banking, feasibility study assessment,

business management, production/processing and evaluation." The Manager, ADU, was appointed prior to the arrival of the Consultant Team, but the first two ADU staff specialists were not appointed until August 29, 1983.

- The RFP No. Jamaica 83-001 was issued February 7, 1983 with a closing date of April 1, 1983. The Consulting Services Contract was signed July 5, 1983, but with an effective date of July 1, 1983, and the expectation that the Chief of Party and the Production/Processing Specialist would be in the field within 30 days from the effective date of the Contract.

Most of the initial year of the three year period ending on the PACD, September 30, 1985, was consumed before the consultant team could be placed on the Project. Active implementation started late in July 1983. Our summary of implementation starts with that date.

Implementation has been a continuing process but has been divided into three inter-related phases in this Report for purposes of accurate analysis of progress, identifying obstacles that have impeded accomplishment and recommendations.

In Implementation Phase I (This Section), we deal with the start-up period from July 30, 1983 to roughly February 1984. There were many activities essential to launching the Project that have been summarized in monthly reports but are not of sufficient importance to justify further comment in this Final Report. There are four items, however, that we regard as of fundamental importance:

- Development of the Credit Manual
- Special Training of ADU Staff and CB Credit Officers
- Evaluation of Credit Potential and Appraisal of Loan Inquiries
- Accomplishments, Obstacles and Recommendations - Implementation Phase I

B. DEVELOPMENT OF THE CREDIT MANUAL

The Project Loan Agreement specified that one of the conditions that must be met prior to disbursement for sub-lending was the preparation of a Credit Manual in a form and substance satisfactory to AID. The Credit Manual was to detail long term concepts, objectives and guidelines for participation by sub-borrowers, commercial banks and Jamaican Consulting firms.\*

In ANNEX I of the Loan Agreement, it is stated that, "The Credit Manual to be prepared by ACB within the first 6 months of project implementation and distribution to CBs and consulting firms will specify sub-lending parameters."\*\* The Checchi and Company Technical Assistance Credit Contract specified that the COP will assist the ACB in finalizing the Credit Manual within 2 months following his arrival.

The specified dates didn't provide a realistic framework for action, as 9 months elapsed from the official start of implementation before the contract for consultant services was signed, and the newly created ADU awaited the arrival of the Consultant Team before undertaking substantial effort in preparation of the Credit Manual. The need for intensive priority attention by the COP was obvious.

Preparation of a manual detailing objectives, credit conditions and inter-relationships satisfactory to AC Bank, CBs and USAID proved a relatively complex task. It required a substantial amount of time of the COP during the initial 6 months of the Project. It was sufficiently advanced to enable the processing and approval of the first loan, December 6, 1983. However, work on specific details continued into January 1984, before final acceptance by AID required prior to disbursement for sub-lending. The Manual has undergone some changes in the succeeding two years - particularly to adjust its loan interest

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\* PROJECT LOAN AGREEMENT - Page 4 Section 5.2 (1)

\*\* PROJECT LOAN AGREEMENT - ANNEX I - Page 1 - 3 Sub-section 3

rates and-sub-loan eligibility requirements as specified in Implementation Letter No. 21 in June 1985. Otherwise it is essentially as originally agreed upon. It is included with this Report as a useful reference document - APPENDIX II

C. SPECIAL TRAINING OF ADU STAFF AND CB CREDIT OFFICERS

\*The Project Development Committee anticipated the need for an ADU staff of ten professionals as follows:

<u>Staff Description (Classifications)</u>	<u>Number of Positions</u>
Unit Manager	1
Account Managers/Development Banking Specialists	6
Management Specialist/ Finance and Accounting	1
Management Specialist/ Marketing, Procurement and Purchasing	1
Production Specialist/ Processing and Industrial Engineering	1

It is important to note that the foregoing staffing plan includes 6 Account Managers/Development Banking Specialists. This is consistent with the concept expressed at various points in the Project Paper, Loan Agreement and the Checchi Contract that the CBs were not familiar with medium and long term credit and would need special assistance from the ADU staff in loan appraisal and development banking. We list the following quotations to reinforce this point as this established the general approach to the Project.

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\* PROJECT PAPER - ANNEX V - Exhibit I

- \*The ADU would require special training in the skills required of development banking in assessing "credit worthiness" of loan applicants, and evaluation of pre-investment feasibility studies provided by loan applicants.
- \*\*"Technical assistance to participating CBs will be necessary since agro-industrial financing will be a relatively new activity xxxxxx. Assistance through special courses organised by the Development Unit will train CB loan officers and branch managers in project evaluation techniques. Development Unit staff will work with the advisor/trainer staff in carrying out these training programs and providing assistance in evaluating technical feasibility and overall merits of sub-loan applicants xxxxx."
- Two of the five broad tasks listed in the Checchi and Company Contract also relate to the need to build capacity within ADU to function as effective loan appraisers and credit officers in support of the program.
  - "1. Develop the capability of the Agro-Industrial Development Unit (ADU) to process agri-business credit to individual private agri-business firms through commercial banks xxxx."
  - "2. Encourage development of the commercial banks' capacity to manage term financing programs for agri-business."

The role AC Bank/ADU was expected to carry, established the type of initial training activity and as well as the general approach to the project. Four training programs were carried out. Each of them was designed to strengthen the capacity of ADU staff and CB loan officers in special aspects of loan appraisal.

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\* PROJECT PAPER - Page 25 and 26

\*\* LOAN AGREEMENT - ANNEX I - Page I - 7

- An initial training seminar was conducted covering the basic background information needed in any long term industrial loan application and an in-depth analysis of the technical considerations that must be understood in making a sound loan appraisal of agro-industry in Jamaica. The Course was conducted by S. Morgan, Production/Processing Advisor, September 6, 7, 8, 9, 12, 13, 14, 15, 16 and was followed by visits to representative agro-industry plants, September 19, 20, 21, 22, 23. The Course Outline is included as part of APPENDIX III.
- A credit analysis training program was conducted October 3 - 21, 1983, for ADU and CB officers. This program, conducted by Checchi and Company short term consultants, concentrated on accounting and financial skills required in credit evaluation. A summary outline of the Course is included as part of APPENDIX III.
- A seasoned Industrial Credit Analyst, Jason I. Eckford, Jr., was brought in to analyse credit worthiness of a selected group of agribusinesses and to aid in the further training of the ADU loan appraisal staff. His training of ADU staff was work oriented, on job training carried out during a practical evaluation of credit potential and the appraisal of selected loan inquiries that had been requested by the Managing Director of AC Bank. The two periods of engagement were September 18 - October 15, and November 13 - December 3, 1983. An analysis was carried out for seven agro-industry loan inquiries and preliminary contact was made with eight additional agro-industries.
- A seminar was conducted by H. Schwarz, Checchi and Company short term consultant in Planning and Marketing. The purpose of the seminar was to enlarge the knowledge of "Credit Analysts" of ACB about medium size agro-industry economics, profit opportunities and risks. An outline of the session is included as part of APPENDIX III.

The foregoing training activities provided much needed preliminary orientation training to the newly appointed ADU staff which consisted of a Unit Manager, appointed June 1, 1983, one Marketing Specialist, appointed August 22, one Procurement Specialist, appointed August 22, and one Processing Specialist, appointed October 3. None of the ADU staff had any banking training or experience and only the Processing Specialist had industrial experience prior to their appointments to the Agro-Industrial Development Unit. It is important to note that the intensive group training provided background useful to the practical application of expertise in the selected areas of specialization - marketing, procurement, processing. It did not suddenly create qualified experts in industrial long term loan appraisal.

Judging from summary written evaluations of participants, the CB officers, who attended the Credit Analysis Training Program, found it useful. The CBs did not elect to participate in the other three training programs.

D. EVALUATION OF CREDIT POTENTIAL AND APPRAISAL OF LOAN INQUIRIES

We have summarized the training aspects of J. Eckford's two short term engagements in the preceding sub-section. However, the training input was provided in relation to carrying out a preliminary appraisal or evaluation of twenty-six loan inquiries during his initial visit September 18, 1983 through October 15, 1983. His second visit (November 13 through December 3, 1983) was to continue to appraise selected loan applications in greater depth, "as well as to aid in the training of the loan appraisal staff consisting of Mrs. Daphne Brown, Mrs. Leila Koshy and Mr. Noel Osbourne."

On arrival in Kingston, for his second term, Mr. Eckford was asked, as part of his continuing loan appraisal to try to find five

loan projects for recommendation to the AC Bank Loan Committee. We view this as significant, as it illustrates the generally understood approach to the Project - i.e. ADU would make full loan appraisals, and if found satisfactory, loans would be recommended for approval by AC Bank and the CB involved.

Based on his experience as an industrial credit executive and his evaluation of loan appraisal requirements in Jamaica, Eckford prepared an outline (LOAN APPRAISAL FORMAT) of the kinds of information to be developed in making a loan appraisal. He also made a number of observations that we regard as important in identifying a major obstacle to a desirable rate of accomplishment in the Agro-Industrial Loan Fund Component of the Agro-Industrial Development Project. We summarize and quote where appropriate from his report.

1. The ADU Loan Appraisal Role Seemed Questionable. We quote from the report of the initial visit. "It is proposed that loan applications be handled by ADU loan officers who would obtain the necessary components of information, make an appraisal and recommend action to the ACB Loan Committee and the participating commercial bank. Although personnel are being trained as loan officers and may be able to handle this function, it is often a lengthy process to mould an effective, productive loan officer. I would think that it would be well to consider using experienced commercial bankers (with additional training) for this function assuming that their banks agree. I am attaching a list of the components of a Loan Application with an indication of which entity might be in the best position to obtain the information. In virtually every case, the commercial banks with its greater exposure and access to credit information would be better armed to make a considered judgement."

2. The CBs Wished To Be Responsible For Credit Analysis. We quote from Eckford's memorandum of December 14, 1983. "I learned the day after my report was finished that the commercial banks wished to be responsible for the credit analysis instead of relying on the ADU for the analysis. Up to that point, the Checchi team, AID and certain ACB officials believed that the commercial banks had no experience with risk venture loans and that this was an area in which they desired assistance xxxxxx."

3. Assistance To CB Credit Officers From Technical Specialists Would Be Useful. We quote again from Eckford's memorandum of December 12. "In addition, I feel that it is extremely important for the Checchi and ADU technical specialists to work closely with the commercial bankers at the early stages before credit decisions so that the banks can benefit fully from their expertise. I saw several instances where the specialists could spot a weakness in a prospective borrower that a commercial banker might miss because of a lack of specialized knowledge."

#### E. ACCOMPLISHMENTS, OBSTACLES AND RECOMMENDATIONS

1. Accomplishments. Implementation - Phase I was the start-up period of an innovative project. It required an extensive inter-change of thinking and opinion among the USAID, ACB/ADU, CBs and Consultant Team executives to reach agreement as to the intent of the Project Loan Agreement and the best way to convert that intent into a workable operating program. Growing out of this interchange of thinking and experimentation, there was accomplishment in the following:

- The Credit/Operating Manual was completed and presented to participating CBs.

- The initial staff of ADU was selected and group training initiated as outlined in the preceding sub-section. Also, the practice of continuing on-job training through direct work with long term members of the consultant team was initiated.
- Twenty-six loan inquiries were reviewed and eight of the more promising visited. Loan appraisals were carried forward far enough to provide the eight potential sub-borrowers and the CBs of their choice with useful data. Three of the eight (Gray's Pepper Products, Ajule Company Limited and North Clarendon Processing Company) were among the initial five approved loans of the Project. Substantial production/process engineering technical assistance was provided in each of these cases.
- The initial Letter of Commitment and Letter of Credit arrangements for use of the U.S. dollar component of loans were established.
- A list of Jamaican Consulting firms for use by loan applicants requiring feasibility studies was prepared.

2. Obstacles To Accomplishment. A serious discrepancy between the project design and the staffing of ADU occurred that added to the confusion as to the roles to be carried by the ACB/ADU and the CBs. This slowed down acceptance of the program by the CBs and as a result slowed down the rate of accomplishment during the initial 18 to 24 months of the Project.

The project design assumed there would be 6 Account Managers/ Development Banking Specialists, and it was planned that these 6 Account Managers would "xxx join staff at initiation of project since project seeks to maximize impact on output in the shortest period possible."\* The assumption appears to have been, that reasonably experienced account managers with banking experience could be

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\* PROJECT PAPER - ANNEX V - Exhibit I

hired and that they would be supported by specialists in marketing, finance/accounting and processing/industrial engineering.

The account managers with specialized support would carry out well documented loan appraisals and would provide technical assistance to the potential sub-borrower directly or through recommending consultants where the level of technical assistance made this necessary. Completed and well supported loan appraisals would be submitted to the AC Bank and to the CB involved for approval. Concurrently, training would be provided by ADU staff to CB credit officers in the special aspects of long term agro-industry loan appraisal. The CBs, as the institutions assuming the credit risk would retain the role of assessing the credit reputation of the loan applicant and the determination of collateral requirements.

Based on common sense, as well as experience with commercial and development banks, it is the writer's judgement that the foregoing set of relationships between ACB/ADU and the CBs would require careful sorting out in the best of circumstances. However, if it were possible to hire experienced account managers/development banking specialists and if a mutually agreed upon approach to loan appraisal that avoided upsetting CB/client relationships could be established it might work.

In this instance AC Bank with USAID concurrence decided to limit ADU staff to the Unit Manager and the three technical specialists - none of them with banking training or experience. This limiting of the staff to technical specialists might well have been a sound decision, had ACB/ADU made it clear that their staff of specialists were not loan appraisal experts. Their purpose was to provide assistance to potential sub-borrowers and the CBs that would:

- Help potential sub-borrowers to reach a sound decision whether or not to seek a long term loan for expansion or improvement of the efficiency of their business;
- Assist potential sub-borrowers in preparing the kinds of data they would need in making a well supported loan application to the CB of their choice;
- Provide assistance to the CBs in evaluating the technical assumptions on which cash flow and profit and loss projections must be built;
- Provide assistance to the sub-borrowers in procurement and the CBs in the procurement procedures for utilization of the US dollar component of the Agro-Industrial Development Fund loans.

Unfortunately, the ADU maintained a posture of being loan appraisers or of being in the process of becoming loan appraiser/credit analysts and the AC Bank Board of Directors maintained the position of needing to review and approve credit worthiness as well as eligibility of each loan application from a CB client sub-borrower. There was a strong reaction from CB executives who expressed the opinions:

- That they knew more about determining credit worthiness than ACB/ADU personnel who had no experience in the field;
- That they were asked to assume the full credit risk and therefore preferred to make the credit decision without interference or second guessing from ACB/ADU;
- That separate efforts by ADU to carry on loan appraisals confused the established CB client relationship in a way detrimental to the CB.

The foregoing points of dissatisfaction persisted and stood in the way of developing a strong co-operative effort between ACB/ADU and the CBs. It is our judgement that friction and confusion over these points,

more than any other single obstacle, impeded the rate of accomplishment during Implementation - Phase I (July 30, 1983 - February 1984) and most of Implementation - Phase II (March 1984 - June 1985) of this project. Expressions of lingering concern and resentment over the three points were raised in meetings with CB credit officers as recently as early September 1985.

3. Recommendations. In each of the Implementation Phases we attempt to cover (a) recommendations of significance to the ongoing success of the project under discussion, and (b) recommendations that we believe would be useful in the design and implementation of projects of a similar nature elsewhere.

(a) In the Agro-Industrial Development Loan Fund Project confusion regarding the inter-relationships between ACB/ADU and the CBs was cleared up considerably through Implementation Letter No. 21 in June 1985, and through some practical case by case operational adjustments following meetings with credit officers of the three most active CB clients. The specific steps taken will be reviewed in Sections IV and V.

(b) In any future project of this type the writer would recommend that:

- The intermediate credit institutions (in this case, the CBs) that are expected to assume the credit risk also be expected to undertake an appraisal of viability as part of loan appraisal but with the understanding that the disbursing agency assisted by an advisory team would provide technical assistance in loan appraisal during a start up period of 18 - 24 months;

- The disbursing agency (in this case, ACB/ADU) be charged with responsibility for determining eligibility of the sub-borrower application. It should be made clear from the outset that one element to be examined in determining eligibility would be an evaluation of feasibility of the loan applicant's proposed venture. This is a delicate point and it needs to be emphasized that this is not a review of the CB credit decision but a parallel review to assure the funding agency that use of the loan funds is consistent with the development objectives of the project;
- The disbursing agency be charged with the responsibility for providing technical assistance to sub-borrower loan applicants in determining the feasibility of a proposed expansion or other improvement and in the preparation of essential data for a loan application to the CB of their choice.

This kind of approach would put a unit such as ADU in a technical assistance support role that would be useful to potential sub-borrowers and to the intermediate credit institutions as well. It would avoid the irritations that are inevitable if a non-banking agency assumes a role that appears to interfere with or second guess credit decision on the part of a banking institution carrying the credit risk.

#### IV. IMPLEMENTATION - PHASE II (March 1984 - June 1985)

As of March 1984, an agreed upon basis for going forward with the project was in place. As part of this, it was understood that the ADU would continue to carry out loan appraisals of the type demonstrated by J. Eckford and S. Morgan during the last quarter of 1983. This would assist potential sub-borrowers to:

- Determine what kinds of equipment, facilities and supplies would be required to achieve a desired improvement in volume and/or quality of production;
- Determine an optimum plant layout and work flow to achieve economy of operations;
- Project the cost of the proposed expansion or other improvements and the increase in revenue that could be expected;
- Make a broad assessment of the market for and necessary arrangements for marketing the proposed volume and quality of products;
- Determine whether the proposed venture was viable and whether or not to proceed with an application for an appropriate long-term loan.

The results of loan appraisals would be included in the agro-industry loan application to the CB of his choice and be used by ADU in preparing an analysis of loan applications for the use of the AC Bank Board of Directors in reaching decision to accept or reject the CB application for a loan to be on-lent to their agro-industry client. As pointed out in the preceding Section pages 22 and 23, there were points of confusion and CB dissatisfaction with the AC Bank's credit decision role that persisted throughout 1984 and most of the first half of 1985. However, the ADU loan appraisal approach did provide a basis for extending useful technical assistance to

agro-industries that expressed interest in a long-term loan. It also provided a basis for on-job training for members of the ADU staff. The project moved ahead on this basis, but slowly, as there was limited acceptance and little enthusiasm for the project on the part of the CBs.

Implementation activities and progress during Phase II are summarized under the following sub-headings:

- Technical Assistance
- Processing Loan Applications
- Overseas Procurement
- Promotion
- Loan Guarantees

A. TECHNICAL ASSISTANCE

In the opening paragraph of this Section, we listed five types of assistance that were natural by-products of working directly with potential sub-borrowers during loan appraisal. Much of the required assistance tended to be in the production and process engineering aspects of the proposed venture. This is to be expected. It is one thing to express interest in an expansion and make a broad estimate as to the loan desired in response to a survey interview. It is a much more difficult proposition to pin down the specific details of equipment and facilities changes required, the cost of each item, installation costs, number of units that can be produced after the planned improvement, increased working capital requirements, increase or decrease in unit cost to manufacture each type of product, etc.

The management of many of the middle-sized agro-industries did not have the technical background and/or experience to be precise in estimating such items. Yet, these data are essential building blocks for estimating what size loan might be required.

Assistance in the foregoing areas was welcomed consistently by potential sub-borrowers and after a period of exposure during joint ADU/CB credit officer visits, was increasingly welcomed by the CBs. The credit officers of the CBs in general accepted the fact that they had little or no expertise in the production/process engineering aspects of loan appraisal and sometimes were limited in marketing. On the other hand, they felt quite comfortable in the accounting and financial aspects of loan appraisals and in interpreting the significance of financial statements and projections as part of reaching credit decision. In general, technical assistance in financial analysis was not welcomed by CB credit officers during Phase II. However, it was well accepted as a useful form of assistance to potential sub-borrowers as part of putting together a sound loan application. More recently in Phase III, there have been requests for ADU participation in financial analysis and inter-change of thinking in this aspect of technical assistance.

Technical assistance as described in the foregoing paragraphs has been carried out throughout Phase II and Phase III of the Project. The nature of the assistance required and the special combination of technical knowledge and experience of S. Morgan, Production/Processing Advisor, made it desirable for him to carry out the bulk of the work, assisted by his counterpart, N. Osbourne, Production/Processing Specialist. He has done so very ably throughout the project.

It should be stressed here that the amount of technical assistance required varies widely among the "Loan Inquiries in Process." The owners of a relatively small agro-industry aspiring to enlarge production and/or improve quality of product generally need considerable help - particularly in the following:

- Selection of equipment that will handle the expanded volume as economically as possible in balance with existing equipment to avoid bottlenecking;

- Determining an optimum plant layout and work-flow that will assure economy of operations at the initial level of expansion but also be capable of further expansion without unnecessary expensive alterations;
- Projecting the cost of expanded production and the increase in revenue under several alternative approaches in order to determine which approach to the improvement is best suited to the specific development project and the resources of the potential sub-borrower.

An interchange of opinion and technical assistance on the foregoing items may go on intermittently and require follow-up for a number of months before the potential sub-borrower is confident he has developed a sound basis for going ahead with the business venture and a loan application. It is also possible that after considerable technical assistance and careful consideration of all facts, a decision may be reached that the proposed improvement or new venture is not viable or that for other reasons it must be postponed.

The most desirable result is one where technical assistance contributes to a sound decision to proceed with a viable improvement in production, needed improvement in quality of product or a new agro-industry. However, within the basic purpose of the Agro-Industrial Development Fund, technical assistance that contributes to a correct business decision that a proposed venture is not viable, also has solid value. Industrial development is strengthened and gathers momentum from successful, viable expansions and new ventures - not bankruptcies.

#### B. PROCESSING LOAN APPLICATIONS

Throughout most of Implementation Phase II there were abnormally long delays in processing loan applications at the CBs and at ACB as

well. A substantial part of these delays resulted from sheer inexperience in processing long-term credit. There are major differences between processing short term credit and long term credit. The CBs were totally experienced in short term credit, but for the most part had little or no experience in medium and long term credit. In such situations, final decisions tend to require reviews by high level committees or the Board that meet infrequently. The exact situation in each CB varied, but long delays in processing the initial long term loans occurred in each of the CBs. This was understandable but frustrating to sub-borrowers and damaging to the project progress and reputation throughout 1984 and early 1985 as participating CBs worked out their internal procedures for processing long term loan applications.

A parallel situation existed in AC Bank where the Board of Directors retained full control over every Agro-Industrial Development Loan. No loan, no matter how small, was permitted without Board approval. In effect, the AC Bank Board assumed a responsibility to approve the financial and credit worthiness of each sub-borrower loan application as well as the review and approval of whether the loan application qualified as to purpose, type of industry and other eligibility criteria specified in the USAID/GOJ Project Loan Agreement. The Board of Directors of AC Bank met only once a month and when in doubt referred questions back to ADU for development of further data and review in the next following meeting. As a result, long delays in loan approval occurred within AC Bank as well as in the CBs.

There were serious complaints that the combined loan approval delays at the CBs and AC Bank took as much as 2 - 3 months in normal cases and could be longer in cases where either the CB or ACB deferred decision and requested further information. These delays were discouraging and in some cases financially damaging to sub-borrowers in those

cases where cash flow and profit and loss projections were keyed to specific crop cycles. The long delays also were damaging to the general reputation and acceptance of the project during all of 1984 and contribute to the discouraging rate of loan approval during that year.

Improvement in the pace of approving loans at the CBs was largely an internal matter in each CB, but improvement did occur with continuing experience in the two CBs who were active as participating financial institutions during the period under review. Some improvement also occurred with increasing expertise at AC Bank during this Phase, but major improvements did not occur until the early months of Phase III, starting in June 1985. At this time, the Finance Committee was delegated power to review and approve loans. This Committee now meets weekly if there are loan applications ready for their review. Finance Committee approval of a loan enables immediate action to be initiated with the CB involved though a formal ratification by the full Board takes place at the next regular monthly Board meeting. This has made it possible to process a sound, well prepared loan application within one or two weeks rather than one to two months - a solid improvement.

#### C. OVERSEAS PROCUREMENT

There is a very specific, standard AID procedure for utilizing the US dollar component of Agro-Industrial Development Loans made to sub-borrowers by CBs with ACB/ADU authorization. The procedures to be followed appear complicated to anyone who has not worked with them though they are spelled out in full detail in each Letter of Commitment (L/Com) issued by AID/Washington. Detail of the procedures does not warrant summarizing here.

It should be noted, however, that the ease or difficulty of processing a Letter of Credit (LC) using the L/Com procedures depends to a substantial degree upon the amount of L/Com experience of the bank

selected to be the L/Com bank. ACB/ADU made what appeared to be a logical decision to establish the regular correspondent bank of each CB as the L/Com bank for that CB.

There was much confusion and delay in the initial overseas procurement resulting primarily from L/Com inexperience of the Jamaican CB and the correspondent bank involved. It seemed likely that this confusion would be repeated as payment for overseas procurement became an element of the loans from other participating CBs - particularly if the correspondent bank lacked substantial experience as an advising and paying bank under an AID L/Com. Concern regarding this point continued throughout Implementation Phase II at USAID as well as among the CBs that had not yet used the L/Com procedure.

In August of 1985, USAID recommended that a single US based bank with substantial continuing experience in L/Com procedures be named as L/Com bank for all of the CBs participating in the project. CITIBANK was selected and accepted the role of the advising and paying bank. The funds of all four of the outstanding L/Coms lapsed in August of 1985, and were transferred to CITIBANK where LCs are processed by a unit that works within L/Com procedures on a daily basis.

D. PROMOTION

An initial assumption by all parties involved in the Project was that there were enough advantages to the agro-industrial clients of the CBs and to the CBs themselves to generate a natural flow of agro-industrial loan inquiries and sub-borrower loan applications. This was a pleasant assumption, but not correct.

The ACB/ADU did not undertake any active publicity campaign during Phase II. This resulted in part from the foregoing assumptions but also from an ACB decision to first clear up a number of problems

such as (a) the duty-free status of commodities financed under the project and (b) the exchange rate date for converting US dollars to Jamaican dollars in connection with overseas purchase of commodities. During the same period, the CBs lacked enough interest in the program to make an effort to promote it, and maintained a traditional banking position of waiting for people needing a loan to come to them. The flow of loan inquiries of a type that could be processed through to a sound loan application was much slower than expected and less than was needed to maintain a satisfactory rate of progress.

1. Problems Resulting From Confusion Concerning Duty-Free Status Of Items Imported Under Project Loans. The Project Loan Agreement specifically covered the question of the duty-free status of any commodity procurement transaction financed under the LOAN. We quote from ANNEX 2 PROJECT LOAN STANDARD PROVISIONS ANNEX -

"SECTION B.4 Taxation"

"(a) This Agreement and the Loan will be free from, and the Principal and interest will be paid free from any taxation or fees imposed under laws in effect in the territory of the Borrower."

"(b) To the extent that (1) any contractor, including any consulting firm, any personnel of such contractor financed under the Loan, and any property or transaction relating to such contracts and (2) any commodity procurement transaction financed under the Loan are not exempt from identifiable taxes, tariffs, duties or other levies imposed under laws in effect in the territory of the Borrower, the Borrower will, as and to the extent provided in and pursuant to Project Implementation Letters, pay or reimburse the same with funds other than those provided under the Loan."

The foregoing standard statement was understood by all concerned to mean exactly what it says. All of the promotional efforts during 1984 included the duty free status of imports under the Agro-Industrial Development Loan Project as an important consideration. Duty-Free status

of project commodities also was included in preparing cash flow and profit and loss projections in each loan appraisal. All of the first four loans approved included a substantial US dollar component, and the duty free status of the initial shipments in each case was honored.

Doubts concerning duty free status arose from increasing difficulty experienced by sub-borrowers when requesting duty free entrance for commodities. A precise interpretation of how Section B.4 Taxation applied to imports under a sub-borrower loan was needed.

Throughout 1984 and early 1985 a sustained effort was made to get a clear confirmation that the duty free status of project commodities would be consistently honored as specified in the Project Loan Agreement. The COP made personal contact at the Ministry of Finance, the Collector General and at the USAID. Letters were written to appropriate officials in the Ministry of Finance by the COP and by top executives of the AC Bank requesting the duty free status be clearly established. Assistance in clearing up the problem was requested from USAID.

The confusion over the duty free status of project commodities continued throughout Phase II and has not been resolved satisfactorily to date. Instead, a procedure has been initiated to instruct a sub-borrower to go to the Jamaica National Investment Promotion Limited (JNIP) and file a request for relief from duty on the commodities he will have to import under a Project Loan. The request is reviewed, and a recommendation made to a Joint Ministerial Committee. This Committee makes a decision whether to grant any reduction from the normal duty charged for each type of commodity and if so, how much. Import duties vary by type of commodity but average about 35 percent. Reductions received by sub-borrowers also vary but usually the maximum is one third of the established rate.

The-foregoing procedure avoids the embarrassment and damage to the reputation and acceptance of ACB/ADU that resulted from statements (that were later reversed) that commodities imported as part of a project loan were duty free. However, it still is an unsatisfactory procedure. It complicates accurate establishment of project costs, and preparation of accurate projections of cash flow and profit and loss in preparing and processing loan applications. It often causes long delays that are frustrating to sub-borrowers. It reduces the rate of progress of the Agro-Industrial Development Fund Project. It creates dissatisfaction when one sub-borrower believes he has received less favoured treatment than others.

2. Problems Resulting From Exchange Rate Date. Attractive features of project loans are:

- It enables sub-borrowers to have access to US dollars for the purchase of needed equipment and other commodities;
- The US dollars are converted to Jamaican dollars at the prevailing rate of exchange to establish the total amount of his loan;
- The loan is repaid in Jamaican dollars over the six to ten year period of the loan.

Throughout Phase I and Phase II, the date used for converting US dollars to Jamaican dollars was the date on which actual disbursement (payment to the supplier) occurred rather than the opening date of the LC. This would not have caused a problem if the exchange rate had been stable. It did cause a substantial problem for sub-borrowers under the project, as the rate of exchange for the Jamaican dollars varied sharply during this period, and there were long delays between the date an irrevocable LC was opened and actual payment to suppliers. To illustrate with an actual case, a sub-borrower seeking to determine the amount of his loan, found that it may vary as much as J\$330,458

depending on the date used to fix the rate of exchange - a major amount and serious problem for a middle size agro-industry to cope with.

The foregoing example was not an isolated case and a sustained effort was carried on throughout Phase II to establish the rate of exchange date as the date of opening the LC.

3. One On One Promotion. The need for a solid publicity program was obvious throughout fifteen months of Phase II, and the COP proposed that an active publicity effort be undertaken as early as August 1984. This was delayed because AC Bank management felt that until the uncertainties about duty free status and exchange rate date could be settled there would be confusion as to what they were promoting. There is difference of opinion on this point, but it is the writer's judgement that the AC Bank Management was correct. ACB/ADU credibility had been damaged by the handling of the duty-free question. ACB/ADU could not afford to undertake media publicity without knowing more precisely where they stood on these important parts of the project. Unfortunately, it took most of the twelve months from June 1984 to June 1985 to resolve the exchange rate date problem and achieve a partial solution to the duty-free status of project commodities.

During the interim, promotion had to be carried forward primarily on the basis of one on one personal contacts with officers at the headquarters and branch levels of the participating CBs and through contacts with any agro-industry that made inquiry or was rumored to have possible interest in a loan of the type made possible by the Agro-Industrial Development Fund. Visits to selected CB branches served the following purposes:

- Established personal contacts and working relationships;
- Provided an opportunity to make a full explanation of the purpose of the project, the type of loans and ADU services available, and clarification of the ACB/ADU relationships;

- Enabled a direct inquiry as to branch clients that might benefit from and qualify for a long-term loan.

This was a tedious, low profile method of stimulating loan inquiries and CB understanding of the project, but gradually it did contribute to increased CB acceptance and an increased awareness of the project among agro-industrial enterprises.

Contacts with agro-industries followed a pattern that included an initial interview to explore the eligibility of the potential loan applicant and the interest or lack of interest in a loan. Where there was eligibility and genuine interest, technical assistance was provided as discussed earlier in this section of the Report.

As of June 1985, agro-industries with whom contact had been made and the general level of results can be summarized as follows:

(a) LOANS APPROVED

<u>BANK</u>	<u>AGRO-INDUSTRY</u>
National Commercial Bank Ltd.	Gray's Pepper Products
" " " "	Tijule Company Limited
" " " "	Island Dairies
" " " "	Church Valley Farms
" " " "	Jamaica Exotic Blooms
" " " "	North Clarendon Processing Co.
" " " "	Plant World Company Limited
" " " "	Dew Farms Limited
" " " "	Mavis Bank Central Factory
" " " "	Longville Park Dairy
Mutual Security Bank Ltd.	Comfort Hall Farms
" " " "	Westside Farms
TOTAL	= 12

(b) LOAN INQUIRIES

<u>BANK</u>	<u>AGRO-INDUSTRY</u>
National Commercial Bank Ltd.	Christiana Potato Growers
" " " "	Manchester Packers
" " " "	Island Foods
" " " "	Fletcher Bowman
" " " "	Roberts Products



DORMANT INQUIRIES (CONT'D)BANK

(Unknown)

"

"

"

AGRO-INDUSTRY

Caribbean Fertilizers Co.  
 Arthur Williams Jr.  
 Jamaica Floral Exports  
 Ancille Gloudon

TOTAL

-

31

E. ACCOMPLISHMENTS, OBSTACLES AND RECOMMENDATIONS

1. Accomplishments. Implementation Phase II (March 1984 - June 1985) was a frustrating period during which the agreed upon approach to the project was tested, some serious problems were identified and recommendations for correction presented to AC Bank and USAID and through them to GOJ. This exchange of thinking and experience set the stage for the clarification and improvements presented in Implementation Letter No. 21 in June 1985.

It also was a period during which considerable progress took place through quiet persistent effort in the field:

- Contact was established with 61 agro-industries who had indicated some interest in long-term loans;
- Preliminary interviews and explanation of the Agro-Industrial Development Fund was carried out with all inquiries and technical assistance extended as required;
- Twelve loans were approved. This total of loans approved in a sixteen month period was discouragingly low. However, nine of the twelve loans had been approved during the first five months of 1985 indicating the project was starting to get under way.

2. Obstacles. There were five obstacles to accomplishment that slowed progress throughout the implementation period under review:

- Confusion over the respective roles of AC Bank and the CBs and CB dissatisfaction with what the CBs viewed as AC Bank interference with the CBs' credit decision responsibility continued throughout this period;
- Confusion over the duty free status of commodities purchased as part of project loans continued throughout the period, and the partial clarification is still a deterrent to accomplishment;
- The date for establishing the rate of exchange for conversion of US\$ to J\$ continued to be a problem throughout the period.
- The excessive time required to process a loan application was particularly serious during the initial nine months of the period and the combined time required remained a deterrent throughout the period;
- The decision to establish the correspondent bank of each Jamaican CB as the L/Com bank generated substantial problems that could have been avoided by the appointment of one L/Com bank for all of the participating CBs.

### 3. Recommendations

(a) Recommendations concerning the first four of the principal obstacles to accomplishment listed above were made during the fifteen month period of Implementation Phase II and discussed in the preceding pages of the Report. Implementation Letter No. 21 in June 1985 represented a sound response to these recommendations with the exception of the duty free status of commodities. The beneficial results of the adjustments made through Implementation Letter No. 21 are summarized in the following Section - Section V. The writer views Implementation Letter No. 21 as a turning point in the project and the start of Phase III.

Implementation Letter No. 21 was silent on the duty free status of commodities purchased as part of an Agro-Industrial Development Loan. This leaves the whole question subject to the dubious procedure discussed on page 33 and fails to reduce the confusion, time delays and dissatisfaction that has adversely affected the rate of accomplishment of the project. The writer is well aware of the need to reduce unnecessary imports and to generate revenue that confronts the GOJ. However, we recommend that the question be examined objectively as it relates to importing equipment and other commodities essential for expanding and/or improving agro-industry and that a decision be reached that can be applied uniformly and promptly in all cases.

(b) In any future projects of this type, the writer would recommend that the intended interpretation or application of the Standard Provision on Taxation be spelled out precisely as part of the Project Loan Agreement.

A thoughtful review of the background studies, the Project Paper and the Project Loan Agreement indicates a consensus that the project was intended to stimulate rapid expansion and improvement in middle-size agro-industry. As part of this the equipment, spare parts, etc., needed for these improvements were to come in duty free. Relying on the standard clause in Section B.4 - Taxation did not convey this point precisely enough to avoid confusion, much lost time and serious delay in the acceptance of the project by potential sub-borrowers.

We also would recommend the selection of only one US bank with substantial L/Com experience as the L/Com bank for all participating CBs. The reasons for this were brought out earlier in this section of the Report.

V. IMPLEMENTATION - PHASE III (July 1985 - February 1986)

A. ADJUSTMENTS IN OPERATIONAL FRAMEWORK OF THE PROJECT

As of June 12, 1985, Implementation Letter No. 21 established a number of changes in the operational framework and loan eligibility regulations that were intended to rectify some of the implementation problems that had slowed disbursement, simplify loan approval procedures and make participation in the Agro-Industrial Development Fund more attractive to the CBs. We list these adjustments as they represented a constructive response to obstacles summarized in the preceding sections and created an opportunity to eliminate some of the problems that had slowed progress during the initial two years of the project. This established an improved framework for moving ahead to the full achievements originally planned for the project.

1. The Problem Resulting From Delayed Dates For Converting US Dollars to Jamaican Dollars Was Eliminated. The new regulation specified "All loans will be denominated and repaid in Jamaican dollars and will be at the foreign exchange rate in effect on the date of the issuance of the Letter of Credit to the sub-borrower supplier."

2. The Size Of The Agro-Industries That May Be Eligible For Loans Was Roughly Doubled:

- The upper limit as to book value of fixed assets other than land under the same ownership was increased to US\$1,000,000 (up from US\$500,000);
- The upper limit on number of employees was increased to one hundred (100) (up from fifty-one (51)).
- The upper limit on fixed assets per employee has been increased to US\$25,000 (up from US\$15,000).

This upward adjustment in the size of the agro-industries eligible for participation, has increased the number of industries eligible for loans. Experience has shown that in most cases the loan

appraisal process is easier to carry out for the larger of the medium size industries. These larger industries are more likely to be in a position to provide acceptable collateral, certified financial statements, valid cash flow and profit and loss projections and other information needed in evaluating credit risk. Each of these points make the program more attractive to the CBs.

3. The Interest Rate Spread For The Commercial Banks Was Increased. The sum schedule follows:

<u>LOAN (US\$)</u>	<u>INTEREST RATE SPREAD</u>
Over \$500,000*	3%
\$401,000 to 500,000	4%
\$301,000 to 400,000	4½%
\$201,000 to 300,000	5%
\$101,000 to 200,000	5½%
\$ 20,000 to 100,000	6%
\$ 20,000 to 100,000 (with guarantee)	2½%

\* Loan requests in excess of US\$500,000 must be presented to the Ministry of Finance and USAID before further processing.

The upward adjustment in the interest spread offsets in part the feeling previously expressed by some of the bankers that the prior interest spread was too little to compensate for the effort necessary to carry out a sound appraisal of a long term loan application and to go through the procedures required for an AC Bank loan.

4. The Promotional Activities Assigned AC Bank Were Expanded And Clearly Defined. The AC Bank is now instructed xxx"to carry out an active promotion campaign to familiarize Commercial Bank branches,

Jamaican consulting firms and potential sub-borrowers wishing to establish or expand an eligible agro-industrial activity of the procedure required to present an application to the Commercial Bank (CB) of his choice."\*

5. The Role Of AC Bank And The Commercial Banks In The Loan Appraisal Procedures Were Simplified And Clarified. We quote, "The CBs will screen applications for economic and technical viability, make the credit judgement, negotiate the risk sharing and approve or deny the loan. Except for those loans guaranteed by the ACB, the ACB approval process will be limited to verification that the CB approved loan is within the programmatic parameters of the Agro-Industrial Development Project.\*

This clarification of the respective roles of the AC Bank and the CBs has provided a basis for improved co-ordination between AC Bank and the CBs, and progress has been achieved. However, there still is room for improvement.

6. A Simplified Loan Approval Process Was Specified. We quote, "The Commercial Banks which have been approved to borrow from the ACB will submit a request to the ADU Manager at the ACB to ascertain eligibility of the project being considered early in the sub-borrower loan inquiry phase. All loan requests certified eligible by the ADU Manager and subsequently submitted by the CB on behalf of the sub-borrower will then be funded by the ACB xxx."\*\*

Activities during Phase III (June 15, 1985 to March 31, 1986) have been designed to build upon the expanded project opportunities that are possible through the adjustments summarized in the foregoing paragraphs 1 through 6. They are discussed under the following sub-headings:

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\* IMPLEMENTATION LETTER No. 21 - Page 3

\*\* IMPLEMENTATION LETTER No. 21 - ANNEX I - Page 6 Para. 2

- Promotion
- Co-ordination with the participating CBs;
- Progress.

## B. PROMOTION

ACB/ADU accepted the active promotional role mandated in Implementation Letter No. 21 and engaged in presenting essential information throughout Jamaica concerning the opportunities available through the Agro-Industrial Development Fund.

Specific actions carried out were:

- A brochure was prepared that summarizes the main elements of the Agro-Industrial Development Loan Fund including terse comments regarding Objectives, Accessing Funds, Technical Assistance Available, Approved Activities, Eligibility Criteria, Loan Terms, Loan Application Procedure through the CBs and an invitation to contact the Agro-Industrial Development Unit of the ACB for further information;
- The material in the brochure has been presented to varied technical and professional groups interested in agro-industry and the brochure distributed to participants;
- A television program built around the material in the brochure and the success story of one of the recipients of an agro-industry development loan was prepared and was presented twice;
- A direct mailing of the brochure to all agro-industries was carried out and a concurrent mailing (with CB management approval) was made to all of the branches of the participating CBs. This has assured some preliminary contact and basic information to agro-industries in all parts of Jamaica.

An effort was made to measure the results flowing from the foregoing long delayed inclusion of publicity in a more active promotional activity. The procedure used and results are of significance.

In June 1985, there were nine inquiries of the type we now classify as "Loan Inquiries In Process." Of these, one inquiry has become an approved loan. One is clearly dead. Three are too inactive at this time to remain on the "Loan Inquiries In Process" list. Four remain on the "Loan Inquiries in Process" list and are among the loans that are likely to become approved loans during the first half of 1986.

As of December 31, 1985, there were twenty "Loan Inquiries In Process" including the four that were carried over from June. This indicates an inflow of sixteen new loan inquiries of substance that remain in process of development into possible approved loans. In addition, there were six new inquiries that were received and became approved loans during the two quarters of active promotion. A total of twenty-two loan inquiries were received during the second half of 1985.

The precise relationship between promotional activity and the growth in number of loan inquiries is difficult to measure. It is clear, however, that the acceptance by AC Bank's management of a promotional role in implementing Component I of the Agro-Industrial Development Project has made a solid contribution to the growing success of the Project.

It was noted in the Quarterly Report for the period ending December 31, 1985, that the promotional efforts summarized in the foregoing paragraphs would continue to contribute to the momentum of the project but on a declining basis during the months immediately ahead. A new promotional drive would be needed during the first half of 1986 in order to generate a continuing flow of loan inquiries. Such a drive is under development by AC Bank as of the writing of this Final Report.

C. CO-ORDINATION WITH COMMERCIAL BANKS

In the Quarterly Report for July 1 - September 30, 1985, we examined the fundamental question, "How can ADU provide a development banking level of technical assistance and a development banking approach in its application of eligibility criteria and still continue to develop a high level of co-ordination and acceptance with the commercial banks?" During a series of meetings with top credit executives of commercial banks, a simple solution evolved, based on:-

- Clarification of ADU's role in determining eligibility of a potential loan application, the data that is needed in a full examination of eligibility and the similarity of financial statements, cash flow and profit and loss projections required by ADU and the CBs;
- Recognition of the ACB's mandated promotional responsibility and the fact that from this there will be a flow of inquiries direct to ACB/ADU or through referral from commercial banks who want an early review concerning the eligibility and/or technical feasibility of a potential project and loan application;
- Acceptance of the fact that the agro-industry making a loan inquiry frequently will need technical assistance in making a basic evaluation of the feasibility of the proposed venture, and as part of this, assistance in putting together the kinds of data that will be useful in presenting a loan application to the commercial bank of their choice;
- A statement of ADU's policy of early notification to commercial banks when one of their clients makes inquiry direct to ACB/ADU and of ADU's policy to keep clear from the outset, the commercial banks' role in credit decision and final acceptance or rejection of a loan application.

The foregoing points have been tested in action working with CB executives in processing loan applications during the past two quarters. Consistent use of the four points on a case by case basis is generating improved co-ordination with the CBs. These points warrant full discussion during the three regional seminars for all CB branch managers that is planned for the second quarter of 1986.

D. PROGRESS

Starting with the Quarterly Report for the period, July, August and September 1985, spread sheets were prepared, "Agro-Industry Loans Approved", and "Agro-Industry Loan Inquiries In Process". These sheets have been updated monthly to provide a simple but tangible measure of progress and to identify aspects of the project that warrant special attention. These spread sheets are included in the Report on the following two pages and used in a brief evaluation of progress through to February 1986. Progress is analyzed under the following sub-headings:

- Loans Approved
- Loan Inquiries In Process
- Loans Outstanding

1. Loans Approved. The total amount of the loans approved from the start of the project, July 1983 through December 31, 1985, was J\$10,631,309 and US\$1,595,138. Of these totals, loans approved during 1985 amounted to J\$10,053,309 and US\$861,138. The number of loans approved July 1983 through December 31, 1985, totalled 20. Of this total, 16 were approved during 1985.

Loans approved during the second half of 1985 amounted to J\$8,780,409 and US\$766,601, that is, 87 percent of the J\$ and 89 percent of the US\$ loans approved during 1985.

AGRO-INDUSTRY LOAN APPROVED

TABLE I  
DATE: FEBRUARY 28, 1986

BORROWER	SUB-BORROWER	PURPOSE OF LOAN	LOANS APPROVED			DISBURSEMENTS		ORIGIN OF LOAN APPLICATIONS
			DATE	J\$	US\$	J\$	US\$	
National Commercial Bank (N.C.B.)	Gray's Pepper Products	Food Processing (Spices)	6/12/83	-	300,000	-	146,866.39	AC Bank's Managing Director
Mutual Security Bank	Westside Farms	Food Processing	26/6/84	325,000	70,000	-	-	Commercial Bank
N. C. B.	Tijule Co. Ltd.	Food Processing	26/6/84	103,000	45,000	103,000	41,226.47	Inquiry to ADU
N. C. B.	Island Dairies	Milk Processing	25/7/84	150,000	319,000	150,000	318,664.23	Commercial Bank
Mutual Security Bank	Comfort Hall Farms	Packing House - Ortanique	8/1/85	215,000	35,000	215,000	29,350.00	Inquiry to ADU
N. C. B.	North Clarendon Processing Co.	Food Processing	26/2/85	20,000	37,537	20,000	-	" " "
N. C. B.	Jamaica Exotic Blooms	Horticulture	26/2/85	120,000	-	120,000	-	Commercial Bank
N. C. B.	Plant World Ltd.	Horticulture	24/3/85	163,400	-	163,400	-	" "
N. C. B.	Church Valley Farms	Horticulture	16/4/85	-	22,000	-	-	" "
N. C. B.	Dew Farms Ltd	Fruit Processing	24/3/85	110,000	-	110,000	-	" "
N. C. B.	Mavis Bank General Factory	Upgrade Coffee Processing	16/4/85	250,000	-	250,000	-	Trans. to ADU by Finance Committee
N. C. B.	Longville Park Dairy	Upgrade Milk Parlour	27/5/85	260,000	-	260,000	-	" "
Mutual Security Bank	Rose Hill Farms	Horticulture-Roses	4/7/85	1,360,000	-	1,360,000	-	Commercial Bank
Bank of Nova Scotia	Jamaica Floral Exports	Horticulture - Roses	18/7/85	533,000	-	533,000	-	" "
N. C. B.	Manchester Frozen Foods	Food Packing & Refrigeration	18/7/85	2,487,520	-	2,487,520	-	" "
N. C. B.	Island Dairies	Milk Processing	30/9/85	248,000	-	248,000	-	Inquiry to ADU
Bank of Nova Scotia	Spicy Grove Estates	Horticulture	15/10/85	900,000	35,750	-	-	Commercial Bank
Bank of Nova Scotia	Beadle's Farm	Pork Processing	12/11/85	858,889	356,851	-	-	Inquiry to ADU
			5/12/85	1,700,000	-	500,000	-	Parish Supervisor
		T O T A L		10,631,309	1,595,138	6,954,420	536,107.09	

AGRO-INDUSTRY - LOAN INQUIRIES IN PROCESS

TABLE II

DATE: FEBRUARY 28, 1986

NAME OF LOAN APPLICANT	COMMERCIAL BANK INVOLVED	PURPOSE OF PROPOSED LOAN	EST. SIZE OF LOAN		ORIGIN OF LOAN INQUIRY
			J\$	US\$	
Seaforth Canneries	Workers Savings & Loan Bank	Food Processing	400,000	-	Commercial Bank
Jamaica Food Processors	" " " "	Food Processing	1,000,000	125,000	ACB Managing Director
Lue's Enterprises	Jamaica Citizens Bank	Packing House	454,000	44,700	" " "
Headley Davis	Not Yet Determined	Fish Processing	-	20,000	" " "
TrinJam	Bank of Nova Scotia Ja. Ltd.	Food Processing	-	135,000	S. Morgan
Scott's Preserves	" " " " "	Food Processing	86,000	131,000	Inquiry to ADU
Bush Boake Allen	Citibank N.A.	Ginger Processing	-	400,000	" " "
Tia Donna	Mutual Security Bank	Food Processing	206,000	26,580	USAID Referral to ADU
Leader's Trading	Bank of Nova Scotia Ja. Ltd.	Ginger Processing	800,000	-	ACB Managing Director
Mistflora	" " " " " "	Horticulture	680,000	-	Marketing Specialist
Haughton's Fisheries	" " " " " "	Fish Processing	826,000	120,000	Commercial Bank
Paradise Farms Limited	National Commercial Bank	Spice Processing	550,000	-	ACB Managing Director
Spur Tree Farms	Bank of Nova Scotia Ja. Ltd.	Horticulture	1,750,000	255,000	" " "
Deeds Industries Limited	Mutual Security Bank	Wood Products	936,000	102,000	" " "
KCH Corporation	National Commercial Bank	Horticulture	115,000	-	Commercial Bank
Ferris Farmwork Limited	Bank of Nova Scotia Ja. Ltd.	Saw-Milling	1,395,000	110,000	Inquiry to ADU
Tyall Foliage	National Commercial Bank	Horticulture	800,000	-	Commercial Bank
Carrick Foyle Limited	" " "	Chicken Processing	700,000	125,000	" "
Rhymesbury Dairy Co-operative	Bank of Commerce Ja. Ltd.	Milk Processing	200,000	-	Parish Supervisor
Lawrence & Lawrence Ltd.	Bank of Commerce Ja. Ltd.	Meat Processing	-	25,000	Inquiry to ADU
S. Edwards	National Commercial Bank	Dairy Equipment	-	30,000	" " "
Dew Farms	National Commercial Bank	Food Processing	64,500	-	" " "
		<b>T O T A L</b>	<b>10,962,500</b>	<b>1,650,280</b>	

We regard this as an indication of the gathering momentum of the overall Agro-Industry Development banking role of the ACB/ADU program. It should be noted, however, that the number of loans approved during the second half was the same as the number approved during the first half of 1985. The increase in total amount (volume) of loans approved during the second half resulted mainly from the increase in average size of the loans in the second half.

The average size of the eight loans during the first half of 1985 was J\$159,113 and US\$11,817. The average size of eight loans during the second half of 1985 was J\$1,097,551 and US\$95,825.

It also should be noted that the total number of loans and total volume of loans as of year end 1985 remain the same at the end of February, 1986. There were no loans approved during January and February.

We call attention to the foregoing out of some sense of concern and to demonstrate the usefulness of these spread sheets in spotting things that warrant special attention. We will comment further on factors that may be affecting the rate of loan approval in Section VI - PROJECTIONS.

2. Loan Inquiries In Process. We commented earlier in this Section (Pages 44 and 45) on the considerable promotional activity undertaken by AC Bank during the second half of 1985 and the resulting inflow of loan inquiries of enough substance to be placed on the "Loan Inquiries In Process" list. There were no loan inquiries that were of enough substance to be added to the "Loan Inquiries In Process" list during January, but two have been added during the month of February. It should be noted here that ACB/ADU will have to average two new inquiries per month for the balance of 1986 in order to maintain the flow of Loan Inquiries In Process at the rate established during the second half of 1985.

3. Loans Outstanding. There were no disbursements during the month of February, so loans outstanding are J\$8,380,095 as stated in the last Quarterly Report plus J\$800,000 disbursed in January - i.e. J\$9,180,095.

The interest cost of funds provided to AC Bank for on-lending through commercial banks to eligible agro-industries is 2 percent. The interest rate charged by the commercial bank for agro-industry loans utilizing the Agro-Industrial Development funds is controlled at 18 percent.

The Agro-Industrial loans from AC Bank to the commercial banks are based on a schedule that provides the commercial banks with an interest rate spread that varies according to the size of the loan. The interest spread for AC Bank necessarily also varies in direct relationship to the interest rate spread allowed the commercial banks. The present AC Bank interest rate spread is as follows:

<u>SIZE OF LOAN EXPRESSED IN US\$</u>	<u>INTEREST RATE SPREAD FOR AC BANK</u>
* Over \$500,000	13%
401,000 to 500,000	12%
301,000 to 400,000	11.5%
201,000 to 300,000	11%
101,000 to 200,000	10.5%
20,000 to 100,000	10%
20,000 to 100,000 (with AC Bank guarantee)	13.5%

\* Loan requests in excess of US\$500,000 must be presented to the Ministry of Finance and USAID before further processing.

In order to simplify calculations and to be conservative in forecasting AC Bank revenue from projected totals of loans outstanding, we have estimated the average AC Bank interest spread at 10 percent in the following comments.

At 10 percent interest on loans outstanding as of February 28, 1986, interest income is at a rate of J\$918,010 per annum. In the Quarterly Report for the period ending December 31, 1985, we projected interest income as of July 31, 1986, could be at a rate of J\$3,105,150 per annum based on total loans outstanding of J\$31,051,504. It now appears the J\$3,105,150 may prove optimistic, though possible under the conditions assumed in making the December estimates. We will examine this in Section VI, PROJECTIONS. However, we will use the J\$3,105,150 interest income figure in the comments in the following paragraph.

If we assume a basic salary and allowance package of J\$26,000 for two Specialists, J\$32,000 for the Manager, ADU, and J\$14,000 for one secretary, the basic salary and allowance package of ADU exclusive of transportation would be J\$98,000 per annum. If we add 150% to cover travel allowances (cars) and general overhead costs, an approximate cost of operating the ADU would be J\$245,000 per annum. If J\$31,051,504 of loans outstanding is achieved mid-year 1986, the difference between the approximate cost of operating ADU at present staff and salary levels and annual interest revenue would be at the rate of J\$2,860,150 per annum at or about mid-year 1986.

The point of significance is that as of February 1986, the ADU is a viable unit generating sufficient net revenue to retire any past losses and following that, start contributing to the total funds available for future long term loans. It also is in a position to finance any additional staff that may be required to be effective in achieving the purposes of the project.

The net revenue will rise sharply as existing approved loans are fully disbursed and a reasonable portion of "Loan Inquiries In Process" are processed to approved loans and are disbursed. In order to reinforce this point we recap the following data from our last Quarterly Report.

As of December 31, 1985, the total loans outstanding amounted to J\$8,380,095. The exchange rate in converting the US\$ component of these loans to J\$ has varied depending upon the prevailing rate at the date of conversion. However, in constructing the following Table, we have assumed a conversion rate of J\$5.5 to US\$1 for all loans except the J\$8,380,095 loans outstanding as of year end 1985.

PROJECTION OF OUTSTANDING LOANS

AS OF JULY 31, 1986

Loans outstanding as of December 31, 1985	J\$ 8,380,095 *
Loans Approved but not disbursed:	
J\$	3,251,889
US\$1,059,031 x 5.5	5,824,670
Eight Promising Loan Inquiries In Process:	
J\$	5,877,000
US\$948,700 x 5.5	5,217,850
New Loan Inquiries originating the first half of 1986, processed to approved loans and disbursed during the first half:	
J\$ Approved x 50%	2,000,000
US\$400,000 Approved x 25% x 5.5	550,000
	J\$31,101,504
	*****

\* The average conversion rate of the US\$ component of these loans was less than the J\$5.5 to US\$1 in effect as of year end 1985. All other calculations have used the J\$5.5 to US\$1 exchange rate.

E. ACCOMPLISHMENTS, OBSTACLES AND RECOMMENDATIONS

1. Accomplishments. Implementation Phase III (July 1, 1985 through February 28, 1986) has been a period during which the project surged ahead. Much of the detail of the progress has been discussed in Sections A, B, C and D, and does not require repeating here. However, comment regarding the rate of loan approval during this period in relation to original expectations is useful in assessing the degree in which the acceleration of results is moving towards project goals.

The amount of funds proposed for a first round of loans was US\$5,000,000 and the equivalent of US\$3,300,000 in domestic currency. It was expected this would provide financing of agro-industrial expansion over a three-year life of the project period.\* At the present conversion rate of J\$5.5 to US\$1.00, the US\$3,300,000 is equal to J\$45,650,000.

The loans approved during the second half of 1985 amounted to J\$8,780,409 and US\$766,601. Using the 5.5 to 1 conversion rate for the US\$ portion of the loans approved, the total loan approval rate for this six month period was J\$12,996,714. This means that in six months, 28 percent of the total loan budget for three years was converted into approved loans. The budget for ADU is now estimated at a continuing average rate of loan approvals of J\$2,000,000 per month. The budgeted J\$2,000,000 per month average of loan approvals during 1986 is based on:

- The experience during the second half of 1985 which had a combined US\$ and JS\$ monthly average loan approval rate of J\$2,166,119;
- Loan inquiries in process amounting to J\$10,962,500 and US\$1,650,000. At the 5.5 to 1 conversion rate, this is a total of J\$20,037,500. See Table II, Page 49;

- The expectation of a continuing flow of loan inquiries of enough substance to be added to the "Loan Inquiries In Process" list. We project a sufficient flow of loan inquiries to maintain the list at approximately its present size, i.e. twenty. A solid promotional program is under preparation to help convert this expectation to reality.

2. Obstacles. (a) During the early summer of 1985 the US\$ portion of the Agro-Industrial Development Fund was reduced to US\$3,500,000 and the J\$ portion equivalent to US\$3,300,000 left at the original amount. Using the 5.5 to 1 conversion rate, this means the total loan funds were reduced from the original amount of J\$45,600,000 down to J\$37,400,000.

There were J\$10,631,309 and US\$1,595,138 in approved loans as of year end 1985. At the 5.5 to 1 conversion rate we have been using, this amounts to J\$19,404,568. There are J\$24,000,000 of new loan approvals expected during 1986. This will result in an expected total loans approved by year end 1986 amounting to J\$43,404,568. This is J\$6,004,568 in excess of the J\$37,400,000 of loan funds available in the Agro-Industrial Development Fund program following the reduction (siphoning off) of loan funds during the late spring and early summer of 1985. Quite obviously, action to replenish the loan funds of the project must be initiated on a priority basis to avoid stifling the project, just at the point it is demonstrating capacity to achieve the full measure of its original goals.

(b) A second obstacle to achieving the total goals of the project has emerged progressively during Implementation Phase III as a result of the decline in the amount of production/process engineering input of the project. The pending problem was foreseeable and was reviewed in late August 1985, with the Managing Director of AC Bank and the USAID.

It also was summarized in the Quarterly Reports for the periods ending September 30 and December 31, 1985. In the September 30 report, it was pointed out that the production/process engineering technical assistance played a very important role in assisting the target agro-industries of the project to reach sound decisions regarding a proposed expansion, and was contributing to the accelerating pace of achievement of the third quarter of 1985. See Pages 26 and 27 of this Report for a recap of the reasons why this is the case. It also was pointed that the recent, well deserved promotion of N. Osbourne from Production/Processing Specialist to Manager, ADU, as of August 1, 1985, and the scheduled departure of S. Morgan, Production/Process Engineering Advisor in January 1986, would result in at least a seventy-five percent reduction in the production/process engineering technical assistance input of the project. The writer was concerned that as a result:

- The much needed technical assistance to the smaller of the medium-size agro-industries would decline to near zero;
- The number, volume and quality of loan applications would decline for lack of practical technical help in estimating the items, the cost and the payout of a proposed expansion and/or improvement of the smaller agro-industries;
- The promotional effort would be partially invalidated by no longer being in a position to provide the technical assistance that has been included in the promotional presentations to date.

It was recommended that one or possibly two Jamaican mechanical or industrial engineers be hired as counterparts to Morgan and that Morgan's tour be extended for a minimum of six months to provide training as well as to continue his work with existing and incoming loan inquiries.

The AC Bank agreed to hire one mechanical or industrial engineer, hopefully with some processing industry experience. However, this has proven difficult at the AC Bank salary rates and as of the middle of

March 1986, the position has not been filled. Mr. Morgan completed his tour as originally scheduled on January 30, 1986. The lack of production/process engineering technical assistance will be an obstacle to achieving the full objectives of the project until such time as the situation is corrected.

3. Recommendations. (a) 1. There is an obvious need to expand both the amount of US\$ and J\$ available for loans under the Agro-Industrial Development Fund. There are many factors that can influence the rate of loan approvals, and totally precise forecasts are not possible. However, the following figures are relevant.

The J\$ loan approvals as of February 1986 amount to J\$10,631,309. The J\$ portion of loan inquiries in process amount to J\$10,962,500 - a total of J\$21,593,809. The J\$ equivalent to US\$3,300,000 is J\$18,150,000. The total of loans approved and loan inquiries in process is J\$3,443,809 in excess of the J\$ equivalent to US\$3,300,000 that has been provided as the initial amount of loan funds available to the Agro-Industrial Development Fund.

Obviously, not all of the loan inquiries in process of review and assistance will become actual approved loans, so we examine the potential requirement a second way. Total J\$ loans approved as of year end 1985 was J\$10,631,309. The total J\$ of loans approved the second half of 1985 amounted to J\$8,780,409 or an average rate per month of J\$1,463,401. If AC Bank continues loan approvals at the average monthly rate of the last six months of 1985 all J\$ loan funds will be exhausted in 5.14 months.

The original US\$ available for loans was US\$5,000,000. This was reduced to US\$3,500,000 in the early summer of 1985. As of February 28, 1986, the total US dollar loans approved amounted to US\$1,595,138. The US dollar portion of loan inquiries in process amounted to US\$1,650,280. The combined total is US\$3,245,418. If we examine the US\$ potential requirement in the second way, as above, the indications are as follows. The total US dollar

loans approved in the second half of 1985 amounted to US\$766,601 or a monthly rate of approval of US\$127,767.

The US\$127,767 is a relatively low average volume of US\$ loans per month. If the use of the US\$ portion of loan funds remained at so low a level, the available funds would not be exhausted for 14.91 months. However, this would still mean that all US\$ funds would be exhausted four months before the end of the PACD.

(a) 2. We have noted in earlier sections of the Report that three factors have been major obstacles to the use of the US\$ portion of the loan funds. Corrective action was taken to overcome two - the exchange rate date and the earlier confusions regarding the L/Com/LC procedures. The third and most damaging obstacle has been the GOJ's failure to honor the duty-free provision of the Project Loan Agreement. The existing arrangement still is an obstacle - see Pages 32 through 34. If agreement could be reached to honor the duty-free provision, or even if an equitable and simplified procedure could be designed, we would expect this to contribute to a solid increase in the US\$ portion of the loans in the period ahead. We recommend that USAID seek a constructive solution to this problem. There are some relatively simple solutions that seem possible.

(a) 3. We repeat our recommendation that AC Bank should find a means of offsetting the loss of more than 75 percent of the production/process engineering technical assistance referred to in earlier reports and in earlier sections of this Report. Most of the useful technical assistance to the present sub-borrowers and to the agro-industries on the "Loan Inquiries In Process" list has been in production/process engineering. It will continue to be needed - particularly by the smaller of the agro-industries in the target group.

## VI. PROJECTIONS

The preceding five sections of this Final Report were prepared and presented to AC Bank and to USAID as "Discussion Draft Material" in order to:

- Provide an opportunity to react to and, if justified, modify any of the material prior to reproduction;
- Provide a framework for review and discussion regarding policy and procedural issues that must be taken into account in any realistic effort to project the level of achievement that can be expected by the PACD, September 30, 1987.

The material of the first five sections was well received and has been included in this Final Report as written. A number of policy and procedure issues that were discussed during the review of the "Discussion Draft Material" are regarded as important to projections. They are summarized under the following headings:

- Commercial Bank Involvement In Long Term Credit
- Level Of Technical Assistance
- Duty-Free Status Of Items Imported As Part Of ADF Loans
- Removal Of Artificial Barriers To Use Of ADF Loans

### A. COMMERCIAL BANK INVOLVEMENT IN LONG TERM CREDIT

One of the broad objectives of the Agro-Industrial Development Fund was to encourage the CBs to become more involved in long term financing of agro-industry expansion and improvement. The reasons for this were discussed in Section II and don't justify repetition here. However, it is important to emphasize that:

- The history of devaluation of the J\$ over the past five to ten years has made it impossible for CBs to use their own funds for long term loans at interest rates that will permit investment for agro-industry expansion;

- The Project Development Committee understood the importance of creating an ADF of sufficient volume to make it worthwhile for at least three or four of the larger CBs to become involved and effective in long term lending on an ongoing basis.

We quote from the Project Paper discussion of anticipated results. "At the end of the project is is expected that all loan funds in the Development Fund will have been placed in sub-projects meeting eligibility criteria, the Development Fund is institutionalized with a demonstrated capacity to maintain its level of financing, and the Fund will continue as an effective and functioning system to identify, promote and finance eligible agro-industry sub-projects. Finally, the fund warrants continued financial support from the GOJ and international support agencies such as The World Bank.\*

The loan volume anticipated in achieving the foregoing result was, "xxx at least US\$11.3 million invested in agro-industry expansion financed by Agro-Industrial Development Fund over the project's life."\*

We have recapped the foregoing for three reasons:

- The loan volume of approximately US\$11.3 million is about the amount that is needed to generate ongoing involvement in long term credit on the part of three to four of the larger CBs. At a 5.5 to 1 conversion rate, US\$11.3 million would equal J\$62,150,000 which spread among three to four of the larger banks would be the basis for loan portfolios of J\$15,000,000 to J\$20,000,000 for the CBs actively involved. There are only three CBs that could be classified as actively involved as of this date;
- An Agro-Industrial Development Fund loan volume of J\$45,000,000 to J\$62,000,000 is attainable if adequate adjustments are made in the Level of Technical Assistance, Duty-Free Status and Removal of Artificial Barriers to Use of ADF Loan Funds;

- It is essential to provide adequate funds and an appropriate distribution between the US\$ and J\$ portions of the ADF funds at this time in order to achieve the goals for which the project was established.

#### B. LEVEL OF TECHNICAL ASSISTANCE

The importance of maintaining an adequate level of technical assistance as a service to potential sub-borrowers and the CBs has been discussed in quarterly reports and again recapped in this Final Report. (See Pages 26 through 28 and 55 through 57). Relating to this, the writer noted that AC Bank had agreed to hire an industrial or mechanical engineer to partially offset the decline in the amount of technical assistance that had occurred due to the promotion of the Production/Process Engineering Specialist and the end of tour of the Production/Process Engineering Advisor. It proved difficult to hire a qualified replacement for the Production/Process Engineering Specialist at AC Bank's salary rates, and as of the middle of March, the position had not been filled.

During the AC Bank review of Sections I through V and a discussion of pending actions relevant to projections for the project, the Managing Director summarized a solution to the problem that he had devised. He will add two consultants to the ADU staff experienced in appropriate areas of industrial engineering and related technical aspects of loan appraisals. Our projections assume successful recruitment of these men and effective use of their talents under the supervision of the Manager of the ADU.

#### C. DUTY FREE STATUS OF ITEMS IMPORTED AS PART OF ADF LOANS

The seriousness of the GOJ's failure to honor the duty-free status of essential items imported as a part of ADF loans was recapped on Pages 32 through 34. The effect of failing to honor the duty-free provision of the Project Loan Agreement can be demonstrated further by comparing the nature of the loans before and after the withdrawal of the duty-free status.

See Table I Page 48. The first four loans were applied for and approved with a clear understanding that the items imported under the ADF loans were duty-free. Each of the four loans included a substantial US\$ component. The total of the J\$ of the initial four loans was J\$578,000. The total US\$ component of the initial four loans was US\$734,000. The items imported under these loans were allowed entry duty-free.

Subsequently, increasing difficulty was experienced by sub-borrowers when requesting duty-free entrance for commodities and duty-free entrance was refused. See Pages 32 through 34. From that point forward, the use of the US\$ portion of the ADF was severely limited. The J\$ portion of the next sixteen loans amounted to J\$10,053,309. The US\$ portion of the sixteen loans amounted to US\$861,138.

The serious damage to the whole Agro-Industrial Development Fund project that has resulted from failure to honor the duty-free provisions of the Project Loan Agreement is quite obvious. The AC Bank's Managing Director is of the opinion that a clear presentation of the problem directly to the Minister of Finance can be made, and the duty-free status re-established for the duration of the project. Our projections take this into consideration.

D. REMOVAL OF ARTIFICIAL BARRIERS TO THE USE OF ADF FUNDS

There have been a number of discussions concerning two policies or interpretations of assumed policies that have created artificial barriers to the use of ADF loan funds. The problem was summarized in a memorandum to the AC Bank's Managing Director dated January 31, 1986. Agreement was reached to eliminate or restate the policies in a manner that would avoid blocking out a significant portion of the very agro-industries the ADF was created to assist. We have included a copy of the memorandum as APPENDIX IV. It is the writer's judgement that the past policy interpretation has had a serious adverse effect on the full utilization of the ADF, and we have assumed early clarification in making our projections.

E. PROJECTED VOLUME OF JAMAICAN DOLLAR LOANS TO THE PACD

In Section V it was pointed out that there are many factors that can affect the rate of loan approvals. Some of them such as the degree of liquidity of the CBs, and the programs of competing institutions are beyond the control of AC Bank.

Internal organizational changes and the availability or lack of availability of competent personnel to carry out important functions such as production/process engineering technical assistance to potential sub-borrowers can also cause changes in the rate of loan approvals. Nonetheless, the six month period following the useful adjustments resulting from Implementation Letter No. 21 has demonstrated what can be done. It also is the period most representative of ongoing conditions if we can assume a rebuilding of the technical assistance capacity of the ADU. We make our forecast of the continuing rate of J\$ loan approval volume based on the average rate per month during the second half of 1985.

There were wide swings in the amount of J\$ approved in any one month during the second half of 1985. The minimum in any one month was zero. The maximum in any one month was J\$5,073,520. The average rate of approval per month was J\$1,463,401. It is the writer's judgement that achieving an average monthly rate of J\$ loans amounting to J\$1,463,000 will be difficult but is attainable for the 21 months from January 1, 1986 to September 30, 1987 - if adequate J\$ can be made available on a priority basis.

The need for immediate action and the general amount of J\$ needed can be summed up as follows:

- If we use a 5.5 to 1 conversion rate, the GOJ commitment to provide J\$ loan funds equivalent to US\$3,300,000 amounts to J\$18,150,000;
- Loans already approved amount to J\$10,631,309 which leaves a J\$ loan fund balance of J\$7,518,691 as of year end 1985;

- At the J\$1,463,000 average monthly rate of loan approval that we project, the entire remaining J\$ loan fund balance will be fully used up in 5.14 months;
- At the J\$1,463,000 average monthly rate of loan approvals the J\$ required to provide the J\$ portion of loans during the 21 months from January 1, 1986 to the PACD will amount to J\$30,723,000. This is J\$23,204,000 in excess of the remaining J\$ Loan Fund balance available from the J\$ equivalent of US\$3,300,000 committed by the GOJ as part of the Project Loan Agreement;
- At the projected monthly average rate of J\$ loan approval, the AC Bank will approve J\$17,556,000 during the calendar year 1986 - if an additional J\$10,000,000 of loan funds can be made available;
- If an additional J\$10,000,000 is not made available the AC Bank is no longer in a position to process a continuing flow of new loan inquiries that involve a J\$ component as the "Loan Inquiries In Process" already exceed the balance of J\$ loan funds available. (See Table II Page 49).

F. PROJECTED VOLUME OF US DOLLAR LOANS TO THE PACD

If we apply the same reasoning to the US\$ portion of the ADF as was used in projecting the J\$ volume, the amount needed can be summed up as follows:

- The original amount of the US commitment was PR US\$5,000,000. This was reduced to US\$3,500,000 during the summer of 1985;
- Loans already approved amount to US\$1,595,138 which leaves a US\$ loan fund balance of US\$1,904,862 as of January 1, 1986;
- The average rate of loan approval for US\$ during the second half of 1985 was US\$127,767 per month. At this average monthly rate of US\$ loan approval the remaining US\$ loan fund balance of US\$1,904,862 will be fully used up in 14.9 months.

- At the US\$127,767 average monthly rate of loan approval, the US\$ portion of loans approved during the 21 months from January 1, 1986 to the PACD will amount to US\$2,683,107. This is US\$778,245 in excess of the remaining US\$ loan fund balance available from the reduced US\$3,500,000 committed by the US Government;
- At the US\$127,767 monthly average rate of loan approval, the AC Bank will approve US\$1,533,204 during the calendar year 1986. The remaining loan fund balance (US\$1,904,862 - \$1,533,204 = US\$371,658) would be insufficient to carry on to the PACD.

Earlier in this Section (Page 61), we have commented on the fact that failure to honor the duty-free provisions of the Project Loan Agreement had severely limited the use of the US\$ portion of the ADF and had damaged the entire ADF project. There now appear to be reasonable expectations that the duty-free provisions of the Project Loan Agreement may be honored. If this proves to be the case, we would expect the US\$ portion of the ongoing loans to equal or exceed the J\$ portion, as was originally expected and planned. It should be noted that the US\$ portion of loans approved did exceed the J\$ portion during the period when the duty free provision of the agreement was honored, see Page 62.

If the duty-free provisions are reinstated we would expect the remaining US\$ portion of the loan funds of the ADF to be fully exhausted in six to nine months from the date of announcement that items essential for an agro-industry expansion and/or improvement and imported as a portion of an ADF loan will be allowed entry into Jamaica duty free. Under these conditions, it would be important to reinstate the US\$1,500,000 siphoned off from the ADF in 1985.

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**APPENDIX I**

**PROJECT LOAN AGREEMENT  
BETWEEN  
THE GOVERNMENT OF JAMAICA  
AND  
THE UNITED STATES OF AMERICA  
FOR  
AGRO-INDUSTRIAL DEVELOPMENT**

Project No. 532-0081  
Loan No. 532-T-019  
and  
532-T-019A.

XO-PAV-670-A<sup>3</sup>

ISN = 48850

APPENDIX I

**PROJECT LOAN AGREEMENT**  
**BETWEEN**  
**THE GOVERNMENT OF JAMAICA**  
**AND**  
**THE UNITED STATES OF AMERICA**  
**FOR**  
**AGRO-INDUSTRIAL DEVELOPMENT**

Appropriation: 72-11x1023 and 72-1121021.3

Budget Plan Code: LFNX-82-35532-AL13 and LDAA-82-35532-AL13

DATED: September 30, 1982



Project Loan Agreement

Dated September 30, 1982

Between Jamaica ("Borrower")

And

The United States of America, acting through the  
Agency for International Development ("A.I.D.")

Article 1: The Agreement

The purpose of this Agreement is to set out the understandings of the parties named above ("Parties") with respect to the undertaking by the Borrower of the Project described below, and with respect to the financing of the Project by the Parties.

Article 2: The Project

Section 2.1 Definition of Project. The Project, which is further described in Annex I, will consist of assisting in the financing of foreign exchange and local currency costs of second-tier agro-industrial firms in Jamaica that will benefit directly from the long-term credit made available for the purchase of imported capital assets and raw material inventories. Annex I, attached, amplifies the above definition of the Project.

Within the limits of the above definition of the Project, elements of the amplified description stated in Annex I may be changed by written agreement of the authorized representatives of the Parties named in Section 9.2, without formal amendment of this Agreement.

Section 2.2 Incremental Nature of Project

(a) A.I.D.'s contribution will be provided in increments, the initial one being made available in accordance with Section 3.1. Subsequent increments will be subject to availability of funds to A.I.D. for this purpose, and to agreement of the Parties, at the time of a subsequent increment, to proceed.

(b) Within the overall Project Assistance Completion Date A.I.D., based upon consultation with the Borrower, may specify in Implementation Letters appropriate time periods for the utilization of funds provided by A.I.D. under an individual increment.

Article 3: Financing

Section 3.1 The Loan. To assist the Borrower to meet the costs of carrying out the Project, A.I.D., pursuant to the Foreign Assistance Act of 1961, as amended, agrees to lend the Borrower under the terms of this Agreement not to exceed Four Million Two Hundred Thousand United States ("U.S.") dollars (\$4,200,000) ("Loan"). The aggregate amount of disbursements under the Loan is referred to as "Principal". The Loan may be used to finance foreign exchange costs as defined in Section 7.1 and local currency costs, as defined in Section 7.2 of goods and services required for the Project.

Section 3.2 Borrower Resources for the Project (a) The Borrower agrees to provide or cause to be provided for the Project all funds, in addition to the Loan, and all other resources required to carry out the Project effectively and in a timely manner.

(b) The resources provided by the Borrower for the Project will be not less than the equivalent of US\$8,460,000, including costs borne on an "in-kind" basis.

### Section 3.3 Project Assistance Completion Date

(a) The "Project Assistance Completion Date" (PACD), which is, September 30, 1985, or such other date as the Parties may agree to in writing, is the date by which the Parties estimate that all services financed under the Loan will have been performed and all goods financed under the Loan will have been furnished for the Project as contemplated in this Agreement.

(b) Except as A.I.D. may otherwise agree in writing, A.I.D. will not issue or approve documentation which would authorize disbursement of the Loan for services performed subsequent to the PACD or for goods furnished for the Project, as contemplated in this Agreement, subsequent to the PACD.

(c) Requests for disbursement, accompanied by necessary supporting documentation prescribed in Project Implementation Letters, are to be received by A.I.D. or any bank described in Section 8.1 no later than nine (9) months following the PACD, or such other period as A.I.D. agrees to in writing. After such period, A.I.D. giving notice in writing to the Borrower, may at any time or times reduce the amount of the Loan by all or any part thereof for which requests for disbursement, accompanied by necessary supporting documentation prescribed in Project Implementation Letters, were not received before the expiration of said period.

### ARTICLE 4: Loan Terms

Section 4.1. Interest. The Borrower will pay to A.I.D. interest which will accrue at the rate of two percent (2%) per annum for ten (10) years following the date of the first disbursement hereunder and at the rate of three percent (3%) per annum thereafter on the outstanding balance of principal and on any due and unpaid interest. Interest on the outstanding balance will accrue from the date (as defined in Section 8.5) of each respective disbursement, and will be payable semi-annually. The first payment of interest will be due and payable no later than six months (6) after the first disbursement hereunder, on a date to be specified by A.I.D.

Section 4.2. Repayment. The Borrower will repay to A.I.D. the Principal within twenty (20) years from the date of the first disbursement of the Loan in twenty-one (21) approximately equal semi-annual installments of Principal and Interest. The first installment of Principal will be payable nine and one-half (9½) years after the date on which the first interest payment is due in accordance with Section 4.1. A.I.D. will provide the Borrower with an amortization schedule in accordance with this Section after the final disbursement under the Loan.

Section 4.3. Application, Currency, and Place of Payment. All payments of interest and Principal hereunder will be made in U.S. Dollars and will be applied first to the payment of interest due and then to the repayment of Principal. Except as A.I.D. may otherwise specify in writing, payments will be made to the Controller, Office of Financial Management, Agency for International Development, Washington, D.C. 20523, U.S.A., and will be deemed made when received by the Office of Financial Management.

Section 4.4. Prepayment. Upon payment of all interest and any refunds then due, the Borrower may prepay, without penalty, all or any part of the Principal. Unless A.I.D. otherwise agrees in writing, any such prepayment will be applied to the installments of Principal in the inverse order of their maturity.

Section 4.5. Renegotiation of Terms. (a) The Borrower and A.I.D. agree to negotiate, at such time or times as either may request, an acceleration of the repayment of the Loan in the event that there is any significant and continuing improvement in the internal and external economic and financial position and prospects of Jamaica which enable the Borrower to repay the Loan on a shorter schedule.

(b) Any request by either Party to the other to so negotiate will be made pursuant to Section 9.1, and will give the name and address of the person or persons who will represent the requesting Party in such negotiations.

(c) Within thirty (30) days after delivery of a request to negotiate, the requested Party will communicate to the other, pursuant to Section 9.1, the name and address of the person or persons who will represent the requested Party in such negotiations.

(d) The representatives of the Parties will meet to carry on negotiations no later than thirty (30) days after delivery of the requested Party's communication under subsection (c). The negotiations will take place at a location mutually agreed upon by the representatives of the Parties, provided that, in the absence of mutual agreement the negotiations will take place at the office of the Prime Minister and Minister of Finance, in Jamaica.

Section 4.6. Termination of Full Payment. Upon payment in full of the Principal and any accrued interest, this Agreement and all obligations of the Borrower and A.I.D. under it will cease.

#### Article 5: Conditions Precedent to Disbursement

Section 5.1. First Disbursement: Prior to the first disbursement under the Loan, or to the issuance by A.I.D. of documentation pursuant to which disbursement will be made, the Borrower will, except as the Parties may otherwise agree in writing, furnish to A.I.D. in form and substance satisfactory to A.I.D.:

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

(b) A statement of the name of the person holding or acting in the office of the Borrower specified in Section 9.2, and of any additional representatives, together with a specimen signature of each person specified in such statement;

(c) An official statement from the Agricultural Credit Bank establishing an Agro-industrial Development Unit for the management of the Agro-industrial Development Fund.

**Section 5.2. Disbursement for Sub-lending under the Agro-Industrial Development Fund.** Prior to disbursement under the Loan, or to the issuance by A.I.D. of documentation pursuant to which disbursement will be made for sub-lending under the Agro-industrial Development Fund, the Borrower will, except as the Parties may otherwise agree in writing, furnish to A.I.D. in form and substance satisfactory to A.I.D.:

- (1) A credit manual which details long-term concepts, objectives and guidelines for participation by sub-borrowers, commercial banks and Jamaican consulting firms.
- (2) An implementation plan prepared jointly with a selected commercial bank providing criteria for sub-project eligibility and approval.
- (3) An acceptable contract format to be used for the hire by sub-borrowers of consultant services for completing pre-investment studies and providing management and technical assistance.
- (4) A letter signed by the Trade Administrator to the effect that import licenses for participating firms will be given priority treatment prior to disbursement of funds.
- (5) An accepted proposal from a consulting firm from either the U.S. or a country included in AID Geographic Code 941 for the provision of training/advisory assistance both at a residency and short-term level.

**Section 5.3. Notification.** When A.I.D. has determined that the conditions precedent specified in Section 5.1 and 5.2 have been met, it will promptly notify the Borrower.

**Section 5.4. Terminal Dates for Conditions Precedent.**

(a) If all of the conditions specified in Section 5.1 have not been met within 90 days from the date of this Agreement, or such later date as A.I.D. may agree to in writing, A.I.D., at its option, may terminate this Agreement by written notice to Borrower.

(b) If all of the conditions specified in Section 5.2 have not been met within 120 days from the date of this Agreement, or such later date as A.I.D. may agree to in writing, A.I.D., at its option, may cancel the then undisbursed balance of the Loan, to the extent not irrevocably committed to third parties, may terminate this Agreement by written notice to the Borrower. In the event of such termination, the Borrower will repay immediately the Principal then outstanding and any accrued interest; on receipt of such payments in full, this Agreement and all obligations of the Parties hereunder will terminate.

**Article 6: Special Covenants**

**Section 6.1. Project Evaluation.** The Parties agree to establish an evaluation program as part of the project. Except as the Parties otherwise agree in writing, the program will include, during the implementation of the Project and at one or more points thereafter: (a) evaluation of progress toward attainment of the objectives of the Project; (b) identification and evaluation of problem areas or constraints which may inhibit such attainment;

(c) assessment of how such information may be used to help overcome such problems; and (d) evaluation, to the degree feasible, of the overall development impact of the Project.

**Section 6.2. Borrower Contribution.** The Borrower shall, unless A.I.D. otherwise agrees in writing:

(a) Provide as its contribution to the Project not less than the equivalent of Eight Million Four Hundred Sixty Thousand U.S. Dollars (\$8,460,000);

(b) Cause the Agricultural Credit Bank (ACB) (i) to maintain the capitalization of the Agro-Industrial Development Fund for the period of the loan at an amount in Jamaican dollars not less than the value of the resources provided by A.I.D. and the Borrower, and (ii) use reflows from the long-term credit funds for the same general agribusiness purposes;

(c) Review periodically the progress of the Agro-Industrial Development Fund, and, where necessary, with the prior written approval of A.I.D. adjust the terms and conditions of the Project elements to meet Project goals;

(d) Exercise its best efforts to take all necessary action to replenish the foreign exchange segment of the Agro-Industrial Development Fund.

**Article 7: Procurement Source**

**Section 7.1. Foreign Exchange Costs.** Except as A.I.D. may otherwise agree in writing, disbursements pursuant to Section 8.1 will be used exclusively to finance the costs of goods and services required for the Project having their source and origin in countries included in Code 941 of the A.I.D. Geographic Code Book as in effect at the time orders are placed or contracts entered into for such goods and services ("Foreign Exchange Costs"), except as provided in the Project Loan Standard Provisions Annex, Section C.1 (2) with respect to marine insurance. In addition, transportation costs will be financed under the loan on carriers under flag registry of an A.I.D. Geographic Code 941 country or Jamaica.

**Section 7.2. Local Currency Costs.** Disbursements pursuant to Section 8.2 will be used exclusively to finance the costs of goods and services required for the Project having their source and, except as A.I.D. may otherwise agree in writing, their origin in Jamaica ("Local Currency Costs").

**Article 8: Disbursements**

**Section 8.1. Disbursement for Foreign Exchange Costs.**

(a) After satisfaction of conditions precedent, the Borrower may obtain disbursements of funds under the Loan for the Foreign Exchange Costs of goods or services required for the Project in accordance with the terms of this Agreement, by such of the following methods as may be mutually agreed upon:

(1) by submitting to A.I.D., with necessary supporting documentation as prescribed in Project Implementation Letters, (A) requests for reimbursement for such goods or services, or (B) requests for A.I.D. to procure commodities or services in Borrower's behalf for the Project: or

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(2) by requesting A.I.D. to issue Letters of Commitment for specified amounts (A) to one or more U.S. banks, satisfactory to A.I.D., committing A.I.D. to reimburse such bank or banks for payments made by them to contractors or suppliers, under Letter of Credit or otherwise, for such goods or services, or (B) directly to one or more contractors or suppliers, committing A.I.D. to pay such contractors or suppliers for such goods or services.

(b) Banking charges incurred by Borrower in connection with Letters of Commitment and Letters of Credit will be financed under the Loan unless the Borrower instructs A.I.D. to the contrary. Such other charges as the Parties may agree to may also be financed under the Loan.

#### Section 8.2. Disbursement for Local Currency Costs.

(a) After satisfaction of conditions precedent, the Borrower may obtain disbursements of funds under the Loan for Local Currency Costs required for the Project in accordance with the terms of this Agreement, by submitting to A.I.D., with necessary supporting documentation as prescribed in Project Implementation Letters, requests to finance such costs.

(b) The local currency needed for such disbursement hereunder may be obtained:

(1) by acquisition by A.I.D. with U.S. dollars by purchase. The U.S. dollar equivalent of the local currency made available hereunder will be, in the case of subsection (b) (1) above, the amount of U.S. dollars required by A.I.D. to obtain the local currency.

Section 8.3. Other Forms of Disbursement. Disbursements of the Loan may also be made through such other means as the Parties may agree to in writing.

Section 8.4. Rate of Exchange. Except as may be more specifically provided under Section 8.2, if funds provided under the Loan are introduced in Jamaica by A.I.D. or any public or private agency for purposes of carrying out obligations of A.I.D. hereunder, the Borrower will make such arrangements as may be necessary so that such funds may be converted into currency of Jamaica at the highest rate of exchange which, at the time the conversion is made, is not unlawful in Jamaica.

Section 8.5. Date of Disbursement. Disbursements by A.I.D. will be deemed to occur (a) on the date on which A.I.D. makes a disbursement to the Borrower or its designee, or to a bank, contractor or supplier pursuant to a Letter of Commitment, contract, or purchase order; (b) on the date on which A.I.D. disburses to the Borrower or its designee local currency is obtained in accordance with Section 8.2(b)(1); or (c) if local currency is obtained in accordance with Section 8.2(b)(2), on the date on which A.I.D. opens or amends the Special Letter of Credit there referred to.

#### Article 9: Miscellaneous

Section 9.1. Communications. Any notice, request, document, or other communication submitted by either Party to the other under this Agreement will be in writing or by telegram or cable, and will be deemed duly given or sent when delivered to such party at the following address:

To the Borrower:

Address for Mail and Telegrams:

Minister of Finance  
30 National Heroes Circle  
Kingston 4, Jamaica

To A.I.D.:

Address for Mail and Telegrams:

Mission Director  
USAID Jamaica  
Mutual Life Building  
2 Oxford Road  
Kingston 5, Jamaica

All such communications will be in English, unless the Parties otherwise agree in writing. Other addresses may be substituted for the above upon the giving of notice. The Borrower, in addition, will provide the USAID Mission with a copy of each communication sent to A.I.D.

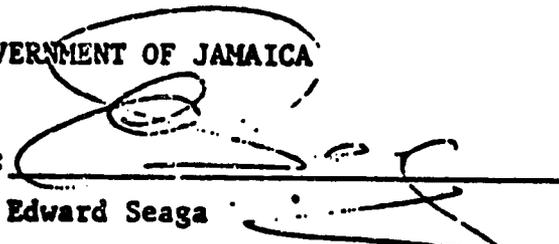
Section 9.2. Representatives. For all purposes relevant to this Agreement, the Borrower will be represented by the individual holding or acting in the office of the Minister of Finance and A.I.D. will be represented by the individual holding or acting in the office of Director, USAID/Jamaica, each of whom, by written notice, may designate additional representatives for all purposes other than exercising the power under Section 2.1 to revise elements of the amplified description in Annex I. The names of the representatives of the Borrower, with specimen signatures, will be provided to A.I.D., which may accept as duly authorized any instrument signed by such representatives in implementation of this Agreement, until receipt of written notice of revocation of their authority.

Section 9.3. Standard Provision Annex. A "Project Loan Standard Provisions Annex" (Annex II) is attached to and forms part of this Agreement.

IN WITNESS WHEREOF, the Borrower and the United States of America, each acting through its duly authorized representative, have caused this Agreement to be signed in their names and delivered as of the day and year first above written.

GOVERNMENT OF JAMAICA

By:

  
Edward Seaga

Title: Prime Minister and Minister of Finance

UNITED STATES OF AMERICA

By:

  
W. Robert Warne

Title: Charge d' Affairs

By:

  
Lewis P. Reade

Title: Director, USAID Mission to Jamaica

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## ANNEX I

### AMPLIFIED PROJECT DESCRIPTION AGRO-INDUSTRIAL DEVELOPMENT PROJECT

#### A. The Project

The Project, which focuses on economic growth in Jamaica's critical agribusiness sub-sector, seeks to strengthen agribusiness enterprises by restoring their productivity. Employment, gross earnings, production, productivity and the general level of economic activity within this sub-sector are targeted for expansion. The Project will also assist Jamaica to make greater use of its natural agricultural endowments and indigenous materials. The Project will establish in the Agricultural Credit Bank (ACB) capabilities to facilitate private agro-industrial growth through access to credit and technical assistance.

AID loan funds will be used by the ACB, who, in turn, will channel these funds through Jamaican commercial banks to provide (a) foreign exchange and credit for immediate financing for existing agribusiness operations; (b) pre-investment funds for the identification and development of new agro-industrial projects; (c) consultant services to the private agribusiness from foreign sources to assist them in carrying out the installation and start-up of new operations and the trouble-shooting of process technology and management problems of on-going operations; and, (d) training for public sector agri-business staff of selected Jamaican financial institutions in agribusiness investment development and promotion.

#### B. Project Elements

The Borrower will be the Government of Jamaica. The Executing Agency for the Development Fund (ADF) will be the Agricultural Credit Bank of Jamaica. The Project will establish a loan/guarantee program with commercial banks as a means of providing long-term credit for agro-industrial expansion projects meeting eligibility criteria. The target group of this component is medium sized Jamaican agro-industrial firms who will benefit from long-term loans for expansion.

##### Agro-industrial Development Fund

The Agro-industrial Development Fund has two components: (a) a loan and loan-guarantee mechanism, and (b) a mechanism providing advances for pre-investment studies and technical consultancy services.

##### Loan/Guarantee Component

##### 1: Magnitude and Scope

The Loan/Guarantee component will consist of a total of initial capitalization of \$8,300,000 for long term loans to sub-borrowers of which \$5,000,000 will be A.I.D. loan funds and \$3,300,000 will be provided by the

Government of Jamaica. (A Bad Debts Reserve will be built from the spread on sub-loan interest payments). The A.I.D. financial resources will support the expansion of agro-industrial operations including joint ventures by providing foreign exchange for investment in fixed/current assets; the GOJ funds will provide domestic currency for related fixed/current assets. All loans will be denominated and repaid in Jamaican dollars. Agro-industrial activities which may be financed under the program may be divided into three categories, all of which contribute to increasing the flow of agricultural production to final consumption:

- (i) Agro-industry (including fruit, vegetable and ornamental horticulture processing, and packaging plants canneries, sawmills, bakeries, slaughter and dressing facilities, etc.) which processes food and fiber products from agriculture;
- (ii) Agro-industry which produces inputs for agriculture (tools, machinery, vegetable crates, fertilizer, pesticides, improved seed, etc.)
- (iii) Agro-industry links to production or marketing, such as transportation.

Through an operations manual, the Agricultural Credit Bank (ACB) will advise the commercial banks of the procedures and criteria for lending under the program with particular reference to eligibility conditions, and sub-loan guarantee levels offered by ACB.

Simultaneously, the ACB will carry out an active promotion campaign to familiarize commercial bank branches, Jamaican consulting firms and potential sub-borrowers with the Fund and its objectives. A sub-borrower wishing to establish or expand an eligible agro-industrial activity would present an application to the commercial bank (CB) of his choice. The CB would refer the application to ACB where it will be screened in terms of its economic viability. Based on this preliminary analysis, a decision would be reached by ACB whether to require more detailed study of the proposed project and sub-borrower. ACB will assist the sub-borrower to contract with a consulting firm to provide assistance in completing a pre-investment feasibility study and/or resolving technical or managerial problems as pre-conditions to any loan on projects where this is deemed essential. Upon completion of a feasibility study, the ACB, with the CB, would appraise the sub-project, make the credit judgement, and negotiate the risk sharing. Upon agreement by ACB and the CB, the former will transfer the required funds to the latter for the approved investment project. All collection responsibility will rest with the CBs.

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## 2. Selection and Screening

In order for a sub-project to be eligible for financing, potential sub-borrowers must demonstrate that they are Jamaican enterprises presently in agro-industrial activities or interested in the expansion of such an enterprise. These firms must have a management and majority ownership which is private (not precluded are the co-operatives, the firms operating with leased GOJ owned assets or with a minority participation of the government) and must be dependent upon Jamaican agriculture, such that at least 65% of the factory gate value of the raw materials they "process" or expect to process are products of Jamaican businesses. These firms must fall within the "second-tier" category of firms within agro-industry characterized as follows:

- have more than 6 but less than 51 employees (unskilled) measures as full time equivalents;
- combined with any other enterprise in Jamaica under the same ownership, do not have fixed assets owned or leased, other than land, having a book value exceeding US\$500,000;
- do not have fixed assets per employee (unskilled and full time equivalent) in excess of US\$15,000.

Both the value added effect of sub-projects (through processing of domestically produced raw materials) and foreign exchange impact of sub-projects (either through stimulation of exports or import substitution) will be estimated at the time of the initial screening.

If after initial screening a sub-borrower is accepted, the commercial bank will negotiate the terms of the loan with the sub-borrower, subject to the restriction that the rate of interest may not exceed the rate at which the bank borrows by more than three percentage points or, for projects supported by pre-investment feasibility studies, by more than two and a half percentage points.

ACB will require the services of a project monitor to serve as liaison between ACB and USAID. The project monitor shall have experience in loan review and portfolio management, and will be nominated by USAID with final selection by ACB.

An initial screening system will be developed within the first one hundred twenty days of project implementation by ACB. This screening system and the eligibility criteria set forth above will be evaluated during the course of project implementation to determine whether modifications are necessary.

## 3. Sub-lending Terms and Conditions

The Credit Manual to be prepared by ACB within the first six months of project implementation and distribution to CBs and interested consulting firms will specify sub-lending parameters. These are summarized below based on existing agreements between ACB and CBs:

- Interest Rate: Rates charged to end users will be initially set at current average rates for equivalent term credit from CBs for local currency loans. For loans in foreign exchange, the rate will be determined by a moving average of the quarterly rates for the foreign exchange auctioned under the "Small Manufacturers Assistance Project" currently under review at the USAID/Kingston.

In the event that there are no auctions of foreign exchange under an AID program in Jamaica, the differential interest rate for foreign exchange loans will be determined by consultations with a number of leading Jamaican financial institutions and the Bank of Jamaica as well as selected American foreign exchange firms.

The CBs will receive a maximum 3% spread, or 2½% for projects supported by feasibility studies accepted by the banks. Periodic adjustments in the interest rate spread will be permitted depending on inflationary trends and changes in the overall GOJ interest rate policy (concessionary rates are ruled out by the GOJ's interest rate policy and, moreover, will not be considered for this Project).

- Terms: The maximum term for sub-loans will be ten years with a grace period on principal payment not exceeding 24 months. Sub-loans will not be made for a term of less than six years. Within these limitations, sub-lending terms will be set on a case-by-case basis. Payments on interest and principal will be made quarterly.

- Guarantee Levels: CBs have little or no experience with risk sharing and as such client profiles which can be used to set criteria for risk sharing do not exist. For this reason it will be necessary to adopt a variable guarantee program of up to 50% for projects supported by feasibility studies, acceptable to ACB. Over the life of the project as information on client performance becomes available, discrete guarantee levels may be set. Guarantee levels may be set through negotiation between the CB and the ACB, based primarily on sub-project viability, as estimated by the project documentation, rather than on the collateral value of assets pledged as security. Fixed assets to be purchased with sub-loan funds will be acceptable by CBs for collateral at, as a minimum, 40% of C.I.F. purchase value.

- Sub-loan Uses: Eligible uses of foreign exchange from the Fund will include imported fixed assets - including spare parts, and imported raw materials inventories. Domestic currency from the Fund will be eligible for use in construction and domestic raw materials inventories. Fund resources (domestic and foreign exchange) will be eligible for the above uses in sub-projects which establish links to production or marketing.

- Sub-loan Size Restrictions: The maximum sub-loan size and maximum amount to be outstanding to any one sub-borrower (inclusive of all enterprises under common ownership) will be \$400,000.

## Pre-investment Studies/Technical Consultancy Advances

To adequately and effectively use the long term credit funds, agro-industrial firms frequently will need to strengthen their managerial and technical capabilities. In addition the practice of undertaking pre-investment studies as a means of assessing project viability is not common. As a result many firms with business potential but little or no equity and/or collateral have limited access to project credit.

### 1. Mechanics

Sub-borrowers accepted as sub-loan applicants will be able to obtain advances from the commercial banks for preparation of the pre-investment feasibility studies, assisted by consultant services, required for sub-loan approval. An agreement will be executed between the consultant(s) and the sub-borrower.

### 2. Magnitude and Scope

The Pre-investment Studies/Technical Consultancy Component will consist of a total initial capitalization of \$3,700,000, of which \$900,000 will be A.I.D. loan funds and \$2,800,000 will be provided by the GOJ. The A.I.D. financial resources will support payments to foreign consultants by providing the required foreign exchange; the GOJ funds will provide domestic currency to support payments to Jamaican consultants. All advances will be repayable in domestic currency.

### 3. Advances - Terms and Conditions

The Credit Manual to be proposed by ACB and distributed to CBs and pre-qualified consulting firms will specify parameters for advances to sub-borrowers for pre-investment studies and/or technical consultancy services related to an approved sub-project proposal. Sub-borrowers eligible under the terms and conditions will be required to repay the commercial banks for all advances made for pre-investment studies and technical consultancy. The total amount of the repayment may be financed as part of the long term loan for fixed assets, with the same terms and conditions. It is expected that pre-investment studies will not always result in recommendation to invest. Advances on such studies will be accrued to the particular sub-borrower's account to be added to any future advances made on other pre-investment studies. The maximum value of advances which may be accrued by any one sub-borrower prior to an accepted investment loan is \$20,000. After a non-action period of twenty-four months, such accrual accounts will be written off.

### Training/Advisory Assistance

The agro-industry development element of this Project involves four major participants. The first is the Agro-Industry Development Unit. Second is the group of sub-borrowers. A third group is the group of commercial banks retailing long-term loan funds. The fourth group is that of the consultants who will provide assistance in preparation of pre-investment studies and the effective assimilation of funds invested.

During the life of this Project an efficient and effective inter-relationship between participants will have to be established if agro-industry is to expand and grow. To ensure that these inter-relationships are established, technical assistance at various levels is called for as described below.

#### Agro-industry Development Unit

A special unit, the Agroindustry Development Unit, (ADU), to be established within the ACB is expected to consist of 10 individuals supported by existing bank infrastructure.

The creation of the ADU will require technical assistance inputs including short term advisory/training services related to the Agro-industry Development Fund management, development banking, feasibility study assessment, business management production/processing and evaluation. A total of 108 professional person months (PPM) of resident trainer/advisors and 104 PPM of short term consultants will be required over the three year period of project implementation. All trainer/advisor and consultant services are expected to come from the U.S. or other Code 941 countries. Such advisors will train the staff of the ADU in developing banking skills, will assist in institutionalizing the Fund's operations and will assist in establishing an evaluation methodology.

The advisors will train the staff of the ADU in the skills required of development banking in assessing "credit worthiness" of applicants, to evaluate pre-investment feasibility studies provided by applicants (and the consulting firms involved), and to identify management and technical problems within sub-borrower operations, which may require attention (possibly from consulting firms) to safeguard the loan. The "advisors" will assist ACB to develop terms of reference for pre-investment studies to be required of sub-borrowers.

The evaluation system will include a methodology for periodic data gathering, the reporting on use of sub-loan funds as well as sampling to determine end-of-sub-project status. This system will provide information on the degree to which sub-projects alleviate constraints faced by the agroindustry sub-borrowers.

All training for the staff of the Unit will be done in-country by the above trainer/advisory staff. Limited funding will be provided for educational/observational travel for Unit personnel to similar development banking operations in other countries.

Finally, limited funding will be provided for commodities to assist the Development Unit establish itself. All commodities will be attached to the Agroindustry Development Unit. The vehicles provided are to give the Unit staff the capability to carry out sub-project identification, promotion, development and inspection on a country-wide basis.

#### Sub-borrowers

Sub-borrowers will receive technical assistance from the Agroindustry Development Unit. The Unit staff will work with potential sub-borrowers in identifying credit needs, as well as technical and managerial assistance required to effectively implement sub-loans. Sub-borrowers will be assisted in negotiating with a pre-qualified consulting firm for consultancy services and the preparation of pre-investment studies. The intention is to have sub-loan design cover the constraints sub-borrowers face in loan assimilation.

#### Commercial Banks

Technical assistance to participating CBs will be necessary since agro-industrial financing will be a relatively new activity, and their capability to analyze project feasibility studies is limited. Assistance to CBs will be provided by the ADU staff, and will emphasize the development of criteria for evaluating credit worthiness through pre-investment studies and a firm's cash flow and business development plan. Other areas of assistance will be longer term project economic impact analysis.

Project design provides for the assistance to ACB to be used to develop with CBs joint terms of reference to be provided to consulting firms hired by sub-borrowers to undertake the required pre-investment feasibility studies and carry out the data collection effort with regard to these studies and assessment of project impact. Assistance through special courses organized by the Development Unit will train CB loan officers and branch managers in project evaluation techniques. Development Unit staff will work with the advisor/trainer staff in carrying out these training programs and providing assistance in evaluating technical feasibility and overall merits of sub-loan applicants. ACB will absorb the cost of the assistance provided by its Development Unit staff with a portion of the interest spread retained. A.I.D. financed technical assistance for this activity is included as part of the technical assistance provided to the Agro-industry Development Fund.

### Jamaican and Foreign Consulting Firms

The Development Unit staff will be assisted by the Advisor/Trainer staff in "pre-qualifying" Jamaican and Foreign Consulting Firms (JFCF), in terms of their capabilities to provide assistance to sub-borrowers in identifying, describing and resolving both technical and management problems. JFCFs must have a demonstrated capability to undertake pre-investment feasibility studies as per terms of reference provided by the Development Unit.

#### C. Evaluation Plan

One year after the signing of the Loan Agreement, the GOJ and USAID will perform a joint in-house evaluation to primarily assess implementation progress to date. One year later, a second, more comprehensive evaluation will be undertaken including representatives of both USAID and GOJ as well as outside consultants.

This evaluation will assess overall project performances against revisions in the project implementation plan, as well as reviewing the viability of the Agricultural Development Bank's ability to continually provide foreign exchange loans to be paid back in local currency. Within three months after the PACD for the three year project, a final joint GOJ/USAID evaluation will be undertaken to analyze the impact of the project on the target groups and to measure the project's successes and/or failures in meeting its goals and objectives.

ILLUSTRATIVE IMPLEMENTATION SCHEDULE

- September 30, 1982** - Mission and GOJ sign Project Agreement.
- December 31, 1982** - GOJ has met initial CPs to establish or provide:
- 1) The Agro-industrial Development Unit (ADU);
  - 2) An AID approved RFP for training/advisory assistance to the ADU and Commercial Banks (NCB).
- March 31, 1983**
- ADU will have developed and adopted a credit manual detailing long term loan concepts, objectives, and guidelines for participation by sub-borrowers, NCB branches and Jamaican consulting firms.
  - ADU and NCB plan providing criteria for sub-project eligibility and appraisal.
  - Development by ADU of an acceptable contract for use by the sub-borrowers.
  - Development by ADU of a Project Impact Assessment (PIA) form.
  - Development by ADU prequalified lists of consultants.
- September 30, 1983** - ADU loan fund disbursements of \$1,050,000 and J\$693,000.
- ADU pre-investment/consultancy advances of \$324,000 and J\$1,008,000.
  - First in-house evaluation performed.
- September 30, 1984** - ADU cumulative loan fund disbursements of \$2,850,000 and J\$1,881,000.
- ADU cumulative pre-investment/consultancy advances of \$711,000 and J\$2,212,000.
  - Second evaluation undertaken with outside assistance.
- September 30, 1985** - PACD.
- ADU cumulative loan fund disbursements of \$5,000,000 and J\$3,300
  - ADU cumulative pre-investment/consultancy advances of \$900,000 and J\$2,800,000.
- December 31, 1985** - Final Evaluation Completed.

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ESTIMATED BUDGETI. GLOBAL BREAKDOWN (\$000)

	(ACB) <u>COMPONENT ONE</u>	<u>TOTAL</u>
1. Training & Advisory Assistance *	2,300	2,300
2. Commodities	100	100
3. Educational Travel	200	200
4. Long Term Credit	5,000	5,000
5. Pre-investment Studies/ Technical Assistance	900	900
<b>Total</b>	<u>8,500</u>	<u>8,500</u>

II. COMPONENT BREAKDOWN (\$000)

<u>Component I (ACB)</u>	<u>USAID</u>	<u>GOJ</u>	<u>TOTAL</u>
1. Loan/Guarantee Fund	5,000	3,000	8,300
2. Pre-investment Technical Consultancy	900	2,800	3,700
3. Training and Advisory Assistance	2,300	-	2,300
4. Agro-industrial Unit	300	2,360	2,660
<b>Total</b>	<u>8,500</u>	<u>8,460</u>	<u>16,960</u>

\* includes:

- a) Project Manager/Banking Specialist
- b) Business Management Specialist/Finance and Accounting
- c) Business Management Specialist/Sales, Marketing, Procurement and Purchasing
- d) Production Specialist/Processing and Industrial Engineering
- e) Short Term Advisors/Trainers

Project Loan Standard

Provisions Annex

**Definitions:** As used in this Annex, the "Agreement" refers to the Project Loan Agreement to which this Annex is attached and of which this Annex forms a part. Terms used in this Annex have the same meaning or reference as in the Agreement.

**Article A: Project Implementation Letters.** To assist Borrower in the implementation of the Project, A.I.D., from time to time, will issue Project Implementation Letters that will furnish additional information about matters stated in this Agreement. The parties may also use jointly agreed-upon Project Implementation Letters to confirm and record their mutual understanding on aspects of the implementation of this Agreement. Project Implementation Letters will not be used to amend the text of the Agreement, but can be used to record revisions or exceptions which are permitted by the Agreement, including the revision of elements of the amplified description of the Project in Annex 1.

**Article B: General Covenants**

**SECTION B.1. Consultation.** The Parties will cooperate to assure that the purpose of this Agreement will be accomplished. To this end, the Parties, at the request of either, will exchange views on the progress of the Project, the performance of obligations under this Agreement, the performance of any consultants, contractors, or suppliers engaged on the Project, and other matters relating to the Project.

**SECTION B.2. Execution of Project.** The Borrower will:

(a) carry out the Project or cause it to be carried out with due diligence and efficiency, in conformity with sound technical, financial, and management practices, and in conformity with those documents, plans, specifications, contracts, schedules, or other arrangements, and with any modifications therein, approved by A.I.D. pursuant to this Agreement; and

(b) provide qualified and experienced management for, and train such staff as may be appropriate for the maintenance and operation of the Project, and, as applicable for continuing activities, cause the Project to be operated and maintained in such manner as to assure the continuing and successful achievement of the purposes of the Project.

**SECTION B.3. Utilization of Goods and Services.**

(a) Any resources financed under the Loan will, unless otherwise agreed in writing by A.I.D., be devoted to the Project until the completion of the Project, and thereafter will be used so as to further the objectives sought in carrying out the Project.

(b) Goods or services financed under the Loan, except as A.I.D. may otherwise agree in writing, will not be used to promote or assist a foreign aid project or activity associated with or financed by a country not included in Code 935 of the A.I.D. Geographic Code Book as in effect at the time of such use.

**SECTION B.4. Taxation.**

(a) This Agreement and the Loan will be free from, and the Principal and interest will be paid free from, any taxation or fees imposed under laws in effect in the territory of the Borrower.

(b) To the extent that (1) any contractor, including any consulting firm, any personnel of such contractor financed under the Loan, and any property or transactions relating to such contracts and (2) any commodity procurement transaction financed under the Loan are not exempt from identifiable taxes, tariffs, duties, or other levies imposed under laws in effect in the territory of the Borrower, the Borrower will, as and to the extent provided in and pursuant to Project Implementation Letters, pay or reimburse the same with funds other than those provided under the Loan:

**SECTION B.5. Reports, Records, Inspections, Audit.**

The Borrower will:

(a) furnish A.I.D. such information and reports relating to the Project and to this Agreement as A.I.D. may reasonably request;

(b) maintain or cause to be maintained, in accordance with generally accepted accounting principles and practices consistently applied, books and records relating to the Project and to this Agreement, adequate to show, without limitation, the receipt and use of goods and services acquired

## SECTION B.5.(b)

under the Loan. Such books and records will be audited regularly, in accordance with generally accepted auditing standards, and maintained for three years after the date of last disbursement by A.I.D.; such books and records will also be adequate to show the nature and extent of solicitations of prospective suppliers of goods and services acquired, the basis of award of contracts and orders, and the overall progress of the Project toward completion; and

(c) afford authorized representatives of a Party the opportunity at all reasonable times to inspect the Project, the utilization of goods and services financed by such Party, and books, records, and other documents relating to the Project and the Loan.

SECTION B.6. Completeness of Information. The Borrower confirms:

(a) that the facts and circumstances of which it has informed A.I.D., or caused A.I.D. to be informed, in the course of reaching agreement with A.I.D. on the Loan, are accurate and complete, and include all facts and circumstances that might materially affect the Project and the discharge of responsibilities under this Agreement;

(b) that it will inform A.I.D. in timely fashion of any subsequent facts and circumstances that might materially affect, or that it is reasonable to believe might so affect, the Project or the discharge of responsibilities under this Agreement.

SECTION B.7. Other Payments. Borrower affirms that no payments have been or will be received by any official of the Borrower in connection with the procurement of goods or services financed under the Loan except fees, taxes, or similar payments legally established in the country of the Borrower.

SECTION B.8. Information and Marking. The Borrower will give appropriate publicity to the Loan and the Project as a program to which the United States has contributed, identify the Project site, and mark goods financed by A.I.D., as described in Project Implementation Letters.

**Article C: Procurement Provisions**

**SECTION C.1. Special Rules.**

(a) The source and origin of ocean and air shipping will be deemed to be the ocean vessel's or aircraft's country of registry at the time of shipment.

(b) Premiums for marine insurance placed in the territory of the Borrower will be deemed an eligible Foreign Exchange Cost, if otherwise eligible under Section C.7(a).

(c) Any motor vehicles financed under the Loan will be of United States manufacture, except as A.I.D. may otherwise agree in writing.

**SECTION C.2. Eligibility Date.** No goods or services may be financed under the Loan which are procured pursuant to orders or contracts firmly placed or entered into prior to the date of this Agreement, except as the Parties may otherwise agree in writing.

**SECTION C.3. Plans, Specifications, and Contracts.** In order for there to be mutual agreement on the following matters, and except as the Parties may otherwise agree in writing:

(a) The Borrower will furnish to A.I.D. upon preparation:

(1) any plans, specifications, procurement or construction schedules, contracts, or other documentation relating to goods or services to be financed under the Loan, including documentation relating to the prequalification and selection of contractors and to the solicitation of bids and proposals. Material modifications in such documentation will likewise be furnished A.I.D. on preparation;

(2) such documentation will also be furnished to A.I.D., upon preparation, relating to any goods or services which, though not financed under the Loan, are deemed by A.I.D. to be of major importance to the Project. Aspects of the Project involving matters under this subsection (a) (2) will be identified in Project Implementation Letters;

(b) Documents related to the prequalification of contractors, and to the solicitation of bids or proposals for goods and services financed under the Loan will be approved by A.I.D. in writing prior to their issuance, and their terms will include United States standards and measurements;

**SECTION C.3.**

(c) Contracts and contractors financed under the Loan for engineering and other professional services, for construction services, and for such other services, equipment, or materials as may be specified in Project Implementation Letters, will be approved by A.I.D. in writing prior to execution of the contract. Material modifications in such contracts will also be approved in writing by A.I.D. prior to execution; and

(d) Consulting firms used by the Borrower for the Project but not financed under the Loan, the scope of their services and such of their personnel assigned to the Project as A.I.D. may specify, and construction contractors used by the Borrower for the Project but not financed under the Loan shall be acceptable to A.I.D.

**SECTION C.4. Reasonable Price.** No more than reasonable prices will be paid for any goods or services financed, in whole or in part, under the Loan. Such items will be procured on a fair and, to the maximum extent practicable, on a competitive basis.

**SECTION C.5. Notification to Potential Suppliers.** To permit all United States firms to have the opportunity to participate in furnishing goods and services to be financed under the Loan, the Borrower will furnish A.I.D. such information with regard thereto, and at such times, as A.I.D. may request in Project Implementation Letters.

**SECTION C.6. Shipping.**

(a) Goods which are to be transported to the territory of the Borrower may not be financed under the Loan if transported either:

(1) on an ocean vessel or aircraft under the flag of a country which is not included in A.I.D. Geographic Code 935 as in effect at the time of shipment; or

(2) on an ocean vessel which A.I.D., by written notice to the Borrower has designated as ineligible; or

(3) under an ocean or air charter which has not received prior A.I.D. approval:

(b) Costs of ocean or air transportation (of goods or persons) and related delivery services may not be financed under the Loan, if such goods or persons are carried:

**SECTION C.6.**

(1) on an ocean vessel under the flag of a country not, at the time of shipment, identified under the paragraph of the Agreement entitled "Procurement Source: Foreign Exchange Costs," without prior written A.I.D. approval; or

(2) on an ocean vessel which A.I.D., by written notice to the Borrower, has designated as ineligible; or

(3) under an ocean vessel or air charter which has not received prior A.I.D. approval.

(c) Unless A.I.D. determines that privately owned United States-flag commercial ocean vessels are not available at fair and reasonable rates for such vessels,

(1) at least fifty percent (50%) of the gross tonnage of all goods (computed separately for dry bulk carriers, dry cargo liners and tankers) financed by A.I.D. which may be transported on ocean vessels will be transported on privately owned United States-flag commercial vessels, and

(2) at least fifty percent (50%) of the gross freight revenue generated by all shipments financed by A.I.D. and transported to the territory of the Borrower on dry cargo liners shall be paid to or for the benefit of privately owned United States-flag commercial vessels. Compliance with the requirements of (1) and (2) of this subsection must be achieved with respect to any cargo transported from U.S. ports and also any cargo transported from non-U.S. ports, computed separately.

**SECTION C.7. Insurance.**

(a) Marine insurance on goods financed by A.I.D. which are to be transported to the territory of the Borrower may be financed as a Foreign Exchange Cost under this Agreement provided,

(1) such insurance is placed at the lowest available competitive rate, and

## SECTION C.7.

(2) claims thereunder are payable in the currency in which such goods were financed or in any freely convertible currency. If the Borrower (or government of Borrower), by statute, decree, rule, regulation, or practice discriminates with respect to A.I.D.-financed procurement against any marine insurance company authorized to do business in any State of the United States, then all goods shipped to the territory of the Borrower financed by A.I.D. hereunder will be insured against marine risks and such insurance will be placed in the United States with a company or companies authorized to do a marine insurance business in a State of the United States.

(b) Except as A.I.D. may otherwise agree in writing, the Borrower will insure, or cause to be insured, goods financed under the Loan imported for the Project against risks incident to their transit to the point of their use in the Project; such insurance will be issued on terms and conditions consistent with sound commercial practice and will insure the full value of the goods. Any indemnification received by the Borrower under such insurance will be used to replace or repair any material damage or any loss of the goods insured or will be used to reimburse the Borrower for the replacement or repair of such goods. Any such replacement will be of source and origin of countries listed in A.I.D. Geographic Code 935 as in effect at the time of replacement, and, except as the Parties may agree in writing, will be otherwise subject to the provisions of the Agreement.

SECTION C.8. U.S. Government-Owned Excess Property. The Borrower agrees that wherever practicable United States Government-owned excess personal property, in lieu of new items financed under the Loan, should be utilized. Funds under the Loan may be used to finance the costs of obtaining such property for the Project.

## Article D: Termination; Remedies.

SECTION D.1. Cancellation by Borrower. The Borrower may, by giving A.I.D. 30 days written notice, cancel any part of the Loan which has not been disbursed or committed for disbursement to third parties.

SECTION D.2. Events of Default; Acceleration. It will be an "Event of Default" if Borrower shall have failed:

(a) to pay when due any interest or installment of Principal required under this Agreement, or

SECTION D.2.

(b) to comply with any other provision of this Agreement, or

(c) to pay when due any interest or installment of Principal or other payment required under any other loan, guaranty or other agreement between the Borrower or any of its agencies and A.I.D. or any of its predecessor agencies. If an Event of Default shall have occurred, then A.I.D. may give the Borrower notice that all or any part of the unrepaid Principal will be due and payable sixty (60) days thereafter, and, unless such Event of Default is cured within that time:

(1) such unrepaid Principal and accrued interest hereunder will be due and payable immediately, and

(2) the amount of any further disbursements made pursuant to then outstanding commitments to third parties or otherwise will become due and payable as soon as made.

SECTION D.3. Suspension. If at any time:

(a) An Event of Default has occurred; or

(b) An event occurs that A.I.D. determines to be an extraordinary situation that makes it improbable either that the purpose of the Loan will be attained or that the Borrower will be able to perform its obligations under this Agreement; or

(c) Any disbursement by A.I.D. would be in violation of the legislation governing A.I.D.; or

(d) The Borrower shall have failed to pay when due any interest, installment of principal or other payment required under any other loan, guaranty, or other agreement between the Borrower or any of its agencies and the Government of the United States or any of its agencies;

Then A.I.D. may:

(1) suspend or cancel outstanding commitment documents to the extent they have not been utilized through irrevocable commitments to third parties or otherwise, giving prompt notice thereof to the Borrower;

(2) decline to issue additional commitment documents or to make disbursements thereunder under existing ones; and

**SECTION D.3.**

(3) at A.I.D.'s expense, direct that title to goods financed under the Loan be transferred to A.I.D. if the goods are from a source outside Borrower's country, are in a deliverable state and have not been offloaded in ports of entry of Borrower's country. Any disbursement made under the Loan with respect to such transferred goods will be deducted from Principal.

**SECTION D.4. Cancellation by A.I.D.** If, within sixty (60) days from the date of any suspension of disbursements pursuant to Section D.3, the cause or causes thereof have not been corrected, A.I.D. may cancel any part of the Loan that is not then disbursed or irrevocably committed to third parties.

**SECTION D.5. Continued Effectiveness of Agreement.** Notwithstanding any cancellation, suspension of disbursements, or acceleration of repayment, the provisions of this Agreement will continue in effect until the payment in full of all Principal and accrued interest hereunder.

**SECTION D.6. Refunds.**

(a) In the case of any disbursement which is not supported by valid documentation in accordance with this Agreement, or which is not made or used in accordance with this Agreement, or which was for goods or services not used, in accordance with this Agreement, A.I.D., notwithstanding the availability or exercise of any other remedies provided for under this Agreement, may require the Borrower to refund the amount of such disbursement in United States Dollars to A.I.D. within sixty (60) days after receipt of a request therefor. The right to require such a refund of a disbursement will continue, notwithstanding any other provision of this Agreement, for three (3) years from the date of the last disbursement under this Agreement.

(b)

(1) Any refund under the preceding subsection, or

(2) any refund to A.I.D. from a contractor, supplier, bank, or other third party with respect to goods or services financed under the Loan, which refund relates to an unreasonable price for or erroneous invoicing of goods or services, or to goods that did not conform to specifications, or to services that were inadequate, will,

**SECTION D.6(b)(2)**

A. be made available first for the cost of goods and services required for the Project, to the extent justified, and

B. the remainder, if any, will be applied to the installments of Principal in the inverse order of their maturity and the amount of the Loan reduced by the amount of such remainder.

**SECTION D.7: Nonwaiver of Remedies.** No delay in exercising any right or remedy accruing to a Party in connection with its financing under this Agreement will be construed as a waiver of such right or remedy.

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APPENDIX II

CREDIT MANUAL

APPENDIX II

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**SPECIAL CONDITIONS OF  
GOJ/USAID AGRO/INDUSTRY DEVELOPMENT PROJECT**

1. ACB's LENDING POLICY FOR COMMERCIAL BANKS

1.00 The ACB will approve loans for providing sub-loans to finance:

- (i) Working Capital and fixed assets, and
- (ii) Pre-investment feasibility studies and Technical Consultancy Services.

Credit Mechanism

1.01 The ACB will sign separate Loan Agreements with the Commercial Bank for the amount of each sub-loan or group of sub-loans. The amount of the loan will be equal to the amount of the sub-loans. The sub-loans will be provided within the framework of the Project's Basic Credit Policy for sub-borrowers (Section B. Credit Policy Framework for sub-borrowers) and will be approved by the Commercial Bank (C.B.) when certified eligible by Manager of Agro-Industrial Development Unit (ADU) of the ACB. Approved by C.B. and ACB when guarantee and/or feasibility study is requested.

Participant Banks

1.02 Any Commercial Bank acceptable to the ACB.

The Commercial Banks' participation in the project will be established through a formal agreement containing the policy framework described in this document.

A. Loans for Working Capital and Fixed Investment

Term

1.03 The terms of the loans will be similar to the term of the sub-loans.

1.04 The Commercial Banks will repay to the ACB the principal and the interest in accordance with the sub-borrowers' repayment schedule. The Commercial Bank will make its payment to the ACB on the 15th of the month which follows the repayment date of the sub-loan installments.

The Commercial Bank must pay its installments timely, regardless of whether or not the sub-borrowers fall behind in their payments.

- 1.05 When the sub-borrowers pay their installments in advance, the Commercial Banks must also make their payments in advance to the ACB within the following 30 days after receiving the sub-borrowers' payment.
- 1.06 The sub-loans will be denominated and repaid in Jamaican dollar (JA\$) and will be at the foreign exchange rate in effect on the date of the issuance of the Letter of Credit (L.C.) to the sub-borrower's supplier.
- 1.07 In order to carry out the foreign exchange transactions financed with project funds, the sub-borrowers must use the services of the Commercial Bank that provided the sub-loans. The Commercial Banks may charge the sub-borrowers the prevailing commissions or fees for these services.

Guarantee

- 1.08 The ACB may guarantee the Commercial Bank loan to sub-borrowers that are US\$100,000 or less. This variable guarantee can cover up to 50% of a sub-loan supported by a feasibility study acceptable to ACB. Guarantee levels will be set through negotiation between the Commercial Bank and the ACB, based primarily on sub-project viability, or estimated by project documentation, rather than on the collateral value of assets pledged as security.
- 1.09 Collection responsibility will rest with the Commercial Bank unless a default occur, whereupon the Commercial Bank will make good its portion of the amount borrowed from ACB, and the entire claim will be subrogated to ACB for its collection efforts and/or write-off.
- 1.10 The Commercial Banks must require the sub-borrower to provide in security a first mortgage on all the assets financed with project funds. The Commercial Banks may request additional guarantees. Fixed assets to be purchased with sub-loan funds will be acceptable by Commercial Bank for collateral at, as a minimum, 40% of C.I.F. purchase value.

1.11 The interest rate that the ACB will charge to the Commercial Bank will be established on the basis of the following spreads allowed to the Commercial Banks: 2.5% when the ACB guarantees up to 50% of the loan. The Commercial Banks will receive a spread as provided in the table below for loans.

<u>Loan (US\$)</u>	<u>Interest Rate Spread</u>
Over 500,000	3%
Over 400,000	4%
Over 300,000	4½%
Over 200,000	5%
Over 100,000	5½%
Over 20,000	6%
Over 20,000 (With Guarantee)	2½%

Periodic adjustments in the interest rate spread will be made to reflect changes in the rate of inflation and in the overall G.O.J. interest rate policy.

Other Covenants

1.12 The part of the Commercial Banks' debt on account of any sub-loan made with the project funds will become due before the end of the sub-loans agreed upon terms in the following cases.

- (a) The sub-borrower pays the total amount of the principal.
- (b) The Commercial Bank either forecloses on the sub-borrower or reaches an agreement, approved by the ACB, to settle the sub-borrower's obligation.

1.13 The Commercial Bank's total obligations with the ACB will become due upon request from the ACB if the Commercial Bank breaches this loan agreement or any other loan agreement with the ACB, and the latter will also have the right to stop the disbursements on sub-loans that have already been approved.

- 1.14 The Commercial Bank will submit to the ACB the reports that the ACB may request, and will allow the ACB access to all the records and documents related to clients who have obtained sub-loans with the guarantee of the ACB.
- 1.15 The Commercial Bank's sub-loan agreements must stipulate that the ACB will have the right to audit the sub-borrowers' businesses and records, and to request from them all the information that it may deem necessary.
- 1.16 The Commercial Bank must ensure that the loan funds are used by the sub-borrowers in accordance with the loan agreement signed by the ACB and the Commercial Banks. The Commercial Bank's failure to carry out an effective supervision will invalidate the ACB's guarantee commitment.
- 1.17 Other covenants may be added according to the Legal Counselor's advice, and/or the ADU's specific recommendations related to each sub-loan.

#### B. Loans for Feasibility Studies

- 1.18 The policy for loans to finance feasibility studies differs from the general policy in the following aspects:

##### Term

- 1.19 The term of the loans will be the same as the term of the sub-loans. However, the Commercial Banks will only be obliged to pay the installments collected from the sub-borrowers.

##### Guarantee

- 1.20 The sub-borrower must obtain the guarantee of a co-signer, or provide a satisfactory collateral.

- 1.21 The ACB will guarantee 100% of the sub-borrowers' outstanding balance of the principal and the Commercial Bank's accrued interest owed to the ACB.
- 1.22 The Commercial Bank will be entitled to collect the amount guaranteed by the ACB under either one of the following circumstances.
- (i) the Commercial Bank has obtained a prosecution settlement against the sub-borrower and/or the co-signer,
  - (ii) the total outstanding balance has been in arrears for more than one year, and
  - (iii) the feasibility study shows that the sub-project is not viable or the feasibility study loan is not followed up by a loan for the sub-project within a period of 2 years after the former was contracted.
  - (iv) the Commercial Bank and the ACB reach an agreement by which the ACB will write off the loan.
- 1.23 Any guarantee that the ACB must pay will be credited to the Commercial Banks' outstanding balance.
- Interest
- 1.24 The ACB will allow the Commercial Banks an interest spread of 2.5%.
- Commission
- 1.25 The ACB will not charge any service fee.

B. CREDIT POLICY FRAMEWORK FOR SUB-BORROWERS

Overall Project Goal

2.00 The Agro-Industry Project's goal is to support Jamaica's economic recovery by strengthening the private production sector as a vehicle for economic growth, employment generation and the expansion of food production.

(a) Target Group

2.01 The target group or sub-borrowers must meet the qualifications and parameters described below.

Production Activities

2.02 Agro-industrial activities which may be financed under the programme may be divided into three categories, all of which contribute to increasing the flow of agricultural production to final consumption:

- ( i) agro-industry including fruit (but excluding the production, processing or marketing of sugar, palm oil or citrus for export), vegetable and ornamental horticulture, processing and packaging plants, canneries, sawmills, bakeries, slaughter and dressing facilities, etc., which processes food, feed, and fiber products from agriculture;
- ( ii) agro-industry which produces inputs for agriculture (tools, machinery, vegetable crates, fertilizer, pesticides, improved seed, etc.);
- (iii) agro-industry links to production or marketing, such as transportation.

Limits

2.03 The total assets (owned or leased) of all the business activities under the same ownership must not exceed the amount of Jamaican dollars equivalent to US\$1,000,000, (net of the value of lands).

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- 2.04 The raw material of Jamaican origin, must represent at least 65% of the total value of the raw material that will be processed.
- 2.05 The number of employees must be greater than 6 but lower than 101.
- 2.06 The ratio of fixed assets per employee must not exceed US\$25,000.

Financial Structure

- 2.07 The financial structure must be adequate.

Financial Statement

- 2.08 The loan applicant must be able to present an updated Balance Sheet, and a Profit and Loss Statement prepared in accordance with standard accounting principles.

(b) Objectives

- 2.09 Loans may be provided for viable projects which seek to increase and/or diversify production, improve the product's quality and/or appearance, increase the raw material's yield, increase productivity, improve the plant's safety and/or sanitation, improve the procurement system, improve the marketing system, penetrate new markets, undertake feasibility studies, and strengthen management effectiveness.
- 2.10 The loans may be used to finance working capital, construction, equipment machinery, and technical assistance.

A. Sub-loans for Working Capital and Fixed Investment

Loan Limits

- 2.11 The outstanding loans financed with project funds to all the businesses under the same ownership must not exceed the amount of Jamaican dollars equivalent to US\$500,000 at the prevailing rate of exchange.
- The smallest loan that can be approved is the amount of Jamaican dollars equivalent to US\$20,000.

2.12 The loan for purchases in foreign exchange will be converted to local currency at the rate of exchange of the date when the Commercial Bank issues the Letter of Credit for benefit of sub-borrower's supplier.

Term

2.13 The loan term must be between 6 and 10 years.

2.14 The interest rate on loans for purchase in local currency will be 18% and for US dollars 18%.

2.15 The interest rate for new loans will be revised from time to time on the basis of the Government of Jamaica's monetary policies, the prevailing interest rates, the opportunity cost of money and the prime rate in the United States (for loans that will use foreign exchange).

Guarantee

2.16 The Commercial Bank will determine in each case the value and quality of the guarantee required.

Repayment

2.17 The principal of the loan will be repaid quarterly.

2.18 The first installment will be paid at the end of the grace period.

2.19 The accrued interests will be paid with the same frequency as the principal, but no grace period will be provided. However, when the grace period on the principal is longer than one year, the first interest payment can become due at the end of the first year.

Loan Approval

2.20 The Commercial Banks which have been approved to borrow from ACB will submit a request to the ADU Manager at ACB to ascertain eligibility of the project being considered early in the sub-borrower loan inquiry phase. All loan requests certified eligible by the ADU Manager and subsequently submitted by the Commercial Bank on behalf of the sub-

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borrower will then be funded by the ACB. All collection responsibility will rest with the Commercial Bank.

Audited Financial Statements

- 2.21 The loan applicants may be requested to provide updated financial statements certified by External Auditors. Also, the sub-borrower may be requested to provide (to either the Commercial Bank or the ACB) audited financial statements every year.

Insurance

- 2.22 The sub-borrowers will be required to keep an insurance policy covering the assets provided in guarantee, and to endorse the policy to the Commercial Bank which provided the loan.

Loan Supervision

- 2.23 The sub-borrowers will provide the Commercial Bank any information that the Commercial Bank may request about the businesses. Further, the sub-borrowers will allow both the Commercial Bank and the ACB to carry out auditings on the businesses' records and operations.

B. Sub-loans for Feasibility Studies

2.24 Objectives

- a) To improve the business person's decision making process for undertaking investment projects.
- b) To provide the Commercial Bank and the ACB with adequate information for appraising loan applications.

Loan Application

- 2.25 The applicant must submit the loan application to the Commercial Bank.

Loan Arrangements

2.26 The approved loans for feasibility studies will be provided in accordance with the following arrangements.

- a) the sub-borrower must in all cases finance with his own funds at least 20% of the cost of the study.
- b) the sub-borrower can start disbursing the loan only after he has paid the part of the cost that he has agreed to finance with his own funds.
- c) the sub-borrower's debt (for the feasibility study loan) may be condoned if it is not followed up within a period of 2 years by a loan to finance the sub-project analyzed in the feasibility study. But the feasibility study will become the exclusive property of the ACB.
- d) the feasibility study loan and the one for financing the sub-project will be consolidated into one loan.

Loan Limits

2.27 The maximum loan amount that can be provided for one feasibility study is the sum of Jamaican dollars equivalent to US\$20,000, and the sub-borrower's outstanding balance on loans provided for feasibility studies cannot exceed the above mentioned sum.

Term

2.28 The term of the loan is 6 years for loan amounts of up to J\$30,000, and up to 10 years for larger amounts. All the loans will have a grace period of 2 years and the principal will be repaid in equal quarterly installments.

Interest

2.29 The interest rate will be 18% per annum (the rate charged on project loans for financing fixed assets). The accrued interest will be paid quarterly.

Guarantee

2.30 The sub-borrower must either provide the guarantee of a co-signer or a mortgage on fixed assets.

Repayments

2.31 The principal and interests will be repaid in equal quarterly installments.

Loan Approval

2.32 The loans will be approved by both the Commercial Bank and the ACB.

### III. LOAN APPLICATION PROCESS

#### Implementation Arrangements

- 3.00 The Commercial Banks (CB) are the Credit Retail Window for the Project's target group.
- 3.01 The Commercial Banks' participation in the Project have to be documented in a formal agreement between each participant Commercial Bank and the Agricultural Credit Bank (ACB). The agreement will spell out the Project's Policy framework related to the Commercial Banks' participation.
- 3.02 The participant Commercial Banks can apply for loans for on lending to private individuals and firms who meet the Project's Basic Policy for sub-borrowers.
- 3.03 The Commercial Banks and the ACB will formalize in separate loan agreements, the loans provided by the latter for on lending to each individual sub-borrower or group of sub-borrowers.

#### Sub-loan and Loan Processing Procedures

- 3.04 This section describes the loan processing procedures starting with the eligibility test and finishing up with the Loan Agreement between the Commercial Bank and the ACB.
- 3.05 The sub-loans for Feasibility Studies follow a different procedure from the sub-loans for Working Capital and Fixed Assets in the processing phases related to sub-loans' eligibility and appraisal.

#### A. SUB-LOANS FOR WORKING CAPITAL AND FIXED ASSETS

- 3.06 The following defines the eligibility and Appraisal Activities, and describes the sub-loans/loan processing steps.

#### Eligibility Test

- 3.07 The objective of the Eligibility Test is to determine:

- (i) The Applicant's acceptability by the Commercial Bank as a potential sub-borrower, and
- (ii) The enterprise and the sub-project's compatibility with the Project's Credit Policy.

3.08 The CB will use its own criteria for determining the applicant's acceptability. The Assessment of the applicant's legal capacity, character, financial situation, and possibility to meet the minimum collateral requirements are important at this stage.

3.09 The eligibility test will be carried out on the basis of the information provided by the applicant on the Sub-borrower Application for Loan Assistance (annex 1, Form 01 - 01) and any other information that the Commercial Bank considers necessary.

#### Sub-Loan Appraisal

3.10 The sub-loan appraisal's objective is to determine:

- (i) the sub-project's feasibility
- (ii) the creditor's risk and
- (iii) the terms of the loan.

3.11 From the ADU's point of view, another important objective is to determine the sub-project's social and economic impacts.

3.12 The sub-loan appraisal will be carried out jointly by the CB and the ADU. The latter's role will be to provide technical backstop services to the CBs in the analysis of the marketing, procurement, and production/processing aspects. For new and/or complex sub-projects, the CB or the ACB (through the CB) may request the applicant to present a comprehensive feasibility study. This study could be financed with Project funds (the procedure for loans for feasibility studies is described later in this chapter).

#### Loan Processing Steps

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- 3.13 The industrial processor (potential sub-borrower) obtains the application for Loan Assistance (annex 1, Form 01 - 01) from the Commercial Bank, fills it, and submits it to the CB.
- 3.14 The CB requests and/or obtains any other information that it may deem necessary, and carries out the eligibility test.
- 3.15 The CB will inform the applicant the outcome of the eligibility test as soon as the test is completed. If the application is eligible, the Commercial Bank will also inform the applicant about the next steps in the sub-loan processing cycle.
- 3.16 The CB will provide information to the ACB about the sub-loan applications that do not pass the eligibility test (annex 2, Form 01 - 02). If the loan application is eligible, the CB will arrange a meeting with an ADU Officer for discussing the application; providing the information available; and requesting the latter's assistance for analyzing the marketing, procurement and production/processing aspects.
- 3.17 The ADU will place special emphasis on the analysis of factors which could lead to default in the repayment of the loan and/or to failure in the accomplishment of the sub-project's intended benefits. The Project Appraisal Formats (annex 2, Form 01-03 and 04) are presented as guide lines for the ADU's Officers.
- 3.18 The ADU's Manager will assign to one of the ADU's Officer (Loan Processing Supervisor) the responsibility to initiate, lead and follow up the analysis.
- 3.19 The Loan Processing Supervisor (LPS) will verify the documents provided by the Commercial Bank, and will coordinate a visit to the applicant's plant with another ADU Officer and an Officer of the CB. The LPS will prepare an agenda for the meeting with the applicant and will

- discuss it with the other Officers who will visit the Applicant with him. Subsequently, the LPS will prepare a work plan for carrying out the ADU's part of the sub-loan appraisal. This plan will spell out the additional information that will have to be obtained from the applicant, the assistance that he (LPS) will need from other ADU and/or ACB Officers and a schedule of activities.
- 3.20 The LPS will write a report addressed to the ADU's Manager summarizing the concerns and recommendation arisen from the analysis. Subsequently, the ADU's Manager will forward the report to the Commercial Bank.
- 3.21 The Commercial Bank will complement the sub-loan appraisal. It will place special emphasis on the financial aspects and the sub-borrower's repayment capabilities, and will prepare the sub-loan appraisal report. Subsequently, the Commercial Bank will proceed to either deny or approve the sub-loan.
- 3.22 When a sub-loan application is refused, the Commercial Bank will inform the applicant, and will forward to the ACB a copy of the loan appraisal report. On the other hand, when a loan application is approved, the Commercial Bank will forward a loan request to the ACB along with the appraisal report.
- 3.23 The Commercial Bank's loan request will be made through the form Commercial Bank's Application for participation (annex 1, Form 01-05). The ADU's Manager will assign to one of the ADU's Officer, the responsibility to revise the documents provided by the CB and to prepare a memorandum with his/her comments and recommendations with regard to the sub-project and the Commercial Bank's loan request. This memorandum will address the eligibility criteria of the project.

B. SUB-LOANS FOR FEASIBILITY STUDIES

- 3.24 The applicant will submit to the CB the application (annex 1, Form 01 - 06) for loans for feasibility studies.
- 3.25 The CB will forward the application form to the ACB along with a letter providing information about the applicant's character and his/her record with the CB, and expressing the Commercial Bank's intention to provide the sub-loan if the study shows that the sub-project is feasible.
- 3.26 The ACB will judge whether or not it is worthwhile to carry out the feasibility study. The ACB will assess:
- (i) the possibility that the sub-project turns out feasible,
  - (ii) the applicant's capability to carry out the sub-project, and
  - (iii) the possibility of approving the sub-loan which could be required to finance the sub-project.
- 3.27 When the application does not merit approval, the ACB will inform the CB, and the latter will inform the applicant. On the other hand, when the application merits approval, the ACB will provide assistance to the applicant in the write up of the consultants' terms of reference for the study and in the establishment of a criteria for selecting the consultant(s).
- 3.28 The suggested terms of reference (annex 1, Form 01 - 07) and the suggested outline for Feasibility Studies (annex 1, Form 07 - 08) are presented as general guidelines for the ADU's Officers who will provide assistance to the applicant.
- 3.29 The ADU's Officer (who provided assistance to the applicant) will write a memorandum (addressed to the ADU's Manager) with his/her comments and recommendations with regard to the applicant and the sub-loan. Subsequently, the ADU will forward a letter to the CB

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attaching a copy of this memorandum.

- 3.30 The CB will forward a loan request to the ACB if it considers that the sub-loan merits approval, and the latter will proceed in the manner indicated on paragraph 3.23.

C. SUB-LOAN COMMITTEE

- 3.31 The functions of this Committee are:

i) to discuss the loan appraisal reports and the recommendations for loan approval;

ii) to enhance the ADU's co-ordination of activities, and

iii) to encourage the discussion of suggestions for enhancing the ADU's effectiveness and efficiency.

- 3.32 The Committee members will be the ADU's Manager (Chairman) and Officers. The ADU's Manager will assign to one of the Committee members the responsibility to prepare the minutes of the Committee meetings.

- 3.33 The ADU's Manager will make his/her recommendations for loan approval after discussing the loan request and the appraisal report with the Committee. The recommendations of the ADU's Manager will be discussed with the Commercial Bank Liaison Officer. Afterwards, the ADU's Manager will write a memorandum to the ACB's Managing Director providing information on the loan for which the ADU recommends approval, and spelling out the terms of the loan (Loan Approval Document - annex 1, Form 01 -09).

D. BOARD OF DIRECTORS' APPROVAL

- 3.34 The Managing Director will submit the Commercial Bank's request and the ADU's loan recommendation to the consideration of the ACB's Board of Directors only when a loan request includes risk sharing guarantee on the part of ACB and/or loan feasibility study request.
- 3.35 The ADU's Manager will inform the CB the ACB's decision with regard to the loan request, and will forward to the CB two copies of the

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loan approval document, if the loan is approved by the AC Bank.

**B. LOAN AGREEMENT**

3.36 The Commercial Bank's request to the ADU for preparing the Loan Agreement (between the Commercial Bank and the ACB) will be made by returning one copy of the Loan Approval Document, signed by the CB. The ADU will inform the CB the date when the loan Agreement should be signed. All the legal fees related to the loan agreement will be paid by the CB.

**F. FILES AND RECORDS**

3.37 The following describes the files and records that will be maintained by the ADU.

(a) Sub-loan Files

3.38 The ADU will keep the following files in separate filing sections:

(i) Sub-loan applications which passed the eligibility test, but were refused after the loan appraisal was completed.

(ii) Sub-loans approved.

Sub-loans Refused

3.39 This file will be started as soon as the ACB refuses (to approve) the sub-loan. Each refused sub-loan application will have an individual folder for filing all the documents obtained and/or generated during the loan processing phase. Each refused application will be assigned a consecutive number, and will be filed in the order of the assigned number.

3.40 An index card (annex 1, Form 01 - 10) will also be kept for each sub-loan refused. This card will be filed in alphabetical order according to the applicant's name. This card will be used for obtaining the applicant's file number in order to facilitate the finding of the applicant's file (folder).

SUB-LOANS APPROVED

3.41 This file will be started as soon as the ACB approves the sub-loans. Each approved sub-loan will have an individual folder for filing all the documents related to the sub-loan.

3.42 Each sub-loan will be assigned a consecutive number, and the sub-loan's folder will be filed in the order of the assigned number.

3.43 An index card (annex 1, Form 01 - 11) will be kept for each sub-loan. This card will be filed in alphabetical order in accordance with sub-borrower's name. This card will be used for obtaining the sub-loan's number when necessary.

(b) Record of Loan Application not Eligible (annex 1, Form 01 - 12)

3.44 The objective of this record is to provide statistical information with regard to the reasons for declaring the sub-loan applications "not eligible". The ACB will analyse this record periodically in order to enhance its policies and strategies.

3.45 The ADU's Manager will assign to one of the ADU's Officer the responsibility to keep this record up to date. This Officer will register the required data every time that the ADU receives information from the Commercial Banks about sub-loan applications declared "not eligible".

IV. DISBURSEMENTS

- 4.00 The Commercial Banks (CB) will in all cases verify that:
- i. the sub-borrower's disbursement requests are for purchasing goods included in the sub-loan budget,
  - ii. the sub-borrower has followed sound business practices for selecting the suppliers, and
  - iii. the sub-borrower is complying with all the conditions established in the Loan Agreement.
- 4.01 The Agricultural Credit Bank will normally disburse the funds to the Commercial Banks within the next four working days after receiving the Commercial Bank's request for reimbursement.
- 4.02 The disbursements made to the Commercial Bank will be documented through a Promissory note for the total amount of the loan, and the receipts signed by the Commercial Bank for each disbursement. The Promissory Note will be provided to the ACB when the loan agreement is signed (between the Commercial Bank and the ACB)
- 4.03 The following paragraphs provide guide lines for disbursements in local and foreign currency, and describe the disbursements control procedures.

LOCAL CURRENCY

Purchase of Raw Materials

- 4.04 The CB's disbursements will be made in accordance with the sub-borrowers's updated purchasing plan, and each disbursement will be supported by a statement from the applicant's Chief Accountant indicating the debits to the inventory account for purchases financed with the previous disbursements, and the items purchased (name of the items and quantity).
- 4.05 The Agricultural Credit Bank will reimburse the Commercial Bank upon presentation of the following documents:

- (i) Disbursement Request (Form ACB - 01 - 13) and
- (ii) Debit vouchers to the sub-borrowers loan account

Construction

4.06 The Commercial Bank will disburse the sub-loans in accordance with the terms established in the Construction Contract between the sub-borrower and the contractor. The terms of the contract must be approved by the Commercial Bank before the sub-borrower signs the contract.

4.07 The Agricultural Credit Bank will reimburse the Commercial Bank upon presentation of the same documents mentioned above for Purchases of Raw Materials.

UNITED STATES CURRENCY

4.08 The Commercial Bank will verify that the sub-borrower:

- (i) has followed a reasonable decision making process for selecting the supplier, and
- (ii) has been authorized by the Government of Jamaica to import the items that will be paid for with project funds.
- (iii) comply with the requirements established by the International Agency which supplies the foreign exchange, if any.

Subsequently, the Commercial Bank will proceed to request the Agricultural Credit Bank to provide the needed foreign exchange.

4.09 The Commercial Bank will have to submit to the Agricultural Credit Bank the following documents:

- (i) Disbursement Request (Form ACB - 01 - 13) and
- (ii) Copy of the instruction to the correspondent Bank for opening the letter of credit.

- 4.10 The USA Bank's payments for the letter of credit will be charged to USAID in accordance with instructions provided by the latter through a Letter of Commitment.
- 4.11 The AC Bank will authorize the USA Bank's payments by means of a Letter of Authority which the Jamaican CB will attach to the letter of credit.
- 4.12 The ACB's Finance Department will prepare the Letter of authority after receiving the ADU's approval for making the disbursement.
- 4.13 The ACB's Finance Department will file a photo copy of the letter of credit, record the value of the letter of credit as a contingent liability (off the books), and keep control on the status of the Letter of Credit.
- 4.14 The correspondent USA Bank will send to the ACB a copy of the debit slip (to AID's account), and will forward to the Commercial Bank the Bill of Lading and all the other documents required under the Letter of Credit.

3.10 The ADU will verify that the Commercial Bank's Disbursement Requests are consistent with the itemized sub-loan budget, and also that both the borrower (CB) and the sub-borrower (industry) have complied with the conditions precedent for disbursements and any other conditions established in the Loan Agreement between the ACB and the Commercial Bank.

4.16 The ADU will keep updated records of all the disbursements approved for each sub-loan budget item, and of the funds committed from each funding source (GOJ, USAID, etc.).

DISBURSEMENT REQUESTS (annex 2, Form ACB - 01 - 13)

4.17 The Commercial Bank's disbursement requests will contain at least the information shown in form ACB - 01 - 13. The ADU will file this form in the sub-borrower's folder after assigning a consecutive number to the request, and filling in the information required on the forms: Disbursement Requests Received, and Disbursement Control Record.

Itemized Sub-loan Budget (annex 2, Form ACB - 01 - 14)

4.18 The ADU will fill this form as soon as the Loan Agreement is signed. The information for this form will be taken from the Loan Approval Document (Form ACB - 01 - 09). This form will be used for verifying that each disbursement request from the Commercial Bank is consistent with the Sub-loan budget.

4.19 The forms will be filed temporarily in a three ring binder in the sequence of the sub-loan number. After the sub-loan disbursements are completed, the forms will be filed in the sub-loan folder.

4.20 The sub-loan budget will be broken down in items and sub-items in accordance with the nomenclature indicated below.

4.21 The first digit from left to right will identify the project

(1:GOJ/USAID, Project 532-0081), and the second and third digits will identify the term of the sub-loan (01: one year, 02: 2 years, etc.)

4.22 The next two digits will identify the following budget concepts:

- 01: Raw materials
- 02: Spare Parts
- 03: Other current assets
- 04: Plant equipment and machinery
- 05: Vehicles
- 06: Civil works and construction
- 07: Other fixed Assets
- 08: Feasibility Studies
- 09: Managerial or administrative consultancy assistance
- 10: Procurement and marketing consultancy assistance
- 11: Production/Processing consultancy assistance

4.23 The next digit in the nomenclature will identify the currency that will be provided by the sub-loan.

- 1: Jamaican dollars
- 2: USA dollars

4.24 The following two digits will identify the source of the loan funds:

- 01: ACB's own funds
- 02: GOJ funds
- 03: USAID

4.25 Two additional digits will be used to identify the specific goods and/or services that will be financed with loan funds.

PROJECT FUNDS COMMITMENTS

4.26 Through the use of this form, the ADU will control the availability of

Project funds broken down in accordance with the overall Project Budget concepts (for GOJ/USAID Project No. 532 - 0081, the budget concepts are: Loan/Guarantee Fund, Pre-investment technical consultancy, training and advisory assistance, and agro-industrial unit), funding source (GOJ, USAID) and type of currency (J\$, US\$, etc.) Thus, for each Project, the ADU will keep separate records of the funds committed in each type of currency grouped in accordance with the funding source, and the latter grouped (in the same record) in accordance with the budget concept.

4.27 The Project Funds situation will be revised before recommending the approval of any loan, and the Funds Commitment Record will be updated everytime that a new loan agreement is signed.

4.28 The forms will be filed in a three ring binder with dividers for separating the records containing the same currency, funding source and budget concept.

DISBURSEMENT REQUESTS RECEIVED (annex 2, Form ACB - 01 - 09)

4.29 The ADU will use this form for following up on the requests received. The forms will be assigned a page number, and will be filed in a three ring binder.

DISBURSEMENT CONTROL RECORD (annex 2, Form ACB - 01 - 17)

4.30 The ADU will use this form to control the itemized budget for each sub-loan.

4.31 The ADU will verify that the Disbursement request is consistent with the itemized sub-loan budget (Form ACB - 01 - 07), and that the conditions precedent for disbursements have been met. The ADU will fill the columns under "Disbursements Made" as soon as it receives a

copy the debit voucher from the Financial Department.

- 4.31 The Disbursement Control Record for each sub-loan will be filed together with the Itemized sub-loan budget (Form ACB - 01 - 07). After the sub-loan disbursements are completed, the forms will be filed in the sub-loan folder.

AUTHORIZATION FOR DISBURSEMENTS (annex 2, Form ACB - 01 - 18)

- 4.33 The ADU's authorization for sub-loan disbursements will contain at least the information shown on form ACB - 01 - 18.

Contingent Liabilities

- 4.35 The Accounting Department will keep an updated "off the books" record of all the contingent liabilities arising from the sub-loan guarantees provided by the ACB.

V. LOAN'S RECOVERY AND REVIEW

Repayments

- 5.00 The repayments of principals and/or interests will be scheduled to fall on the 15th of the month, following the scheduled repayment dates for the sub-loan. The loan agreement between the Commercial Bank and the ACB will spell out the repayment schedule on the above basis.

Portfolio Control

- 5.01 The Accounting Department (AD) will carry out the Portfolio Control and deliver every month to the Commercial Banks a statement of the loan installments that become due the following month. On the other hand; the Auditing Department will verify with the Commercial Banks, at least every six months, the outstanding balance of each loan.

- 5.02 The statement of Loan Installments (annex 3, Form 01 - 19) will be delivered to the Commercial Banks between the 20th - 25th of each month, and will report the amounts due as of the 15th of the following month.
- 5.03 The AD will keep a Repayment Schedule Card for each Bank (annex 3, Form 01 - 20). The ADU will refer to these Cards every month in order to determine the loan installments that become due on the 15th of the following month. Subsequently, the ADU will refer to the individual "Borrower's Ledger Cards" (annex 3, Form 01 - 21) in order to obtain the necessary information for filling the Loan Installments Statement.

#### Review

- 5.04 The ADU will periodically verify that all the investments financed with Project Funds have been made. Also, the ADU will carry out with the CB periodic reviews of sub-loans in arrears in order to identify the causes of arrears, and to analyse the sub-projects' progress against the projections made in the sub-loan appraisal report.

#### VI. Monthly Reports

- 6.00 The ADU will prepare Monthly Progress Reports addressed to the Managing Director. The ADU's report will provide the information shown in Annex 4 (forms 01 - 22 to 24) and analyse the credit demand, the execution of the budget, the ACB's Policy and the Project's constraints. Forms 01-21 and 22 will be used for collecting the data necessary for filling forms 24 - 26. The ADU Manager will assign to a member of the staff the responsibility to register the data timely (as the events happen).

\* FORMS TO BE COMPLETED BY COMMERCIAL BANKS

- \* FI IV Latest Commercial Bank Balance Sheet
- \* ACB 01-01 Sub Borrower Eligibility
- \* ACB 01-02 Sub Loan Application Not Eligible (If Applicable)
- \* ACB 01-05 Agro-Industry Loan Application
- \* ACB 01-13 Loan Disbursement Request

Forms used within the AC Bank are as follows:

- ACB 01-3&4 ADU Appraisal Format Guide
- " 01-06 Sub-Borrower request For Feasibility Study
- " 01-7&8 ADU Feasibility Guidelines
- " 01-09 Loan Approval Document
- " 01-10 Index Card For Subloan Refused
- " 01-11 Index Card For Active Subloan
- " 01-12 Index Card For Applications Not Eligible
- " 01-14 Itemized Subloan Budget
- " 01-15 Project Fund Commitments Record
- " 01-16 Disbursement Requests Received
- " 01-17 Disbursement Control Record
- " 01-18 Authorization For Disbursement
- " 01-19 Record of Loan Installments
- " 01-20 Repayment Schedule Card
- " 01-21 Borrowers Ledger Card

Commercial Banks are provided with a copy of the forms they will work with. Those forms used internally in the AC Bank will be made available on request.

**APPENDIX III**

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**TRAINING PROGRAM**

**APPENDIX III-A - TECHNICAL CONSIDERATIONS  
IN APPRAISING PROCESSING  
INDUSTRY LOAN APPLICATIONS**

**APPENDIX III-B - REPORT ON CREDIT ANALYSIS  
TRAINING PROGRAMME**

**APPENDIX III-C - PLANNING, MARKETING,  
MANAGEMENT SEMINAR**

APPENDIX III - A

TECHNICAL CONSIDERATIONS IN APPRAISING  
PROCESSING INDUSTRY LOAN APPLICATIONS

TRAINING PROGRAM - SEPTEMBER 6 - 16, 1983

Tuesday 6th

Orientation: The processing industry.

The make-up of a product.

Requirements that must be adhered to in order to make a finished, marketable product.

Product make-up exercise.

Steps and problems encountered prior to the retail stage.

Volume affecting sales promotion.

Wednesday 7th

Discussion carry-over.

Label identification.

Product identification emphasis for internal market and exportation.

Economic factors relating to a competitive market.

(a) effect of containerization cost

(b) prohibitive inputs

Identification of competition in the adjacent island countries.

(a) their programs and achievements

(b) problems

Thursday 8th

Seed to finished product.

Raw produce availability, dependability.

Requirement for end product.

Raw produce processing guidelines.

"What you put into a container is what you get out of a container."

The competition factor for basic raw material development in Jamaica between the fresh market export enterprises and the process sector.

Can we afford to produce for processing.

Exercise: Raw material cost make-up in a selected product

Friday 9th

Discussion carry-over

Visual aids demonstrating Agro-business

Capacity in Jamaica.

- (a) Halse Hall investment development
- (b) Spring Plain - St. Jago
- (c) Past experience of new programming
- (d) Processing utilization
- (e) Limitations, problems
- (f) Cost factors
- (g) The logic of a supportive "production nucleus"

Demonstration of the Agro-business, Agro-Industrial sector of two adjacent U.S. market competitors.

Monday 12th

Discussion carry-over

Orientation: Processing operations/procedures and utilization of varied equipment.

Monday 12th (cont'd)

Over-riding rules. Scheduling, movement, containers

Points of assessment to be considered in addition to the typical technical application form.

Visual aids.

Grading, sorting, preliminary handling

- (a) hand
- (b) mechanical

Washing systems. Framework

- assessment

Peeling systems

- (a) hand
- (b) mechanical
- (c) aid induction (1 - 3)

Cutting and breaking.

Coreing.

Discussion, problems.

Pulping.

- (a) reasoning
- (b) crops
- (c) equipment identification

Crushing.

- (a) purpose
- (b) equipment

Extraction.

- (a) procedures
- (b) equipment

Monday 12th (cont'd)

Blanching.

(a) purpose

(b) factors

Tuesday 13th

Discussion carry-over

Product review - crushing, extraction

Filtration

- filters

Filling

- equipment

Weights

Head space

Product medium

(a) brines

(b) syrup

Exhausting

Vacuum

Panelling

Closing temperatures

- monitoring

Sealing

(a) equipment

(b) adjustment

(c) cans

(d) glass

Washing requirements

Marking and coding

Wednesday 14th

Discussion carry-over

Processing - sterilizing

(a) procedure

(b) rules

Acid foods

Non-acid foods

Heat penetration

Water baths

Steam processing

(a) equipment

(b) pressure

(c) modification

The process stages

Cooling

Stacking

Thursday 15th

Discussion carry-over

Containers

(a) cans

(b) glass

(c) types

Labelling

Casing

Warehousing

Begin review of processing plant layout and equipment

Friday 16th

Discussion carry-over

Examination factors relating to assessment

Constraints

Pricing

Self examination as to reasons for additional equipment

Efficiencies, deficiencies

Discussion, technical aspects of the Agro-industrial sector

Programming for the third week will relate to field trips and plant visits. This will depend on the Agro-industrial spectrum we can contact and develop towards visitations.

APPENDIX III - B

**REPORT ON CREDIT ANALYSIS TRAINING PROGRAMME  
FOR ADU PROJECT OFFICERS AND COMMERCIAL BANK OFFICERS  
OCTOBER 3 - OCTOBER 21, 1983**

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The purpose of the programme was to provide participants with an overview of the principles and concepts of credit analysis appropriate to new and existing agro-industry projects.

The course leaders stressed the enhancement of the credit evaluation skills of participants. The following subjects were covered:

- Introduction to Principles of Accounting
  - Balance Sheets
  - Profit and Loss Statements
  - Source and Use of Funds
- Introduction to Balance Sheet Analysis
- Pro-Forma Balance Sheets, Income Statement and Cash Flow Projections
- Balance Sheet and Income Statement, Ratio Analysis and Interpretation
- Budgets
- Fixed, Variable, Semi-Variable Cost
- Margin Analysis, Sensitivity Analysis, Break-Even Analysis
- R.O.I., Sunk Costs
- Risk Analysis
- Management as a Factor in Credit Analysis
- Case Studies

The above subjects were covered in fifty-eight (58) hours. In addition, David Logan devoted eight (8) hours to project analysis, time value of money, discounting, net present value of money, externalities and shadow pricing. Viv Logan covered marketing for three (3) hours, and two hours were spent on a field trip for a total of seventy-one (71) course hours.

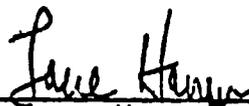
There were eleven (11) participants!

Agro-Industrial Development Unit	-	3
Ministry of Agriculture	-	1
JNEC	-	1
Commercial Banks	-	6

The participants completed a questionnaire, chart attached. The questionnaire indicates the programme met most participants expectations, with four participants expecting more time on case studies. All participants considered the material adequate, that their analytical skills were enhanced and class discussions were helpful. Nine participants said course conducted in a professional manner, one said sometimes, one not up to expectations. All would participate in a future programme.

In summary, the group "warmed up" to the subject matter as the programme progressed, with good interaction within the total group. As this course was an overview of the subject, more in-depth training is needed in the techniques of credit analysis, with participants carrying out loan analysis on an individual basis. The group leader would evaluate the participants written loan analysis. Field trips for the group would be carried out, with written reports by individual participants on the strength and weakness of the subject's operation.

The consultants express their appreciation for your support in developing the programme, to Viv Logan in carrying it out, and to Jeanette Grant and Maureen Mahabeer for the production of course material.



Lane Hanan  
Consultant



Edwin Cooper  
Consultant

24th October, 1983

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APPENDIX III - C

CHECCHI AND COMPANY

AGRICULTURAL CREDIT BANK OF JAMAICA LIMITED

OCTOBER 1983

PLANNING, MARKETING, MANAGEMENT SEMINAR

H. SCHWARZ

1. INTRODUCTIONS

Introduction of participants, set tone of Seminar.

Participatory, view as Managers of Plants.

Avoid judgement on system, focus on educational aspects.

Emphasis on:

Planning

Marketing

Production control

Financial management

2. OVERVIEW OF SEMINAR

- Objectives - to enhance knowledge of Credit Analysts of ACB about medium-size agro-industry economics, profit opportunities and risks.
- Content - Material to be covered
  - general structure of agro-industry
  - key issues
  - overall planning, operation and system control
- Selected pieces of system forecasting
  - budgeting - both capital and operations
  - production planning and operation
  - raw material procurement
  - monitoring
  - revisions to plan

3.        GENERAL STRUCTURE OF AGRO-INDUSTRY
  - Flow Sheets
  - Discussion of parts
4.        KEY ISSUES
  - Review and discussion of items listed in "Management Activities" per attachment.
  - Review of example per "Important Factors in Citrus Business", also attached.
5.        PLANNING
  - Discussion of Planning Budgeting Process (see flow sheet)
  - Brief overview of whole process and then spend more time on aspects directly related to Jamaican Agro-Industry.
  - Focus on important aspects of forecasting, budgeting, raw material procurement, review and control.
  - Cover minimum requirements for profitable performance.
6.        SELECTED PARTS OF TOTAL SYSTEM
  - Continued discussion in more detail of:
    - forecasting - products, markets, sales
    - budgeting for profit
    - production planning and operation
    - quality control
    - inventory management
7.        EVALUATING AGRO-INDUSTRY PERFORMANCE
  - Matching planning and performance with key issues
  - Sources of information and technical expertise
8.        REVIEW AND CONCLUSION

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**APPENDIX IV**

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**LOAN POLICY INTERPRETATION**

MEMORANDUM

AGRICULTURAL CREDIT BANK OF JAMAICA LIMITED

11A-15 Oxford Road, Kingston 5. Telephone: 929-4000

TO: .....	E. McKIE, MANAGING DIRECTOR	SUBJECT:.....	LOAN POLICY INTERPRETATION
FROM: .....	C. W. ROBINSON, CHIEF OF PARTY/CHECCHI CONSULTANTS	DATE:.....	JANUARY 31, 1986

In our monthly progress report for December 1985, we mentioned our preliminary discussions concerning significant amount of confusion that exists in the application of some of the loan policies used by ACB/ADU in appraising the eligibility of loans.

In the writer's judgement several of the policies or interpretations of assumed policy deny unnecessarily, the eligibility of loans required by a considerable number of the agro-industries. In doing so, there is serious risk of denying medium and long term credit from the very agro-industries the Agro-Industrial Development Fund is intended to assist. The broad policy area that needs clarification is the existing methods for establishing Project Costs and related to this the policy or policy interpretation that:

- The owner's contribution to Project Costs must equal or exceed twenty percent of the Project Costs;
- Land may not be considered as a part of an owner's contribution to Project Costs.

We have been informed by AC Bank executives (and Loan Files confirm) that AC Bank policy does not differentiate between the project cost of establishing a new enterprise and the project cost of plant expansion or other improvement in applying the policy that owner's contribution must equal or exceed twenty percent of project costs. Yet, there are major differences.

1. PROJECT COSTS AND OWNER CONTRIBUTION IN A NEW ENTERPRISE

Project costs in establishing a new enterprise clearly include all of the investment required to finance the venture. The twenty percent owners' contribution to total project cost is harmless but essentially useless in such cases as it is far below what will be required by the commercial banks that assume credit risk under the regulations governing the use of the Agro-Industrial Development Fund.

2. PROJECT COST AND OWNER CONTRIBUTION IN AN ESTABLISHED ENTERPRISE

It is in this type of loan that the present interpretation of the twenty percent owner's contribution requirement does serious damage.

We have been informed by AC Bank executives (and Loan Files confirmed) that AC Bank views the cost of expanding or otherwise improving an agro-industry as an item separate from the remaining value of the enterprise when calculating project cost and the required owner contribution to project cost. To illustrate, if a plant and equipment improvement project is estimated to cost J\$1,000,000, the owner's contribution must be at least J\$200,000 regardless of the value of the total assets of the enterprise that he's prepared to offer as collateral.

It is understood that within AC Bank and among participating commercial banks that this is the prevailing interpretation of an AC Bank policy statement, "Borrower's equity in projects must be a minimum of twenty percent of project costs" that appears on Page 23 of AC Bank's manual, "Policy on Loans to Financial Institutions".

The foregoing interpretation of the requirement of twenty percent minimum contribution to project costs chokes out the very agro-industries the Agro-Industrial Development Fund was designed to strengthen. The primary target group of the Agro-Industrial Development Fund is medium sized Jamaican agro-industrial firms who were intended to benefit from long term loans for expansion.\*\* Many of these industries have not had and do not have sufficient liquidity to provide twenty percent of the cost of a substantial expansion. The twenty percent rule in these cases denies the loan even though the full assets of the ongoing enterprise may be pledged as collateral and may be equal to twenty percent or even one hundred percent of the total amount of the proposed loan.

It would be difficult to determine how many of the past loan inquiries have been turned down or have simply withdrawn when the twenty percent rule was explained. However, four and a possible fifth of the eight "Loan Inquiries in Process" with which the writer has had substantial involvement will not qualify under present interpretation of the twenty percent rule. The number of past inquiries turned away by this unnecessary policy appears to have been one of the serious deterrents to the intended use of the Agro-Industrial Development Fund. The policy requiring a twenty percent contribution to project costs should be eliminated.

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\*\* See Page 1 of the Project Loan Agreement and Page 1 - 1 of Annex I.

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3. THE POLICY INTERPRETATION THAT THE VALUE OF LAND MAY NOT BE USED IN ESTIMATING PROJECT COST OR IN DETERMINING AN OWNER'S CONTRIBUTION TO PROJECT COSTS

I do not find anything in any of the Project Papers, the Loan Agreement or elsewhere, that established this policy. It appears to have evolved from a concern that the AC Bank should use great care to avoid using its Agro-Industrial Development Funds for farm improvements.

This broad concept of ensuring the use of Agro-Industrial Development Funds for strengthening agro-industry is fundamentally sound. However, as presently interpreted, it blocks use of funds for an integrated agro-industry where the use of a specific piece of land is an integrated and interdependent part of a growing and processing enterprise. This policy has not been reduced to writing but is applied, <sup>AND</sup> needs to be clarified. It would be more consistent with the purposes of the Agro-Industrial Development Fund. If a written policy statement was established as follows: "Land cannot be used in calculating project cost or owner's contribution to project cost except to the extent the land is an integrated part of an enterprise's assets used in the agro-industry's operation and/or clearly included for use in its expansion plan".



C. W. ROBINSON

CWR:jae

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