RISK MANAGEMENT D PROFIT SHARING

MICROENT RISE FUND

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A PLAN FOR RISK MANAGEMENT AND PROFIT SHARING (RMPS)

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MISSION STATEMENT

The absence of credit for micro and small and enterprises (MSEs) has greatly impeded the ability of TBC to adequately serve the local small business market. Financial sector reform in Tanzania was supposed to increase the availability of credit to MSEs, but that has not happened.

The mission of the RMPS program is to aid The Business Center (TBC) in facilitating the emergence, growth and sustainability of responsible, well-managed businesses in Tanzania. The program will supplement TBCs efforts by addressing the unmet financing needs of MSEs.

OBJECTIVES

The objectives of RMPS are:

Providing a needed and valued business support service

Existing formal sector institutions have not met the financial services needs of Tanzania's MSEs. RMPS will provide well defined standardized and customized investment products to the target segment, at market rates to help correct this situation.

Strengthening the capacity of business service providers

TBC will identify and train Tanzanian business advisors to initiate outreach efforts to eligible clients. These business advisors will help clients prepare business plans and other documents needed to meet RMPS investment approval criteria. TBC analysts will review loan packages and suggest improvements as necessary. This ongoing exchange between the business advisors and TBC staff will resemble an apprenticeship program.

Broadening the business community

RMPS will aid TBC in increasing the number and size of formal sector businesses owned and operated by indigenous African entrepreneurs. The program will accomplish this goal by providing previously unavailable market rate financing options and sound financial advice.

Developing professionalism in the business community

RMPS will cultivate a professional approach to doing business in Tanzania. Program participants will learn the value of ongoing planning and reporting and the requirements of the formal financial sector. They will also learn to manage business responsibilities under the privileges granted and constraints imposed by formal contracts and legal agreements.

RMPS APPROACH

In pursuit of its mission, RMPS will:

Target registered, small and microenterprise Tanzanian companies

The priority will be to provide financing to TBC clients and other "formal sector" MSEs. Viable prospects must meet standard bank criteria in terms of character and capacity to manage financing, but may lack the credit record, capital or collateral normally required. The program's ultimate objective is to provide a bridge between self-financing and access to formal-sector financial services. It will allow companies to take advantage of growth opportunities, provide them with a credit history, and help develop the range of management skills necessary to ultimately attract formal sector finance and/or investments.

Targeted clientele will be proprietor-run businesses or entrepreneur-managed corporations. To qualify for RMPS loans proprietor-run businesses must have an official name and address, and should be registered under the Business Ordinance Act as either sole proprietorships or partnerships. Entrepreneur-managed corporations must be incorporated under the Companies Act, and the owner must be directly involved in the day-to-day running of the company. Management capacity is a critical element in identifying viable investment candidates (prospects). The aim is to identify companies with the potential to move rapidly through the RMPS program into arms-length relationships with formal-sector financial institutions. For that reason, management strength and integrity are essential requirements.

Provide a variety of loan products to MSEs

Local financial institutions are restructuring and consequently have little or no liquidity, are technically insolvent, and are not actively lending. The two foreign banks currently in the market do not lend to MSEs. RMPS's variety of investment products will address the constraints caused by a lack of formal-sector financial services for MSEs. Program investments will be structured in a way that helps MSEs overcome the excessive collateral requirements and exorbitant interest rates faced in informal credit markets. RMPS's product line will include a variety of structures. This will allow flexible repayment schedules, designed to meet the needs and desires of the borrower. Long term financing will be provided in a way that does not cripple cash flow and inhibit growth. Collateral will be limited to the assets financed by the loan. Except in unusual circumstances, inadequate collateral without other cause will not be sufficient reason to deny a credit request.

PRODUCT LINE

The RMPS product line will include:

- An income note. Under this structure, the borrower will provide the fund a return on its investment by sharing periodic profits rather than making principal and interest payments. The repayment stream will likely be uneven and the monitoring requirements will be significant. Income note customers must agree to allow TBCs designated consultants to prepare a book of accounts that will measure profits during the life of the investment. The consultant will be responsible for monitoring borrower adherence to the book of accounts. This additional servicing responsibility justifies a higher initial fee, and a higher expected rate of return on the investment.

- Discounted Notes. Under this type note, a rate of return will accrue over the life of the investment (up to one year), with the entire note balance due at maturity. Discounted notes allow the borrower to avoid using cash on debt repayment for an extended period. They will also reduce the risk to the Fund of receiving repayment based only on the borrower's achieving a certain level of profits. There will be a feature in the discounted notes that allows either collection of the entire note balance at maturity or conversion of all or part of the balance to an amortizing term loan. This product will carry a higher fee structure and a higher expected rate of return than the basic term loan product.

- Amortizing term loans. This product will be made available at the request of a client. Term loans will be repayable in regular installments over a period not to exceed three years. Term loan agreements allow a grace period of up to six months before repayment commences. During the six-month grace period the borrower can either pay interest only or capitalize interest depending on its financial and operating condition.

- Short-term working capital loans will typically be available only with one of the other three products. They will be considered as a stand alone product on a case by case basis. Short-term working capital loans can aid in fulfilling obligations under contracts with the government or a large company. They can also finance short-term needs of a recurring nature, not individual or random trading transactions. Short-term working capital loans can also guarantee letters of credit for export/import transactions.

OPERATING STRATEGY

Outreach and customer development

TBC will be responsible for outreach and customer development. To fulfill this obligation, TBC will identify and train a group of Tanzanian consultants to act as Venture Finance Consultants (VFCs). There will be a formal agreement governing the relationship between TBC and each VFC. The agreement will detail the specific duties and responsibilities of each party, establish compensation rates, detail methods and timing of compensation and specify performance requirements leading to compensation. TBC will organize seminars to train the VFCs in the basics of prospect/customer identification, business planning, credit analysis, project appraisal and specifics of the RMPS program.

Package preparation will be the responsibility of the VFCs. VFCs will approach (or will be approached by) potential borrowers. Prospects will also be referred by TBC and the participating financial institution. It will then be the VFC's responsibility to identify a specific need, and sell the prospect on their ability to satisfy that need. The VFCs will be paid for their services in preparing the loan package at a rate negotiated between themselves and the prospective borrower.

Investment approval and disbursal

VFCs will have a conference with a TBC analyst before preparing an investment package. This early discussion will focus on the nature of the proposed transaction, the client, the investment product and its structure. It provides an opportunity to guide the VFC in the right direction in preparing investment packages. The conference can also disqualify any projects or prospects that do not fit the RMPS program criteria. If a project is ineligible for financing, the TBC analyst will inform the VFC in writing the reasons for the denial. The VFC is responsible for informing the prospect of the denial. It is important that the VFC not create the perception that preparation of an investment package automatically guarantees financing under the program. It is equally important to inform prospects as early as possible of concerns that may ultimately lead to a denial. This allows time to either take remedial action or make other financing arrangements.

If a prospect and a project have potential to receive a financing, the VFC will assist in the preparation of the financing request package. The completed package will be submitted to a TBC analyst for review and comment. If the analyst does not concur with the VFC's recommendation, he/she may suggest alternate products or structures, methods for correcting inadequacies, or reject the request with a written explanation. If the questions or inadequacies are addressed and corrected, the package can be resubmitted to TBC for approval.

Once approved by a TBC analyst, financing requests will be submitted to a Venture Development Advisory Committee (VDAC) for final action. The VDAC will have four members with AID, TBC and the financial institution each choosing one representative. The forth member will be a local businessperson chosen by a unanimous vote of the other three members. The VDAC can decide to accept the request as submitted, accept the request conditionally or reject the request as not feasible. If the request is accepted conditionally, or if it is rejected, written explanations will be provided to the business advisor by TBC. If it is accepted, a terms and conditions letter will be prepared by TBC for the borrower to review. This letter will detail the basic agreement between the parties, including: investment amount, repayment terms, a target return on investment (ROI), interest rates (when applicable) and fees. The letter will be signed by all parties to the agreement (borrower, financial institution, TBC, and the business advisor). All required documents will be prepared by the financial institution based on that agreement. Once the loan documents have been prepared and signed, the bank will disburse funds to the borrower per terms of the agreement.

At the time of the initial disbursal of funds, a fee will be collected from the loan proceeds. This fee will be paid directly to TBC as compensation for its analytical work on the loan request. The fee will be a minimum of $250 and will increase to a maximum of 1.5 % of the investment depending on the amount and product. Part of the fee will be payable to the VFC as a "brokers' fee." The exact amount of this broker's fee will be detailed in a separate agreement between TBC and the individual VFCs. The fee will reflect the level of competence of the VFC, and the degree of assistance required from TBC. As the level of assistance required decreases, the percentage of the fee paid to the VFC will increase.

Three original sets of the documents will be prepared, signed and distributed to the borrower, TBC and the financial institution. A copy will be provided to the VFC if needed. This will evidence the legally binding agreement between the borrower, the financial institution and the RMPS Trust.

Fund Administration

The financial institution will be responsible for day-to-day loan administration and portfolio management. When payments are received, principal and interest will be credited to the Trust Fund's balance. The financial institution will be compensated monthly for administering the Trust and managing the Fund's investments. Payment will either be a flat fee, based on a percentage of the value of the Fund, an activity fee based on the total number of transactions in a given month, or some combination of the two. These fees will be the only compensation the bank receives since it will assume no repayment risks.

The financial institution will be responsible for investing excess funds in interest-bearing instruments. The financial institution will have a certain degree of discretion in administering the Fund, but cannot invest in derivatives, junk bonds or other high risk instruments. Preferred investment vehicles include Tanzanian Treasury Bills or other instruments of equal or higher quality. Some portion of the Fund can be maintained in U.S. dollars or other generally convertible currency (Marks or Yen) as a hedge against inflation. The fund is expected to have positive earnings (after inflation) so that various fees and costs can be deducted without reducing its capital. This means that the rate of return on the Fund needs to exceed the sum of inflation, loan losses and fees to the bank, the VFCs and TBC.

The financial institution will provide a monthly report on the fund's status including: its current value, the collections and disbursements for the month, and the status of the investment portfolio, including non-performing assets. There will also be a requirement that the financial institution provide a report on other banking products or services it sells to RMPS customers, including but not limited to additional loans and depository services. A separate report on problem loans and collection efforts is also required. The financial institution will be responsible for providing early warning of problem loans so that VFCs can address the issue with individual borrowers.

The financial institution will seek to collect delinquencies through its normal channels. However, the VFCs will have the primary responsibility for problem loan administration and collection. A portion of their compensation will be paid over time as loans amortize. They will be compensated for ongoing contact with borrowers, and for reporting to TBC on that contact. These contact visits will monitor the condition and progress of the borrower, provide advice as necessary and address any problems. This contact will also provide the VFCs with opportunities to expand the services they provide to individual customers.

Managing Delinquencies

Delinquent loans will be managed and accounted for according to Tanzanian law. However, investments will not be written off as losses unless it is decided that no reasonable chance of collection exists. If repayment is possible with some restructuring, the investment will be restructured. The aim is to make every effort to allow borrowers to fulfill their responsibilities under the investment agreement. If an investment is determined to be a loss, the financial institution will dispose of any collateral according to terms of the individual investment agreement and the Fund agreement. The write-off of unpaid principal will then be charged against the Fund's assets.

CREDIT POLICY

Target Market

The target market for RMPS loans is for profit Tanzanian businesses with no more than ten employees. All prospective borrowers must provide proof of valid registration and must prove they are current on all government obligations, including applicable taxes. The business can be organized as an individual proprietorship, a partnership, or an entrepreneur-run corporation. Businesses that fit the size criteria, but are managed by professionals other than the owners are ineligible for loans under the RMPS program.

Entities owned or operated by members of the staffs of the U.S. Agency for International Development, The Business Center, the financial institution administering the Trust, or the business consultants acting as VFCs are ineligible for RMPS loans. The borrower may not be a related entity, nor can it be owned or managed by a related entity. All parties to each loan transaction will be required to sign an affidavit affirming that no conflict of interest exist.

Investment Origination

Investment origination will be the responsibility of TBC through its network of consultants acting as VFCs. Customers can be identified by proactive efforts of the VFCs, by referrals from TBC consultants, by the financial institution administering the Trust, or by other entities in the community.

The eligibility of each prospective borrower should be established before documentation packages are prepared. Eligibility will be established in a conference between the VFC and a TBC consultant ending in either an approval to proceed or a written explanation citing the reasons for denial of eligibility.

Denial of eligibility may result from:

1. Failure of business to meet the defined target market criteria.

2. Conflicts of interest.

3. Not-for-profit business.

4. Serious doubts about the ability of the prospect to generate sufficient earnings and cash flow.

5. Negative credit history or negative references.

6. Significant inadequacies in the management team.

7. Inability to prove current registration and tax status.

8. Total lack of collateral or personal guarantees.

9. Unwillingness or inability of the prospect to invest equity in the business.

10. Unwillingness of the business owner to sign as co-obligor.

An affidavit attesting to the absence of conflicts of interest should be signed by the prospect, the VFC and the TBC analyst at the time qualification is established. A representative of the financial institution will be required to sign the affidavit if that is the referral source.

<u>Loan evaluation process</u>
Once a prospect has been identified and its eligibility established, the VFC will begin preparing the request package. This should be a collaborative effort between the VFC and the customer. It is essential that the customer be engaged in the planning process. They must understand the significance of planning, the planning process, and the need to plan regularly. Each business plan should be a representation of the business by its owner, not by the VFC. Frequent contact between the VFC and a TBC analyst is also encouraged. This will provide valuable guidance and skill development. It will also lead to early detection of problems so that they can be promptly addressed.

It must be stressed that the VFC and TBC staff are team mates not adversaries. It is imperative that trust and openness develop from the start. All information, either positive or negative must be shared between the partners if the customer is to be adequately served, and if risks are to be accurately assessed. The RMPS program, unlike formal-sector financing program will take unusual risks. However, it is essential that risks be accurately identified, evaluated and quantified. Additionally, withholding relevant information can result in using an inappropriate investment product, structure or repayment plan. This ultimately has a negative impact on the customer's ability to repay, and thus on the VFCs compensation and the program's viability.

Business plans should be in a form that meets the needs and desires of the prospect, however, it is essential that details of the following substantive areas be included in the plan:

1. Purpose of the plan. Here it is to attract financing. Specifics should be provided on the amount requested, The proposed use of proceeds and primary and secondary sources of repayment.

2. The company. Focus on the products and/or services offered and the need or desire the product/service satisfies. This section should list primary customers and suppliers and new markets and expansion plans. Note methods of production or service delivery and how they compare with others in the market. This section should also highlight constraints under which the business operates (frequent power outages, inability to source raw materials quickly or at reasonable prices, transporting products to market, access to foreign markets, etc.). It would also be appropriate to explain how the loan will help the company improve its business.

3. Management is critical. Given the nature of the RMPS target market and the inherent risks associated with lending to that market, management strength is essential. There must be adequate technical and managerial skills and unquestioned integrity. The relevant experience can be vested in one person or a group of individuals, but it must be present. The names, titles and responsibilities of the owners/managers should appear in this section. Personal histories, background and relevant experience should also be detailed. CV's should be included as an exhibit to the business plan.

4. Competition. It is essential that the planning process address the competitive environment. Competition can be direct or indirect. It can be existing or potential. It can be domestic or foreign. These areas must be analyzed and detailed. It is not acceptable to simply say no competition currently exists. If the business or market that the prospect intends to enter is profitable, there will eventually be competition. It is important to address the issue ahead of time so that an adequate response to competition can be devised. This section should identify differences in costs of production, technology, product or service quality, prices, reputation, location and any other business factors that provide the prospect a competitive advantage or causes a competitive disadvantage. It is not unreasonable to use the Fund's investment to overcome a competitive disadvantage. Therefore, it is imperative that these issues are examined.

5. Financial Analysis. This section will detail the prospect's repayment ability based on historical and projected cash flow. It will detail sales revenue(turnover), expenses and profits. It will highlight the ability of the company's assets to generate earnings and cash flow over time, not merely in the short-run. Projections will include a statement of underlying assumptions. The assumptions must be reasonable and should be based on current economic and business realities.

The VFC will use the information provided by management in the business plan as a basis for preparing a Venture Finance Approval Form (VFAF). The VFAF will be a standard format, an example of which is attached as exhibit 1.

The VFAF will include an analysis not merely a listing of the information contained in the business plan. This will require the VFC to verify the information provided. Customers, suppliers and references should be called. The competitive situation should be verified as appropriate for the particular business. If direct comparisons are possible (such as quality comparisons, or traffic in a retail establishment, or prices) they should be made. If direct comparisons are not practical, then general conclusions (and the basis for those conclusions) must be stated.

The financial analysis should concentrate on the company's ability to generate sufficient earnings and cash flow to allow the Fund to recoup its investment and earn a satisfactory return. A detailed repayment analysis will be required in the form provided in exhibit 2. The VFC should also address the nature and quality of collateral. Typically collateral will be limited to the assets financed by the loan. The liquidation value of collateral will be determined to the extent possible. However, insufficient collateral alone will not result in denial of a credit request.

The critical issues section should concentrate on the primary non-financial factors affecting the borrower's ability to meet the repayment schedule. Issues could include infrastructure constraints (such as dependence on adequate and consistent power), skilled labor shortages, lack of access to foreign markets and other areas that might negatively affect the business' success and ability to repay the loan. There may also be positive critical issues including: extraordinary strength and experience in management, a particular contract that will enhance repayment ability, other sources of income, or technological advantages that make the borrower's product or service vastly superior to market competitors. All significant positive and negative issues should be included in this section.

The VFC should then recommend approval of the investment including a product, repayment terms, collateral (as appropriate), and pricing. These recommendations should be summarized in the recommendations section. The VFC then signs the VFAF and submits the entire loan package to a TBC analyst for review. If the TBC analyst does not concur with the recommendation, a written explanation will be prepared. The package can be resubmitted provided the issues raised by the TBC analyst are positively resolved. The TBC analyst will signify concurrence with the VFC's recommendations by signing the VFAF.

The loan will then be forwarded to the VDAC for final action. The VDAC should ideally meet weekly (as necessary) to consider investment requests. Its membership will include a representative appointed by each Trustee (U.S. A.I.D., TBC, the financial institution) and one local business person. The VFC will be responsible for providing each committee member a copy of the VFAFs at least three days before scheduled meetings. The VFC will make a presentation of the information contained in the VFAF to the committee, and be prepared to answer any questions.

The financial institution's representative on the committee should have the authority to commit the institution to making the loan. That individual will have two votes rather than one. No investment can be approved with more than one no vote. This will effectively grant the financial institution veto power (as a final credit check). Loans approved by the VDAC will be forwarded to the financial institution for documentation and disbursal. Funds should be disbursed within five (5) business days of final loan approval. This can be facilitated by standardizing the documentation, according to product.

After an investment has been approved by the committee, a letter of commitment will be prepared by TBC. This commitment letter will detail the terms and conditions of the loan, including: the amount, the use of proceeds, fees, the target ROI (or interest rate if appropriate), the repayment method and the amortization schedule. The financial institution will be responsible for preparing documentation and disbursing funds. Investment documentation will be standardized by product. Names, dates, repayment schedules, rates and fees will be the major items to be customized with each loan.

Special Policies by Product

I. Income Notes - The income note is designed for businesses that have shown historical profits, and positive cash flow. Using an income note will allow the company to take advantage of growth opportunities, without immediately taxing available cash flow. It will be considered a bridge loan that allows the purchase of machinery and equipment or facility expansion or relocation. Income notes can also be used to finance expenses related to the introduction of a new product/service or expansion into a new market with existing products or services.

Monitoring income notes will require the VFC to become an integral part of the business' financial management team. The VFC will either prepare periodic financial statements or will participate in their preparation and review. Borrowers must agree to allow the VFC to make unscheduled visits to the company's premises to observe the business and to examine the financial records.

The format for financial statement preparation shall conform to or exceed standards generally accepted in Tanzania. Business owners will not be allowed to deduct personal expenses as business expenses. There will be restrictions on compensation to owners/managers, benefits and dividends. As an additional safeguard against excessive salaries and benefits, the business owner will be required to sign as co-obligor on the investment. This will make the owner personally liable if the company fails to repay the investment. This will reduce the incentive to understate business profits by including excessive personal expenses and benefits as business expenses.

Income notes will specify a minimum return on investment required to liquidate the obligation. A grace period of up to twelve (12) months before beginning the process of "sharing profits" with the RMPS Fund is allowable. The Fund will be entitled to recoup its 50 percent share of profits earned during grace period, and its 50 percent share of future profits. Following the grace period, repayment on a monthly or quarterly basis will begin. The Fund will continue to receive its 50 percent share of profits until the original principal plus the designated minimum rate of return is earned, or until the borrower "buys the funds position out" by repaying the income note principal plus the desired rate of return. Borrowers can opt to convert the income note to an amortizing term loan to finance this buy-out. The borrower's ability to repay will be evaluated at the time a conversion is requested. An income note cannot be converted to a discounted note.

The stream of cash flow used to repay the income note is less certain than that of other products. Additionally, monitoring and oversight requirements will exceed what is required for other products. Consequently, the fee charged (2.5 percent) will be higher, as will be the expected rate of return. This policy will not set required rates of return. Instead, the required return will reflect market rates for venture capital investments at the time an income note is signed.

It is prudent that collateral is taken for each investment as an inducement to repay rather than as a significant secondary source of repayment. Collateral will generally be limited to the assets purchased with investment proceeds, and its value does not have to equal or exceed the investment amount. All assets purchased with investment proceeds will be taken as collateral. Collateral values will frequently be insufficient and the ability to recover and liquidate collateral will be uncertain.

The company's ability to generate sufficient cash flow to liquidate debt is a key factor in the approval process. Historical cash flow must exceed the projected debt service obligation by a 10 percent margin. Projected cash flow must exceed the projected debt service obligation by 25 percent. Cash flow will be determined by adding net income to non-cash charges (eg. depreciation, amortization, etc.). This sum should prove sufficient to allow the fund to recoup the original investment plus the minimum rate of return in no more than four (4) years, including the grace period.

The VFC will help the borrower in preparing financial statements monthly. Copies of these statements will be provided to the financial institution and to TBC at least quarterly. The quarterly statement submission will include an analysis of results and trends, including any positive or negative variations from forecasts and explanations for such variations. The VFC will be compensated monthly by the customer for preparing financial statements. The Fund will compensate the VFC for one day's work to prepare the quarterly analysis.

As the borrower begins to repay, the VFC will receive a share of the proceeds. The VFC will receive 10 percent of the Fund's share of the repayment (roughly 5 percent of the company's profit). This provides an incentive to the VFC to make good quality loans, and to accurately reflect profits. The higher the company's profits, the sooner it will liquidate its obligation, and the earlier the VFC will receive full payment.

If the company does not demonstrate sufficient profits to allow the Fund to recoup its investment plus the target ROI within three years after the grace period has ended, the owners/ managers will be expected to make a contribution from personal cash flow (i.e., cut salaries and benefits) to ease the strain on cash flow. No personal assets will be taken as collateral, but the owners/managers will be expected to make personal sacrifices to repay the investment. Investment proceeds may not be used to repay existing debt of any kind. Borrowers will not be considered eligible for credit if they are in arrears or default under the terms of any other credit agreements. The borrower will also not be eligible for credit if this borrowing would cause a default under other credit agreements. The borrower must obtain written approval from the financial institution and TBC before borrowing additional funds from other sources while still in debt to the Fund.
The borrower must agree not to further incumber any of the assets taken as collateral for this loan or any other business or personal assets not now incumbered (negative pledge).

II. Amortizing Term Loans-Amortizing term loans will be made to small and microenterprises. The term loan will amortize over twelve to thirty-six months, with a maximum six (6) month grace period. Interest can be paid or capitalized during the grace period depending on the preferences of the customer and on their financial and operating condition. The company's historical cash flow should exceed projected debt service (principal plus interest) by 10 percent and projected cash flow should exceed debt service by 25 percent. Cash flow for purposes of this calculation will be the sum of net income, non-cash charges and interest expense.

Amortizing term loans will be presented as an option to borrowers who do not wish to share profits for an unspecified period. They will be charged a 2 percent fee and will pay interest at market rates as determined at the time the note is signed. Borrowers will be responsible for providing periodic financial reports to the VFC. VFCs will share those reports with the financial institution and TBC. The VFCs can at their option prepare an analysis of the financial statements and be compensated for one day's work in preparing the analysis.

The VFC will also be compensated as payment is received on the loan. The VFC will receive 10 percent of the interest payment when the outstanding principal balance exceeds 75 percent of the original principal balance, 15 percent when the outstanding balance is less than 75 percent but greater than or equal to 50 percent. The VFC will receive 20 percent of the interest payments if the outstanding principal balance is 25 to 49 percent of the original balance and 25 percent once the balance drops below 25 percent of the original balance. These percentage payments will be in effect as long as principal and interest are amortizing as agreed in the original note. If the loan has to be restructured at any point, the compensation to the VFC will also be restructured. Also, if interest only is being collected because of the restructuring or if interest is waived, and principal only is being collected, the VFC's compensation will be restructured to reflect the Fund's lost revenue. TBC will be compensated at a rate equal to that of the VFCs reflecting its ongoing oversight and training responsibility.

Amortizing term loans will have the same collateral requirements as income notes. The business owner will also be required to co-sign the loan. The loan proceeds may not be used to repay debt of any kind except as allowed under this policy. Prospects will not be eligible for credit if they are in arrears or default under the terms and conditions of any other credit agreements. The prospect will not be eligible for credit if this borrowing causes a default under other credit agreements. Borrowers must obtain written permission from the financial institution and TBC before borrowing additional funds from other sources while still in debt to the Fund. The negative pledge provision applies to collateral taken under amortizing term loans.

Discounted Notes - will provide long-term fixed rate financing to MSEs. This product will be available to a wider audience than the income notes. It will be the preferred product for any start-up financing because of the lack of historical profits and cash flow. Discounted notes can finance equipment purchases or fund an increase in permanent working capital. They can finance expansion into a new product line or a new market as well as plant expansion or relocation. This product can be used instead of an income note at the borrower's option. However, income notes cannot be refinanced by or converted into discounted notes. Such a provision would allow borrowers to avoid repayment for periods exceeding what is deemed appropriate, and thus threaten the program's viability.

Discounted notes will be issued for maturities not exceeding 12 months. The borrower will pay no principal or interest during the note term. Instead, the entire note balance will be due at the maturity date. The note amount will be discounted at a market rate and the borrower will receive funds equal to the note amount less the discount. (As an example, a $15 thousand note discounted at 50 percent will yield the customer $9,190, the present value of 15 thousand dollars to be received a year from now at a 50 percent opportunity cost). If the borrower is unable to repay the entire note amount at the maturity date, all or part of the investment may be converted to an amortizing term loan. Therefore, the maximum note amount will be the Tsh equivalent of $50 thousand. The target rate of return on this product should be equivalent to an amortizing term loan of comparable term. However, the effective rate of return will be higher as compensation for the risk associated with the delayed repayment. The delay allows borrowers to use internally generated cash flow to finance some of the company's growth.

VFCs will monitor the borrower at least quarterly. They should review financial statements, and provide an analysis of those statements to TBC. The VFCs will be compensated for the analysis just as they are under the income notes. They will also have increased opportunities to sell additional services to the client. The VFC will also receive a lump sum payment equal to 15 percent of the return collected (the differential between the note amount and the actual amount disbursed) when the note amount is collected. If partial payment is received, the VFC will receive his/her appropriate share. The VFC will then be compensated according to the schedule set for amortizing term loans.

Collateral requirements and co-signing requirements will be the same as under the income note and amortizing term loans. Loan proceeds may not be used to repay existing debt of any kind. A prospect will not be eligible for credit if they are in arrears or default under terms of any other credit agreement. Prospects will not be eligible for credit if this borrowing results in a default under any other credit agreement. Borrowers must receive written approval from the financial institution and TBC before borrowing additional funds from other sources while still in debt to the Fund. The negative pledge provisions also apply's to discounted notes.

Short term working capital loans - short term working capital loans will be considered on a case-by-case basis. The loans will carry a maximum term of 90 days and must be self liquidating (conversion to cash of the assets purchased will be the source of repayment). Short-term working capital loans can be used to guarantee import/export letters of credit. Any short term working capital loan must be paid to zero for at least one month before a renewal can be requested. If the short-term working capital loan is granted in conjunction with another RMPS product, no more than 3 renewals will be allowed. The proceeds of the short term working capital loan cannot be used to make payments on other loans, including loans made under the RMPS program.

A 2 percent fee will be charged for the first funding and a 1/2 percent fee will be charged on all renewals during a one year period. Interest rates will reflect prevailing market rates at the time the notes are signed. Collateral will be limited to assets purchased, and any contracts to be filled with those assets. The owner will be required to sign as co-borrower.

This product is targeted toward potential borrowers in cash businesses, or businesses that require little in the way of fixed assets. The borrower may need a relatively constant supply of working capital to purchase inventory and carry accounts receivable. The borrower may also be in a business that has defined peaks and valleys allowing accurate projection of periodic short term needs. Either scenario will be considered, however, the payout provision before renewal will have to be met.

PARTICIPANTS RESPONSIBILITIES

The Business Center

1. Act as Fund trustee.

2. Identify and train VFCs.

3. Refer prospects to VFCs

4. Review investment request packages including approvals, denials and suggestions for improvement.

5. Serve on the VDAC.

6. Compensating VFCs as appropriate.

7. Review periodic reports by VFCs and financial institution.

8. Report on program status to AID.

Venture Finance Consultants

1. Attend training.

2. Prospect identification and outreach.

3. Package preparation.

4. Presentation of packages to VDAC.

5. Review and analysis of customer performance.

6. Problem loan administration and resolution.

Financial Institution

1. Act as Trustee

2. Manage Trust and Fund assets.

3. Final review of loan requests as member of VDAC.

4. Preparation of loan documents.

5. Funding and collecting loans.

6. Reporting on performance and status of Trust and the Fund.

7. Reporting on status of loans.

8. Recovery of past due loans.

9. Seizure and Disposal of collateral.

U. S. Agency for International Development

1. Negotiate and structure Trust and Fund Agreements.
2. Provide funds to establish the Trust.
3. Act as Trustee or designate a representative.
4. Participate on VDAC or designate a representative.
5. Monitor progress of the Trust and the Fund.