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CONSOLIDATED INVESTMENT PROPOSAL  
SMALL BUSINESS LOAN PORTFOLIO GUARANTEE PROJECTS  
(LPG)

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OFFICE OF INVESTMENT

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AGENCY FOR INTERNATIONAL DEVELOPMENT

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(LPG)

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**CONSOLIDATED INVESTMENT PROPOSAL**  
**SMALL BUSINESS LOAN PORTFOLIO GUARANTEE PROJECTS**

**I. Executive Summary**

**The Program**

**1.01**

PRE proposes to utilize its Section 108(i) guarantee authority to develop a ten year "Program" of relatively standardized Loan Portfolio Guarantee (LPG) projects to increase credit to small businesses in AID-assisted countries. This will be achieved by working with private financial institutions to expand credit to new entrants and existing borrowers in this target sector. Each LPG project will initially be for up to three years, renewable after the third year for an additional three years and after the sixth year for a final three years, subject to continued compliance and satisfactory performance under the project. The tenth year of the program will be for residual close out of LPG projects. In the program's first year, LPG projects are expected to guarantee up to 50% of loans totalling the local currency equivalent of US\$ 40.0 million.

The LPG program has been designed, based on proven successful guarantee mechanisms under the Revolving Fund, to promote additionality in lending to small scale enterprises, recognizing that credit facilitation to this target sector is best addressed using established indigenous financial institutions. Worldwide, LPG projects will contribute to many of the policy objectives of AID. These include: strengthening of the indigenous formal financial markets; developing local private financial institutions; supporting the growth of smaller scale enterprises through increasing the flow of credit at market-rates, and developing indigenous entrepreneurial skills. The proposed LPG program will standardize the usage of the guarantee mechanism through a streamlined project review and approval process and the extension of coverage to expand credit to the small business sector.

Following approval of the consolidated IP, PRE/I will work in collaboration and coordination with regional bureaus and bilateral USAID missions to develop a marketing framework for LPG projects. A key first step will be to jointly identify and select countries whose capital markets and policy environment are ideal for the LPG program. It is envisaged for planning purposes, in the first year of the program, that twenty LPG projects at \$1.0 million each will be developed in Asia/Near

East, Latin America and Africa. This will be followed by the marketing of the individual LPG projects by PRE/I in coordination with bilateral USAID missions to identify potential IFIs for inclusion under a LPG project. IFI selection will be based on developed selection criteria, demonstrated need and, where applicable, policy considerations.

Working with selected LDC commercial banks and other private financial institutions, the LPG projects will guarantee up to 50% of the principal of eligible loans to small businesses. For the purposes of this program, all types of credits made to 100% privately owned small enterprises will qualify. Eligible credit will include new or net additional credit. No existing credit lines will be eligible for guarantee coverage. Credit extension will be monitored through individual transaction reports required for each loan (see Section VI and Attachment A) and through periodic evaluations (see Section VII.) Small businesses are to be defined as part of the authorization for each IFI, taking into account regional and national differences.

Equally important is the planned provision of grant-funded technical assistance which may be made available for each LPG project. Through regional/national seminars and site-specific technical assistance, support will be provided, on an identified need basis, to the participating IFIs to enhance small business lending and for training for small enterprise borrowers under LPG projects.

### Reserve and Leverage

#### 1.02

On the basis of an annual statutory reserve of 25%, or US\$5.0 million, PRE's leverage under each LPG project will be at least 8:1. Each LPG project will guarantee up to 50% of eligible loans identified by the participating IFIs. The leverage of the LPG program will be as follows:

	<u>FY 1989</u>
	(US\$ Million)
Reserve	5.0
Guarantee	20.0
IFI Credit	40.0

Potentially, the leverage may well exceed the envisioned 8:1. Revolving Fund experience, e.g. the Far East Bank and Trust facility, indicates that guarantee facilities include a multiplier effect. The total volume of lending under a guarantee project is often more than twice the maximum amount of the loan principal guaranteed at any one time, due to shorter tenors. The LPG projects will benefit from this multiplier effect as well.

### Developmental Benefits

#### 1.03

PRE participation in these projects will provide a positive impact in several AID policy areas, enhancing the abilities of AID to work with private sector intermediate financial institutions and indigenous small business. The LPG projects will have impact in the following key policy areas:

- \* increased availability of net additional credit to the small business sector at market rates;
- \* improvement of the efficiency of the formal financial sector;
- \* enhancement of IFI lending activities;
- \* employment generation;
- \* support for policy dialogue efforts; and
- \* increased productivity through entrepreneurial development.

The LPG projects will be designed, based on five years of experience of the Revolving Fund, to streamline the process by which IFIs participate under PRE loan guarantee facilities. Standardized procedures to evaluate potential IFIs combined with a rapid response mechanism will improve the Agency's capabilities to respond to development needs using IFIs in the provision of credit resources at market rates.

### Risk

#### 1.04

The risks associated with the LPG projects will vary by geographic region and participating IFI. The principal risk to PRE/I is portfolio loss, on a risk-sharing basis, by the participating IFI. This risk will be mitigated to an acceptable level in part through the review and selection process each IFI will be subjected to, prior to approval of coverage.

In addition, the transaction risk is shared equally with the participating IFI in that PRE's coverage will extend to not more than 50% of the outstanding principal of each eligible loan.

Program Timetable

1.05

IOP	1/89
Guarantee Agreement Development	1/89
IP	2/89
First LPG Projects Authorized	4/89
Coverage Begins	5/89

## II. Transaction Summary

2.01

The terms and conditions outlined below were developed during the design of the Investment Opportunity Proposal and the Guarantee Application for Small Business Loan Portfolio Guarantee for use in LPG projects (See Annex A). These terms and conditions were then discussed with nine selected international commercial banks to confirm their relative applicability, using this type of program, for the small business lending market.

Amount	Up to \$20.0 million (FY 1989) for projects not to exceed \$3.0 million in size.
Guaranteed IFIs	To be Selected.
Geographic Coverage	A.I.D. Assisted Countries.
Purpose	To increase the amount of credit extended by a Financial Institution to qualifying small businesses in its country of operation.
Duration	Three year coverage, subject to three-year renewal after years three and six. (Year ten is the program close out year).
Documentation	Guarantee Application.
Facility Fee	Each participating IFI will pay a flat facility fee of 1/2% of 1% of the face value of coverage upon notification of acceptance.
Utilization Fee	Based on annualized rates, each participating IFI will pay a semi-annual utilization fee to PRE equal to 1.5-2.5% (to be determined during negotiations) on average outstanding exposure under the project, payable in arrears.
Currency of Payment	All fees are payable in U.S. dollars or local currency equivalent, at the option of AID.

## Grant

AID will provide funding for policy and regulatory reform initiatives and for training for participating IFIs and participating small enterprises (See Section 3.06). PRE will also provide funding for four evaluations during the ten year life of the LPG program (See Section 7.01). Total PRE resources identified as needed for these activities are as follows:

### Policy & Regulatory Reform

(to be identified)

### IFI and Small Business Training

Phase I Training: 4 Seminars  
\$100,000 (Source: MAS Contract)

Phase I/II Training: 16 Seminars  
\$400,000 (Source: Grant Funds)

### Evaluations

Evaluations Years 2 & 10  
\$150-200,000 (Source: PD&S)

Evaluations Years 4 & 7  
\$40-60,000 (Source: PD&S)

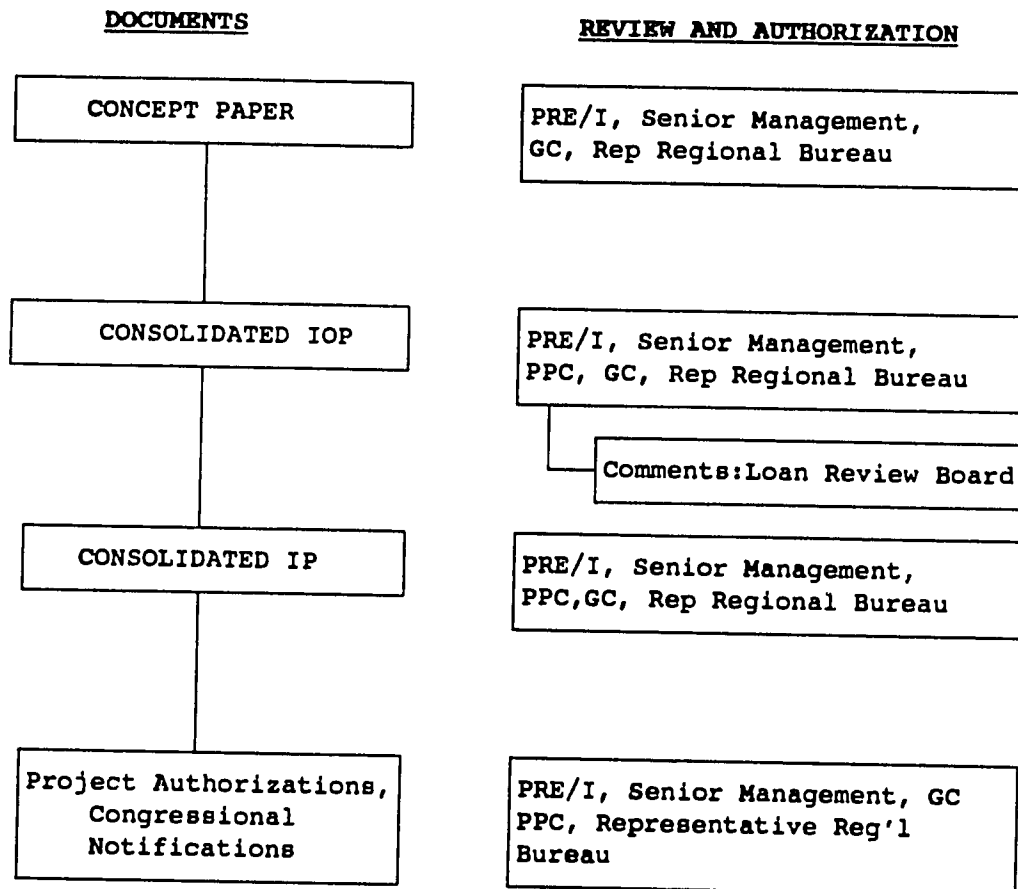
## Reporting

Guarantee Agreement, Part III. Semi-annual reporting on the guaranteed portfolio. Transaction report and schedule exhibits required for each loan qualifying for coverage. In the event of a claim, at the time of claim submission, an ad hoc report will also be required detailing status of both the loan and project at the time of the claim.



## 2.02

As detailed below, a streamlined review and approval process is planned. The IOP and IP will detail the overall global aspects of the program, outline the types of coverage planned and identify terms and conditions. This will be followed by individual IFI applications for coverage.



Under this consolidated ten year program, all design and policy issues will be thoroughly examined during the review and approval of this Investment Proposal. This will determine the parameters for individual LPG projects. Following the selection of IFIs, based on the eligibility criteria and the financial model contained in this Investment Proposal, AA/PRE will authorize individual LPG project authorizations.

Each authorization will be for a ten year period and will include country of coverage, name of IFI and amount of coverage being authorized. These authorizations will be subject to clearance by PPC and the representative regional

bureau. Clearance will ordinarily be limited to issues not resolved at the Investment Proposal stage. (A standard form of authorization is included as Annex C.)

A ten year authorization will enable LPG projects to include three, three-year renewable coverage periods. The tenth year of the authorization will provide for eligible claims in the final coverage period which can be submitted to A.I.D. up to six months following closure of the program.

PPC, regional bureaus and bilateral missions will be routinely consulted in the progress in implementing the program for selected countries and IFIs. This will include participation in ongoing monitoring and evaluation meetings. In many cases, LPG projects may well represent a joint programming initiative. The authorization procedure proposed is required to facilitate the rapid response mechanism needed to operate the LPG program on a commercially oriented basis while fulfilling the requirements of AID in exercising due diligence in the review, selection and approval of the program's activities.

### III. Program Description

3.01

The Private Sector Revolving Fund was established by the Congress in 1983 with the multiple objectives of stimulating private sector growth in developing countries, developing projects which are financed at market rates and strengthening local, private financial institutions. Since its inception, the Revolving Fund has undertaken 36 investments of which all but five were loan guarantees. Guarantees have been undertaken in AID-assisted countries in Asia/Near East (12), Latin America (10) and Africa (9).

Typically, up to 50% of the loan principal of eligible loans of the selected participating intermediate financial institution have been guaranteed. This was achieved by the transfer of PRE funds to a participating U.S. bank against which letters of credit were issued, guaranteeing the risk of the local bank's covered portfolio. This guarantee mechanism was successful in that it alleviated a potential foreign exchange burden to the borrower and leveraged PRE/I's limited resources.

The Private Sector Revolving Fund loan guarantee programs have contributed to an expansion of credit to the business sector, supported bilateral AID policy initiatives and have assisted the participating IFIs in strengthening their capabilities to lend to the small business sector. The latter has been achieved in part with the assistance of PRE funded training programs designed to enhance credit delivery and monitoring.

A representative example of this success is the US\$ 2.0 million Revolving Fund facility with Far East Bank and Trust Company in the Philippines. Since 1985, this facility has financed small and medium Philippine exporters who could not otherwise obtain export financing after the revolution. The facility was applied to revolving trade credits averaging less than \$100,000 for 90 days. Approximately \$45 million in exports has been realized, and more than 1,000 loans have been made, of which only 12, or approximately \$300,000, have been written off. These bad loans represent less than 1% of the total credit extended from the relatively small Revolving Fund facility. Several borrowers were new entrants to the formal credit system, while others, who had lost access to conventional credit, were able to re-enter the system. The facility enabled the bank to move aggressively into the small business sector and develop effective loan procedures for this target sector.

### 3.02

Legislative changes to Section 108 of the Foreign Assistance Act included in the Omnibus Trade Bill signed in September, 1988 will enable PRE to issue direct guarantees to leverage available funding with a reserve requirement against its contingent liabilities of 25 per cent, rather than the dollar for dollar reserve required under the Private Sector Revolving Fund. The principal focus of the expanded authority will be privately-owned intermediate financial institutions which, in exchange for PRE risk sharing, will agree to join with AID in market based credit programs, training and, where applicable, policy reform. For FY 1989, the focus of the expanded authority will be the development of a worldwide forfaiting program and this LPG program.

### 3.03

The successes of using PRE resources to support loan guarantees have been well documented. Throughout the world, credit is being facilitated to small businesses and bank operations related to this target sector are being strengthened. The evolution of the development and usage of the loan guarantee mechanism has emphasized the need to standardize and streamline internal agency procedures related to the guarantee mechanism to significantly broaden its application in support of AID objectives for the small business sector. The identified constraints which are to be eliminated in the LPG projects are: lack of standardization, time consuming review and approval processes and a myriad of reporting, contractual and accounting issues.

Each loan guarantee project to date has involved development of a concept paper followed by the Investment Opportunity Proposal and Investment Proposal. Lengthy negotiations and frequent staff and consultant travel have been involved in finalizing each individual transaction. This process has sometimes taken up to one year, limiting the staff and financial resources which can be applied to support other AID private sector development initiatives.

### 3.04

Building upon successes of the existing PRE/I guarantee programs and the design and implementation lessons learned over the previous five years, Loan Portfolio Guarantee (LPG) projects will be a standardized product, based on market intelligence and experience, through which PRE will facilitate a very broad extension of credit to small businesses on a commercially viable basis. Projects will also assist in the institutional strengthening of a large number of local private finance institutions and their small business clients.

Annex A provides the model LPG Guarantee Application and Agreement which will serve the dual purposes of an application for coverage and as an agreement to carry out the coverage upon review and acceptance of the application by PRE. The application consists of five integrated parts:

- Part I      Summary
- Part II     Information on the Financial Institution
- Part III    Signatures
- Part IV     Documents to be Submitted by the Financial Institution
- Part V      Standard Terms and Conditions

Part I describes the overall project, including, inter alia, purpose, coverage, eligible credit, duration, fees, application procedures, claims and reporting requirements. It is planned that Parts II and IV will provide the necessary financial information from which PRE/I will evaluate the applicant institution's eligibility to participate in an LPG project. Part V provides the standard terms and condition of the LPG project.

Annex B details the financial model which will be utilized in examining each application for coverage. The financial model will provide PRE with a systematic, consistent basis for selecting IFIs and managing the risk exposure throughout the world under LPG projects. The model is a country-specific, comprehensive financial tool for analyzing the financial statements of an applicant IFI, individually and in comparisons. Each IFI will be analyzed, through annual audited statements for the previous three years.

The model was developed by PRE/I in Bolivia in November, 1988. Eight banks had applied to participate in the PRE/I Loan Guarantee Facility and only four were accepted. Each bank was evaluated on an individual and peer average basis. Although not a determining factor, the banks that were equal to, or exceeded, the peer average were selected. The criteria used in Bolivia has been standardized for worldwide application, and is presented in Table I.

The aggregate information and ratio analysis will be weighted to equal 100% for selection purposes. The IFI that falls above a certain level (to be determined) will be approved. Each level of acceptance will be determined on a country by country basis. Where necessary, qualitative assessments will be made in consultation with bilateral USAID missions along with credit reference checks by a PRE/I Investment Officer. The latter will include corresponding bank relations with U.S. and European banks as well as customers of the applicant IFI.

TABLE I

WEIGHTED FINANCIAL ANALYSIS

<u>CRITERIA</u>	<u>RELATIVE WEIGHT</u>
1. Asset Quality	30%
- Past Due Portfolio/Total Portfolio	(10%)
- Provisions/Past Due Portfolio	(10%)
- Provisions/Total Portfolio	( 5%)
- Maturity Schedule	( 5%)
2. Capital Adequacy	30%
- Net Worth/Total Assets + Contingency	(10%)
- Net Worth/Public Deposits	(10%)
- Net Worth/Total Funding Liabilities	(10%)
3. Profitability	20%
- Net Income	( 5%)
- Return on Assets	( 5%)
- Return on Equity	( 5%)
- Operating Expenses/Financial Income	( 5%)
4. Liquidity and Funding	20%
- Primary Assets/Total Deposits	( 8%)
- Total Loans/Total Funding Liabilities	( 6%)
- Total Loans/Total Deposits	( 6%)

Part II will provide PRE with the applicant's planned usage of the coverage. Under LPG projects, all loans of new and net additional credit to 100% privately-owned companies operating within the applicant's country will be eligible for coverage. LPG projects will provide coverage to the selected IFI for up to 50% of the principal of covered losses. While each LPG project will be available for a three-year period, the coverage provided will be available for renewal for up to three years, subject to review by PRE/I and the applicant at the conclusion of year three. The same procedure will apply for review and renewal at the conclusion of year six.

Part V is an integral part of the application in that it provides AID and applicant IFI requirements for carrying out the LPG project. All relevant standard conditions and covenants have been developed with GC/PRE and incorporated into Part V. These binding terms and conditions, once accepted by the applicant by payment of the facility fee, fulfill PRE requirements for participation in a project.

The annual cost of coverage will vary, depending upon the amount of coverage negotiated with each selected applicant IFI. Given the varying depths of the financial markets in Asia/Near East, Latin America and Africa and based on the preliminary discussions with the nine commercial banks operating in these markets, it is estimated that a utilization fee of between 1.5% to 2.5% will be charged on the outstanding coverage under a LPG project. In addition, each LPG project will have a facility fee equal to 1/2 of 1% (.5%) of the total coverage provided for under the project.

A unique aspect of the LPG program, incorporated into the design of each LPG project, is the planned reduction in the LPG project utilization fee for each three year renewal period based upon proven significant additionality in small business lending on the part of the participating IFI, i.e. "developmental" performance under the project. Demonstrated additionality (i.e. net expansion of credit based on the initial baseline data) related to small business lending and enhanced lending abilities to this target sector will be documented by PRE/I as a basis for considering a lower utilization fee following the initial three year coverage period.

### 3.05

A key to the rapid utilization of the coverage to be provided will be the highly directed marketing of each LPG project to AID-assisted countries. This will be done under the supervision of the PRE/I designated Investment Officer for each region, operating under carefully defined guidelines in

consultation with the PRE/I head of the LPG program and, as appropriate, PRE/PD and bilateral USAID missions. Shortly, PRE/I will be developing a marketing framework for use by PRE, regional bureaus and bilateral USAID missions to determine how an LPG project can fit within individual country programs.

The LPG program has been designed for marketing to individual IFIs with the possibility of "wholesaling" portions of the program through parent banking institutions, i.e. corporate head offices, at slightly lower pricing. Applications and Agreements would still be made with the participating IFI itself, with the parent institution facilitating the marketing and administrative reporting. This will serve to increase the early use of LPG projects, assist in program coordination, ensure corporate support and broaden the regional focus of the program.

Following IOP approval, nine selected commercial banks in Europe and the U.S. were interviewed to discuss the global nature of the program, the proposed LPG application and the concept for wholesaling the program. This canvassing resulted in a "test market" for the product, and served to assist PRE/I in identifying critical issues which needed to be resolved as part of IP development. While these banks may, or may not, be appropriate for the actual implementation of the program given their market niches and varying degrees of interest in the program, the banks interviewed included:

<u>Name of Interviewed Bank</u>	<u>Corporate Headquarters Visited</u>
* Chemical Bank	New York
* Citibank	New York
* Chase Manhattan Bank	New York
* Standard Chartered Bank	London
* Barclays Bank	London
* Bank of Credit and Commerce Ltd (BCCI)	London
* La Societe Generale	Paris
* BIAO	Paris
* Banque Nationale de Paris	Paris

While in France, a meeting was also held with Caisse Centrale de Cooperation Economique, roughly the French equivalent of A.I.D. The importance of the program, including the technical assistance components, was noted by the French authorities given the recognized need to develop the informal sector in Africa. In addition to working with identified banking institutions, it was recommended that indigenous financial institutions, i.e. Ecobank in Togo, be considered for inclusion under LPG projects.



PRE/PD will assist PRE/I in the marketing of the LPG program following IP approval. The office will develop with PRE/I a marketing brochure to be used by PRE and USAID bilateral missions outlining the overall program objectives and how to apply for participation. It is anticipated that a carefully targeted, market approach to the LPG program will result in a rapid utilization of the planned \$20.0 million in portfolio coverage envisioned for LPG projects in year one of the program. Based on the successful placement and utilization LPG projects, additional guarantee authority may be required for the program to meet the increasing demand for LPG coverage developed in year one of the program.

### 3.06

Past experience with Revolving Fund loan guarantee programs indicate that site specific and/or national level technical assistance is often necessary to promote longer-term changes in small business development and lending to this target sector. Under the LPG program, PRE sponsored technical assistance will be made available to LPG projects in three areas: policy and regulatory reform, IFI training and small enterprise training.

#### Policy and Regulatory Reform

In order for a guarantee scheme to be effective in achieving the long-term developmental benefits cited in Sections 1.03 and 5.01, it must be provided in concert with institutional and regulatory reforms to the system in which lenders and borrowers operate. In some cases, providing a guarantee to a financial institution may, in and of itself, promote reform within that particular financial institution, but it is more likely that regulatory constraints, fiscal or monetary policy, or other institutional barriers to small business lending may defeat any attempt by individual financial institutions to broaden its customer base at the lower end of the business sector.

To maximize the impact of any particular guarantee, it is proposed that technical assistance be utilized at several levels to leverage reforms within either the host government regulatory/institutional setting and/or the private financial institutions themselves to ensure that credit lines are available long after any particular guarantee has expired. To achieve the desired impact it is expected that PRE/I will work closely with the PRE Project Development Office, S&T Bureau's Employment and Enterprise Division and the USAID mission in each country for which a guarantee program is proposed to tailor a technical assistance program aimed at enhancing credit availability for the small business sector.

Examples of the types of technical assistance contemplated include:

- \* identification and reduction of government policies, laws and practices adversely affecting the flow of credit to small businesses; and
- \* identification of and recommended changes in government and private institutional structures that adversely affect the flow of credit to small businesses.

Technical assistance will vary, depending on the particular project (e.g. PRE's Financial Sector Development Project or S&T's GEMINI Project) providing the assistance, but it will cover activities ranging from strategic planning for government regulatory reform to credit demand studies. However, care will be taken to ensure that technical assistance does not become a subsidy to any particular recipient, thereby distorting efforts in financial reform.

#### Training

A central part of the LPG program is the inclusion of training for both participating IFIs and, as appropriate, subborrowers. Under the program, training will be provided by PRE to strengthen the lending practices of the IFIs and the uses of credit by small businesses. Participation in the PRE-sponsored training will be made available on a case-by-case basis for each LPG project. These are to be funded using PRE and, as applicable, bilateral USAID mission resources.

A total of twenty training seminars are to be provided during the first and second three year phases of the LPG program. Initially, IFI training will be provided under an existing PRE Bureau contract with Management Advisory Services (MAS) which will expire in FY 1990. Four seminars at \$25,000 each are planned for LPG projects under the existing contract for a total cost of \$100,000. Following expiration of the contract, PRE/I will compete a new training contract which will include an additional six seminars during the first three year phase of the LPG program as well as ten seminars for the second three year phase and the provision of training for small enterprises. The new contract will include provisions for bilateral USAID mission access and funding. The total cost for the sixteen additional seminars is tentatively budgeted at \$400,000, or \$25,000 for each seminar.

The seminars for IFI training will be broadly defined, based on country and IFI specific needs relating to new directions in lending to small businesses. The seminars examine small business lending and the degree to which an LPG project can assist USAID bilateral missions and lending institutions in

meeting the needs of smaller scale enterprises. Examples of the topics which will be covered in the seminars include:

\* Intermediate Credit

Participants will reinforce basic credit knowledge utilizing a practical case study approach, role plays, negotiations and intensive group work.

\* Problem Loans

This workshop will help to develop the necessary skills and remedial knowledge to protect the financial institution's assets in situations where debtors are experiencing deteriorating trends.

\* Marketing Concepts

This workshop will address the increasing needs of the in the marketing of loans to the small business sector. It will enable the participants to make strategic decisions regarding the administration of products to this targeted sector.

\* Financial Control Analysis

Participants will improve their knowledge and ability to improve financial controls and reporting within the institution.

\* Services Management

This workshop will provide participants with basic and, as appropriate, advanced knowledge of bank accounting, processing of operations and auditing procedures.

An early outcome of the IFI targeted training seminars and marketing of the LPG program will be the identification of additional training needs for participating subborrowers. Once a participating subborrower has been identified for additional training PRE/I will work with the bilateral USAID mission to undertake an initial diagnostic study to ascertain what specific training and technical assistance are required. Access to this training will be made available through the follow-on training contract

Past experience with loan guarantee facilities funded by the Revolving Fund indicate that borrower training in the following areas may be required:

\* Effective Use of Financial Statements

This seminar teaches the tools to analyze the financial position of a borrower, including ratio analysis, financial cause and effect and useful applications.

\* Cash Flow Analysis

This seminar covers the better understanding of the relationships between balance sheet changes and operating statement results, and the development of credit underwriting skills.

\* Cash Budgeting and Planning Strategies

The seminar covers business growth problems, how to prepare a budget and profit plan, cash flow versus net profit, and understanding cash flow.

\* Financial Forecasting

The seminar covers predicting financial needs, calculating the financial gap in lending, sustainable growth rates and practical case studies.

\* Cost-Volume Profit Relationships

The seminar covers break-even analysis, cost behavior patterns, operating leverage, pricing and practical applications to closely-held businesses.

\* Valuation of Closely-Held Businesses

The seminar focuses upon fair market value concepts, alternative valuation methods and adding value to business development.

#### IV. Current Problems Being Addressed

##### 4.01

In this global program, each LPG project will address varying constraints to small business development, depending upon the country in which the project will operate. The World Bank in its review of small business lending entitled World Bank Lending to Small Enterprises: A Review has identified numerous constraints in lending to smaller scale enterprises using guarantee and directed credit schemes. These are reinforced by the recently published AID Policy Paper on Financial Markets Development.

Three of the primary constraints are market imperfections, financial barriers and dearth of business talent.

##### 4.02

The prices of labor, capital and other factors of production are distorted in developing countries, and are not determined by true market forces. Instead, prices are determined by policies relating to credit availability, pricing, direction of credit resources, investment incentives, trade barriers, under or overvalued currencies and salary scales. The trend in LDCs is to support larger industries which can adjust to these market imperfections, i.e. labor costs, access to foreign exchange and use of capital intensive factors of production. Typically, the small business sector is at a disadvantage in that it is often labor intensive and by definition small scale in operation. As policy reform is a longer-term process, it is important to develop programs which will encourage competition amongst both the sources and uses of inputs to production concurrent to policy dialogue initiatives. This is especially true in the case of small businesses as they are a growing source of employment generation, utilize more fully local resources and offer internal linkages for production and sales.

##### 4.03

In varying degrees, access to capital is a primary barrier to small businesses. Excessive collateral requirements, credit allocation policies and a perceived dearth of viable projects on the part of lending institutions, banks, finance companies, cooperatives and building societies, etc., often result in severe misallocations of scarce investment capital. This contributes directly to undermining the potential growth of competitive formal financial markets and all sizes of private enterprises.

In addition to these administrative allocation mechanisms, many lending institutions in developing countries do not have the necessary training and staff resources to develop small business lending and rely upon larger clients for credit utilization. Small business lending is perceived as more risky and carrying with it a greater administrative expense. This can be mitigated in part through the provision of financial training which is carefully targeted and takes into account the varying imperfections in the formal financial sector.

#### 4.04

Entrepreneurial talent is very scarce in developing countries, characterized by unskilled labor and scarce management skills. Most developing countries have focused on capital intensive industries followed behind at great distance by the development of human resources. Emphasis on the development of skills in both the formal financial sector and in the borrowing sector must accompany the provision of credit to develop competitive, market driven economies.

## V. Contribution to Development

### AID Policy Considerations

5.01

PRE participation in LPG projects will provide a positive impact in the following AID policy areas: credit availability; lending practices; employment generation; policy dialogue; increased productive growth and entrepreneurial development.

Credit availability will be enhanced through the expansion of available term credit to small scale enterprises. Under LPG projects, increased access to credit resources will be realized through the provision of the partial guarantee coverage provided for by the project.

Lending practices of the participating intermediate financial institutions will be broadened to focus on underdeveloped credit markets for smaller enterprises. Recognized as a priority area by both LDC governments and AID, the abilities of the finance community to effectively lend to the smaller scale enterprise sector will be strengthened through the technical assistance component which will accompany participation under each project.

Employment generation will be encouraged through the expansion of smaller scale enterprises. Smaller scale enterprises are recognized as labor intensive and provide forward and backward linkages within the private sector. Both urban and rural employment generation will occur.

Policy dialogue initiatives of bilateral USAID missions related to small business development and development of the formal finance sector will be assisted by LPG projects. The companion technical assistance will serve in part as a forum to identify and resolve policy issues affecting small business development, market mechanisms and competitive growth of IFIs.

Increased expansion in productive growth will be achieved by increasing capital mobilization for increased domestic market production as well as production for exports. This will be realized through using 100% privately-owned enterprises as users of the credit resources to be made available.

Entrepreneurial development will be strengthened by broadening the base of small scale enterprises and through the technical assistance to be provided. Entrepreneurs often tend to be more successful once given the resources which permit moving from the informal to formal sectors of the economy.

Relationship to PRE Objectives and Policies

While the Revolving Fund's emphasis on private sector investment using market rates of interest has been an innovation duplicated in guarantee and credit schemes worldwide, LPG projects, under the new statutory Guarantee Authority, will build upon this experience to have additional impact in the following areas:

Has a demonstration effect by promoting private financial institution lending activities which a developmental impact as measured in terms of additionality (see Annex A).

Promotes formal financial market development through increasing the formal financial sector's ability to expand credit flows to the small business sector heretofore not reached and the strengthening of intermediate finance institutions.

Demonstrates financial viability based on a backdrop of effective demand for credit, improved credit management on the part of participating financial institutions and market rate pricing strategies of the resources to be made available under LPG projects.

Targets developmental impact appropriate to the development of finance institutions and the small business sector by responding to identified constraints to their effective development.

On a worldwide basis makes resources available to the small scale business sector by significantly leveraging PRE resources to create credit for the sector.



## VI. Monitoring

### 6.01

Monitoring will occur throughout the ten-year life of the program by both PRE/I and the participating intermediate finance institutions. For each three year LPG coverage period, the participating lending institution will submit the following documentation:

<u>Document</u>	<u>Due Date</u>
Guarantee Application	Upon Application for Coverage
Transaction Report	Upon Inclusion for Coverage (Semi-Annual Reporting)
Qualifying Loan Schedule	Semi-Annually and Upon Submission of Claim(s)

The Guarantee Application and A.I.D.'s Notification of Acceptance will define the parameters of coverage, fee structure and projected utilization during the coverage period. For each loan proposed for inclusion under an LPG Project, the lending institution will complete a Transaction Report which will provide the baseline data on the borrower and planned usage of the credit being provided to the borrower. All Transaction Reports prepared during a guarantee period must be complete and submitted on schedule. The Qualifying Loan Schedule will detail the consolidated loan portfolio covered under an LPG Project.

### 6.02

This monitoring system will achieve the results of loan by loan reporting while at the same time streamline the administration of such reporting by requiring semi-annual submission except upon claims and in those instances where A.I.D. sees the need for more frequent submissions. Combined, these documents will enable PRE to monitor key selected data for both the overall LPG program and for each LPG Project as follows:

#### LPG Project

- \* Cumulative expansion of credit to the small business sector.
- \* Geographic distribution of coverage.

- \* Types of enterprises for which credit has been extended.
- \* Purpose for which credit was utilized.
- \* Employment impact: Male and Female.
- \* Net foreign exchange earnings and savings realized.
- \* Degree to which technology transfer occurred.
- \* Degree to which leverage of capital occurred through additional investments in the enterprise.
- \* Case histories of successful expansion of small enterprises.
- \* Others to be determined.

#### LPG Program

- \* Countries participating under the LPG program.
- \* Lending institutions participating under LPG projects and percentages of coverage utilized.
- \* Regional and national sector distribution, size and scope of coverage under the LPG program.
- \* Type and nature of technical assistance identified and used by both intermediate financial institutions and small businesses.
- \* Others to be determined.

6.03

Through site visits and review of the documentation submitted, PRE's ongoing monitoring of LPG projects will consist of reviews of lending activities, outstanding coverage, adherence to the parameters of the project and overall performance. These will be augmented by A.I.D. management and financial audits of the program, as may be required to ensure agreement compliance.

Participating IFI responsibilities are limited to the normal management and reporting which accompany loan activities. The information required to complete the A.I.D. required reports is routinely kept by private financial institutions. To the extent possible, reporting under each project by the IFI shall be limited to those areas identified above. Additional reporting requirements may be developed pending less than anticipated performance and reviews for additional coverage.

## VII. Evaluation

### 7.01

Four evaluations are planned under the LPG program. The dual purposes of the evaluations are to determine (a) impact on additionality of credit, based on the baseline data established under LPG Projects (See Annex A), and changes in lending practices of participating IFIs and (b) degree to which the LPG projects represents a viable financial tool for A.I.D. involvement in development of small scale enterprises. The evaluation schedule is planned as follows:

<u>Evaluation Year</u>	<u>Type of Evaluation</u>
2	Initial (Full)
4	Interim (Partial)
7	Interim (Partial)
10	Final (Full)

### 7.02

The initial (Year 2) and final (Year 10) evaluations will be full scale, multi-disciplinary evaluations estimated to cost between \$150,000 to \$200,000 each covering selected LPG Projects in Asia/Near East, Latin America and Africa. These will be carried out for PRE using external consulting resources and will be directed toward utilization of the program.

The first evaluation will enable PRE to make adjustments in the overall LPG program and in specific LPG projects which are identified during initial implementation by PRE, participating IFI or the small business borrower. A primary feature of this evaluation will be to examine the additionality of credit planned for under the program as detailed in the Transaction Reports and Semi-Annual Coverage Report. It will also measure degree to which lending institutions are changing practices toward the small business sector and the degree to which policy reform is occurring or identified as an ongoing constraint.

The final evaluation will analyze the overall impact of LPG projects in terms of facilitating credit to small businesses, degree to which the program can be replicated, impact on changing lending practices of IFIs toward the small business sector and the degree to which the LPG program has assisted bilateral USAID missions in supporting policy dialogue, credit and small business development initiatives. This evaluation will also provide the framework for A.I.D. to examine the degree to which former participant IFIs have continued lending to the small business sector following participation in an LPG project.

7.03

The interim evaluations are planned to examine progress in developing baseline data for the overall program, identify and impediments (e.g. policy, legal, regulatory, etc.) to program implementation and assist PRE/I in fine tuning the implementation of LPG projects. Each interim evaluation is estimated to cost between \$40,000 to \$60,000 covering a limited number of LPG projects under the program. The exact number of projects to be examined and their geographic distribution will be based on the early implementation of the LPG program. Included in these evaluation will be an examination of the training carried out through the regional, national and industry specific technical assistance activities.

7.04

A separate, internal management audit will be undertaken during the second year of the program's operation to review the performance in streamlining the review and approval process which PRE/I utilizes in reviewing and approving applicant IFIs. This will cover a review of the financial model used in evaluating the application, degree to which projected performance by the applicant matches actual performance and consideration of which procedures need further refinement to further facilitate program usage. The audit will be undertaken by PRE/I and require no additional consulting resources.

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT  
APPLICATION FOR SMALL BUSINESS LOAN  
PORTFOLIO GUARANTEE

February 10, 1989

**U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT (A.I.D.)**  
**APPLICATION FOR SMALL BUSINESS LOAN**  
**PORTFOLIO GUARANTEE**

This application is comprised of the following five parts:

- PART I        Summary
- PART II       Information on the Financial Institution
- PART III      Signatures
- PART IV       Documents to be Submitted by the Financial Institution
- PART V       Standard Terms and Conditions

Please complete Parts II and III of the application and submit, together with the documents described in Part IV, directly to:

Office of Investments  
Bureau for Private Enterprise,  
Agency for International Development  
Washington, D.C. 20523  
(Attn: Director)

Acceptance by A.I.D. of this application shall constitute an agreement between the Financial Institution and A.I.D. for a Small Business Loan Portfolio Guarantee upon the standard terms and conditions set forth in Part V.

Any questions and/or requests for clarification related to this application should be directed to (A.I.D. to provide name of contact and telex, telefax or phone number):

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

## **PART I**

### **SUMMARY**

- PURPOSE:** The purpose of the Small Business Loan Portfolio Guarantee ("Guarantee") is to enable the Financial Institution to increase the amount of credit extended by it to qualifying small business enterprises in its country of operation.
- GUARANTEE:** The Guarantee covers a selected percentage - no greater than 50% - of loss of principal on qualifying small business loans incurred by the Financial Institution up to a selected U.S. Dollar Guarantee limit - no greater than \$3 million. The Guarantee limit is the maximum amount that A.I.D. will pay in local currency equivalent to the Financial Institution under the Guarantee. If, for example, the Financial Institution selects coverage of 50% and \$1,000,000, it may make qualifying loans up to, at any one time, the local currency equivalent of \$2,000,000 in principal. In the event of losses covered by the Guarantee, A.I.D. will pay up to a maximum of \$1,000,000 in local currency equivalent.
- QUALIFYING LOAN AND COVERAGE:** A qualifying loan under the Guarantee is any type of net additional or new credit extended in local currency by the Financial Institution to a qualifying small business enterprise for financing, with certain exceptions, any productive or commercial activity in country. The total principal amount of qualifying loan(s) made to any one borrower may not exceed the local currency equivalent of \$150,00 (or other amount specified by A.I.D.) at the time the loan(s) is made. Qualifying loans may be placed under and removed from Guarantee coverage so long as at any one time the total principal amount of loans under coverage does not exceed the small business loan portfolio guaranteed (the local currency equivalent of \$2,000,000 in the example given above). A qualifying loan must be placed under Guarantee coverage within 10 days of being made and once removed may not be placed again under coverage. (See Article II, Part V for all eligibility criteria.)
- DURATION:** The term of the Guarantee is for three years unless earlier terminated or renewed.
- TERMINATION:** The Guarantee will terminate as of the beginning of any six-month Guarantee period upon the failure of the Financial Institution to pay the utilization fee for that period. A.I.D. may terminate the Guarantee upon the occurrence of certain specified events.
- RENEWAL:** The Guarantee is renewable upon expiration of the first three-year term for two additional terms of three years each.
- FEES:** Fees for the Guarantee include a facility fee and a utilization fee. All fees are payable in U.S. Dollars or, at the option of A.I.D., an equivalent amount in local currency.

The facility fee is equal to 1/2 of 1 percent (.5%) of the U.S. Dollar Guarantee limit selected by the Financial Institution. The entire amount of the facility fee is payable within 30 days after A.I.D. notifies the Financial Institution that A.I.D. has accepted the Financial Institution's application for Guarantee. A facility fee will be charged by A.I.D. for each renewal of the Guarantee.

The utilization fee is equal to a percentage of the average daily U.S. Dollar value of qualifying loans made by the Financial Institution during any six-month Guarantee period. The utilization fee for each Guarantee period is payable no later than 30 days after notice of payment due from A.I.D., which will be sent to the Financial Institution at the end of each Guarantee period. The utilization fee will range from one and a half to two and a half percent (1.5 - 2.5%) of such U.S. Dollar value and will be mutually agreed upon by both the Financial Institution and A.I.D. prior to the effectiveness of the Guarantee. A utilization fee will also be charged for each Guarantee period occurring during renewal terms.

A.I.D. may offer reductions in both the facility and utilization fees during renewal terms if the Financial Institution can demonstrate that during the preceding term it has made qualifying small business loans under the Guarantee additional to the small business loans it would have otherwise made.

**APPLICATION  
AND PAYMENT  
PROCEDURES:**

- 1) The Financial Institution completes and submits Parts II and III of the application, together with the documents described in Part IV, to A.I.D.
- 2) Upon receipt, A.I.D. promptly reviews the application. A.I.D. reserves the right to request clarification as well as additional documentation.
- 3) A.I.D. then accepts (or rejects) the application and so notifies the Financial Institution. Notice of acceptance specifies the facility fee payable to A.I.D.
- 4) Within 30 days of A.I.D.'s notice of acceptance, the Financial Institution pays the facility fee to the A.I.D. Payment Representative and advises A.I.D. of such payment. Upon receipt A.I.D. notifies the Financial Institution that the Guarantee is effective.
- 5) Within 30 days after the end of each six-month Guarantee period, the Financial Institution submits to A.I.D. its qualifying loan schedule (with required transaction reports) for the ended Guarantee period.
- 6) A.I.D. then reviews the qualifying loan schedule for the period ended and notifies the Financial Institution of the utilization fee payable for that period. Within 30 days of A.I.D.'s notice, the Financial Institution pays the utilization fee to the A.I.D. Payment Representative and advises A.I.D. of such payment.



**CLAIMS:**

The Financial Institution may submit a claim on a qualifying loan only when it has declared the loan a bad debt and written the entire amount of the loan off its books. Prior to write-off, payments on the loan must have been at least three months past due, the Financial Institution must have made a demand for full payment upon the borrower while the Guarantee was effective and have exercised due diligence in collecting the loan. The claim must be made within six months of the expiration or earlier termination of the Guarantee. Claims will be promptly paid in local currency by the A.I.D. Payment Representative after A.I.D. has approved the claim for payment. (See Article V, Part V for details on the required claims procedure.)

**REPORTING,  
RECORDING:**

The Financial Institution must maintain a schedule of all qualifying loans it places under (and removes from) Guarantee coverage. The schedule must be kept up-to-date, be completed in chronological order and be available for review by A.I.D. at all times; a copy of the schedule must be submitted to A.I.D. (1) with each claim and (2) no later than 30 days after the expiration of each six-month Guarantee period. The Financial Institution must also complete a transaction report for each loan, and submit to A.I.D. all such reports completed during each six-month Guarantee period no later than 30 days after the expiration of each such period. Forms for the qualifying loan schedule and transaction report are set forth in Annexes A and C to Part V.

**CONFIDENTIALITY:**

Proprietary information of the Financial Institution disclosed in this application and designated as such will be treated by A.I.D. as confidential commercial information.

(End of Part I)

## PART II

### INFORMATION ON THE FINANCIAL INSTITUTION

#### INCORPORATION, OWNERSHIP AND MANAGEMENT

1. Name of the Financial Institution: \_\_\_\_\_  
\_\_\_\_\_
2. Address of the Financial Institution: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
Telephone no: \_\_\_\_\_  
Telex no: \_\_\_\_\_  
Telefax no: \_\_\_\_\_  
Attn.: \_\_\_\_\_
3. The Financial Institution is:
  - (a) organized and existing under the laws of \_\_\_\_\_.
  - (b) organized as a (describe legal status; e.g., bank, trust company, finance company)  
\_\_\_\_\_.
  - (c) doing (describe type of activity) \_\_\_\_\_.

#### THE GUARANTEE

4. Covered Percentage. The amount of coverage (percentage of loss of principal of qualifying small business loans) selected by the Financial Institution is (up to 50%): \_\_\_\_\_.
5. Guarantee Limit. The U.S. Dollar limit of the Guarantee, (which is the maximum amount that A.I.D. will pay to the Financial Institution under the Guarantee) selected by the Financial Institution is (up to \$3 million): \_\_\_\_\_.
6. Loans placed under Guarantee coverage by the Financial Institution will be:
  - (a) made in the Country of \_\_\_\_\_.
  - (b) made in the Local Currency of \_\_\_\_\_.

(End of Part II)

**PART III**

**SIGNATURES**

(a) **By the Financial Institution**

(i) **Signing Officer**

This application is made by the undersigned authorized officer of the Financial Institution, who hereby certifies on behalf of the Financial Institution that the facts stated and representations made by it in this Application are true to the best of its knowledge and belief and do not omit any material facts relevant to such facts stated and representation made. Upon acceptance by A.I.D., this application shall constitute an agreement by the Financial Institution and A.I.D. upon the Standard Terms and Conditions set forth in Part V hereof.

\_\_\_\_\_  
Financial Institution  
By: \_\_\_\_\_  
Signature  
\_\_\_\_\_  
Name (please print)  
\_\_\_\_\_  
Title (please print)  
\_\_\_\_\_  
Date

(ii) **Certifying Officer**

The undersigned officer of the Financial Institution hereby certifies that the individual signing above is the said duly qualified and acting officer of the Financial Institution having full power and authorization to make this application on behalf of the Financial Institution.

By: \_\_\_\_\_  
Signature  
\_\_\_\_\_  
Name (please print)  
\_\_\_\_\_  
Title (please print)  
\_\_\_\_\_  
Date

(b) **By A.I.D.**

**AGREED AND ACCEPTED BY A.I.D.**

By: \_\_\_\_\_  
Signature  
\_\_\_\_\_  
Name (please print)  
\_\_\_\_\_  
Title (please print)  
\_\_\_\_\_  
Date

(End of Part III)

## **PART IV**

### **DOCUMENTS TO BE SUBMITTED BY THE FINANCIAL INSTITUTION**

- A. Copy of articles of incorporation (or other organizing charter or instrument).
- B. Annual audited statements (with notes) for the preceding three (or available) years, including the following:
- Total Assets
  - Total Net Worth
  - Financial Income
  - Net Operating Income
  - Operating Expenses
  - Net Income
  - Return on Assets
  - Return on Equity
  - Public Deposits
    - Time, Demand, Savings
    - Maturity Profile
  - Total Loan Portfolio
    - Maturity Profile
    - Past Due Loan Portfolio
    - Loan Loss Provision
    - Small Business Loan Portfolio  
(in number of loans and local  
currency value)
  - Contingent Liabilities.
- (If the Financial Institution has been in existence for less than one year, an accountants's opinion describing the financial condition of the Financial Institution when organized will be required in lieu of the above.)
- C. List of owners (by name and percentage of ownership) and principal officers of the Financial Institution.
- D. Statement of current credit policy for lending to small businesses.
- E. Statement of loan loss reserve policy.
- F. A projection of the small business loans to be made under the Guarantee, including:
- a general description
  - number of loans
  - value of the loans in local currency.

(End of Part IV)

## PART V

### Standard Terms and Conditions

<u>Article</u>	<u>Title</u>	<u>Page</u>
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II	Qualifying Loans	V-2
III	Acceptance, Condition Precedent	V-4
IV	Reporting, Guarantee Coverage, Further Documentation	V-4
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C.	Transaction Report	V-13
D.	Claim Form	V-16

## Standard Terms and Conditions

These Standard Terms and Conditions are part of an agreement for a Small Business Loan Portfolio Guarantee ("Guarantee") made and entered into by and between A.I.D. and the Financial Institution by application of the Financial Institution for a Small Business Loan Portfolio Guarantee (the "Application") and acceptance of the Application by A.I.D.

### ARTICLE I

#### The Guarantee

Section 1.01. The Guarantee. Subject to these Standard and Conditions, A.I.D. shall pay to the Financial Institution an amount in Local Currency equal to the Covered Percentage of Losses on Qualifying Loans incurred by the Financial Institution, subject to the Guarantee Limit.

### ARTICLE II

#### Qualifying Loans

Section 2.01. Criteria for a Qualifying Loan. A Qualifying Loan is any type of credit ("Loan"), including loans, commercial letters of credit and guarantees, granted by the Financial Institution to a beneficiary ("Borrower") that meets all of the following criteria:

- (a) The Borrower must be an individual, corporation or other business entity that:
  - (1) is a citizen or legal resident of the Country (Part II, Section 6), or a corporation or other business entity that is majority-owned by (i) such citizens or residents or (ii) a corporation or other business entity that is majority-owned by such citizens or residents;
  - (2) is 100% privately owned, controlled and operated;
  - (3) has the Borrower's principal place of business in the Country; and
  - (4) is a "small business enterprise" as defined by A.I.D. in the notice of acceptance given by A.I.D. under Section 3.01 hereof.
- (b) The Loan may finance any private productive or commercial activity conducted principally in the Country, and which is legal in the Country, excluding the following:
  - (1) the production, processing or marketing of sugar, palm oil, cotton, or citrus, in whole or in part, for export;
  - (2) the purchase, manufacture, importation, distribution or application of pesticides;
  - (3) the production, processing or marketing of luxury goods or gambling equipment;
  - (4) activities related to abortion or involuntary sterilization;

- (5) police, other law enforcement, or military activities;
  - (6) the production, processing or marketing of materials for explosives, surveillance equipment, or weather modification equipment;
  - (7) the purchase of goods or services which are shipped from or produced in the USSR, Albania, Bulgaria, Czechoslovakia, German Democratic Republic, Estonia, Hungary, Latvia, Lithuania, Romania, Poland, Vietnam, North Korea, People's Republic of China, Mongolia, Laos, Cambodia, or Cuba, or are produced by corporations or other entities that are more than fifty percent (50%) owned by citizens or legal residents, or Governmental Authorities, of those countries; and
  - (8) the purchase of motor vehicles not manufactured in the United States if more than 50% of the proceeds of the Subloan are used for such purchase.
- (c) The total principal amount of Loans to any one Borrower outstanding at any one time under the Guarantee must not exceed the Local Currency equivalent (calculated at the Exchange Rate determined by the Financial Institution at time the Loans are made) of U.S. \$150,000 or such other U.S. Dollar amount specified by A.I.D. in its notice of acceptance given under Section 3.01.
- (d) If the Borrower is an existing borrower of the Financial Institution, the Loan must be additional to the credit already being provided by the Financial Institution and must not be a renewal or extension of a pre-existing loan.
  - (e) No portion of the Loan may (1) be financed, directly or indirectly, with subsidized funds or (2) be guaranteed by a Governmental Authority or any other party (except A.I.D.).
  - (f) The Loan must be placed under Guarantee coverage (Section 4.02) within ten days of being made. A Loan may be removed from Guarantee coverage (and replaced, at the option of the Financial Institution, by another Loan made within ten days of such replacement) but no Loan once removed from Guarantee coverage may thereafter, without the express consent of A.I.D., be placed again under Guarantee coverage or otherwise be considered a Qualifying Loan. The total principal amount of Loans placed under the Guarantee at any one time shall not exceed that amount equal to the Guarantee Limit divided by the Covered Percentage.

Section 2.02. Repayment. The Financial Institution shall have no right to obtain payment under the Guarantee with respect to any Loan that is not in compliance with Section 2.01. If the Financial Institution obtains payment under the Guarantee for a such a non-complying Loan, the Financial Institution shall be liable to repay immediately to A.I.D. the full amount of the payment obtained plus interest accruing from the date of payment at rate to be mutually agreed upon.

### ARTICLE III

#### Acceptance, Condition Precedent

Section 3.01. Acceptance by A.I.D. The Guarantee shall have no force and effect until A.I.D. shall have accepted the Application made by the Financial Institution. Acceptance by A.I.D. shall only be made by signature of an authorized officer of A.I.D. on page III-1 of Part III of the Application. A.I.D. shall have the right, at its sole discretion, to accept or reject the Application. A.I.D. may request further documentation prior to accepting or rejecting the Application. A.I.D. shall give the Financial Institution notice of its acceptance or rejection of the Application.

Section 3.02. Condition Precedent. Upon notice of acceptance, the Financial Institution shall, as condition precedent to the effectiveness of the Guarantee, make payment in full of the Facility Fee (Section 6.02). Upon satisfaction of the condition precedent, A.I.D. shall so notify the Financial Institution. The Guarantee shall become effective as of the date of such notice from A.I.D. ("Effective Date").

### ARTICLE IV

#### Reporting, Guarantee Coverage, Further Documentation

Section 4.01. Qualifying Loan Schedule. The Financial Institution shall maintain a Qualifying Loan Schedule in the form of Annex A to these Standard Terms and Conditions for all Loans made by it under the Guarantee. The Qualifying Loan Schedule shall be completed in chronological order, reflecting the dates on which Loans are placed under, and removed from, Guarantee coverage, and be kept up to date at all times. The Financial Institution shall submit a copy of the Qualifying Loan Schedule, together with a Certification in the form of Annex B to these Standard Terms and Conditions, to A.I.D. within ten days of A.I.D.'s request, which may be made at any time and for any reason, and shall afford representatives of A.I.D. the opportunity to inspect the original Qualifying Loan Schedule (under Section 7.06).

Section 4.02. Guarantee Coverage. The Financial Institution shall place a Loan under, and remove a Loan from, Guarantee coverage by making appropriate entries on the Qualifying Loan Schedule.

Section 4.03. Transaction Report. The Financial Institution shall complete a Transaction Report in the form of Annex C to these Standard Terms and Conditions for each Loan placed under Guarantee coverage. The Financial Institution acknowledges that the purpose of this report is to enable A.I.D. to evaluate the impact of the Guarantee upon lending by the Financial Institution to small business enterprises. The Financial Institution shall have no obligation to certify, or independently verify, any information that it includes in a Transaction Report.

Section 4.04. Semi-Annual Reporting. No later than 30 days after the end of each Guarantee Period, the Financial Institution shall submit to A.I.D. the following:

- (a) a copy of the Qualifying Loan Schedule in effect on the last day of the ended Guarantee Period, together with a Certification for such Qualifying Loan Schedule; and



- (b) a Transaction Report for each Qualifying Loan made during such ended Guarantee Period.

Section 4.05. Further Documentation. No later than 30 days after request by A.I.D., which may be made at any time and for any reason, the Financial Institution shall furnish A.I.D. with the following:

- (a) an opinion of counsel, acceptable to A.I.D., that all of the Financial Institution's representations in Article VII of these Standard Terms and Conditions are true and correct;
- (b) evidence, in form acceptable to A.I.D., that the Financial Institution has obtained any and all approvals, permits, licenses, authorizations, certificates and consents of any Governmental Authority required to carry out its obligations under these Standard Terms and Conditions; and
- (c) any other document reasonably relating to this Guarantee or the obligations of the Financial Institution under these Standard Terms and Conditions.

## ARTICLE V

### Claim Procedures

Section 5.01. Claim Requirements. No claim on a Qualifying Loan may be submitted unless all of the following requirements are met:

- (a) principal and interest payments under the Qualifying Loan are at least three months past due ("Loan Default");
- (b) after Loan Default, the Financial Institution has made demand upon the Borrower of the Qualifying Loan for full payment of all amounts due ("Payment Demand"), and the date of Payment Demand occurs prior to the expiration or earlier termination of the Guarantee;
- (c) after Payment Demand, the Financial Institution has pursued reasonable and diligent collection activities against the Borrower (and any other person that may be liable on the Qualifying Loan) to make full payment of all amounts due;
- (d) after pursuit of such collection activities, the Financial Institution has declared the Qualifying Loan a bad debt and written the entire amount (including both principal and interest) of the Qualifying Loan off its books ("Write-off"); and
- (e) the claim has been submitted to A.I.D. no later than six months after the expiration or earlier termination of the Guarantee.

Section 5.02. Submission of Claim. The Financial Institution shall make a claim by submitting to A.I.D. for each Qualifying Loan a claim in the form of Annex D.

Section 5.03. Approval of Claim for Payment. The Financial Institution shall have no entitlement to payment on a claim until A.I.D. approves the claim for payment based on its review of the claim as submitted. A.I.D. reserves the right to request clarification of and further documentation on any claim submitted for purpose of approving a claim for payment.

Section 5.04. Payment of Claim. Upon approval of a claim for payment, A.I.D. shall authorize the A.I.D. Payment Representative to pay promptly to the Financial Institution the approved amount of the claim in Local Currency. A.I.D. shall notify the Financial Institution that such advice has been given, with payment instructions. A.I.D. shall have the right to pay the approved amount of any claim net of Guarantee Fees and any other amounts due and owing, or to be due and owing within 30 days, to A.I.D.

Section 5.05. Limitation on Claim Payments. The total amount of all payments on claims during any three-year term of the Guarantee (Article IX) shall in no event exceed the Guarantee Limit. For these purposes, U.S. Dollar equivalents shall be calculated at the Exchange Rate in effect on the date of each payment as determined by the A.I.D. Payment Representative.

## ARTICLE VI

### Fees

Section 6.01. Guarantee Fees. In consideration for the Guarantee, the Financial Institution shall pay to A.I.D.:

- (a) the Facility Fee; and
- (b) the Utilization Fee.

Section 6.02. Facility Fee. A.I.D. shall calculate the Facility Fee in accordance with the description of Fees set forth on page I-2 of Part I and specify the amount of the Facility Fee in its notice of acceptance. The Facility Fee shall be payable within 30 days after the date of A.I.D.'s notice of acceptance (Section 3.01). A.I.D. shall charge a Facility Fee for the initial and any renewal term(s) of the Guarantee.

Section 6.03. Utilization Fee. A.I.D. shall calculate a Utilization Fee in accordance with the aforementioned description of Fees and after review of the Qualifying Loan Schedule for the Guarantee Period last ended (using, for purposes of calculating the average U.S. Dollar value of Qualifying Loans made in that period, the Exchange Rate determined by A.I.D.), and specify the Utilization Fee due for such ended Guarantee Period in a notice to the Financial Institution. The Utilization fee shall be payable no later than 30 days after such notice. A.I.D. shall charge a Utilization Fee for each Guarantee Period occurring during the initial and any renewal terms of the Guarantee.

Section 6.04. Failure to Pay Utilization Fee. In the event that the Financial Institution shall fail to pay the Utilization Fee for any ended Guarantee Period within the applicable 30-day period, the Guarantee shall terminate as of the commencement of that Guarantee Period unless A.I.D. and the Financial Institution mutually agree otherwise.

Section 6.05 Manner of Payment. All payments of amounts owing to A.I.D. under the Guarantee shall be paid in U.S. Dollars or, at the sole option of A.I.D., in an equivalent amount of Local Currency calculated at the Exchange Rate determined by A.I.D. Payments shall be made to the A.I.D. Payment Representative. The Financial Institution shall notify A.I.D. of such payment by telex or telefax on the date such payments are made.

## ARTICLE VII

### Representations, Warranties, Covenants

The Financial Institution hereby represents and warrants as follows:

Section 7.01. Organization, Existence. The Financial Institution is a corporation or other institution duly organized and validly existing where incorporated or chartered, and has full power, authority and legal right to carry out its business as currently conducted, to execute, deliver and perform this Guarantee and all other documents which this Guarantee contemplates will be executed by the Financial Institution.

Section 7.02. Authorization, Binding Effect. The execution, delivery and performance by the Financial Institution of this Guarantee have been duly authorized by all necessary action of the Financial Institution, and this Guarantee constitutes a legal, valid and binding obligation of the Financial Institution enforceable in accordance with its terms.

Section 7.03. Governmental Approvals, Etc. No approval, permit, license, authorization, certificate, or consent of any Governmental Authority is required for the Financial Institution to enter into this Guarantee, except such as have been heretofore obtained and are in full force and effect.

Section 7.04. Facts and Circumstances. The facts and circumstances of which the Financial Institution has informed A.I.D., or caused A.I.D. to be informed, in the Application or otherwise in the course of reaching agreement with A.I.D. on this Guarantee, are accurate and complete, and include all facts and circumstances (including any actions, proceedings, investigations or claims against or affecting the Financial Institution now pending before any court, arbitrator or Governmental Authority) that might materially affect the Guarantee and the discharge of the Financial Institution's obligations under this Guarantee.

Section 7.05. Further Disclosure. The Financial Institution will inform A.I.D. in a timely manner of any subsequent facts and circumstances that might materially affect the Guarantee or the Financial Institution's discharge of its obligations under the Guarantee, or the truth and accuracy of any of the representations made in Sections 7.01 through 7.04 hereof.

Section 7.06. Reports, Records, Inspections and Audit. The Financial Institution shall

- (a) maintain or cause to be maintained, in accordance with generally accepted accounting principles and practices consistently applied, books and records relating to this Guarantee, adequate to show the Financial Institution's compliance with these Standard Terms and Conditions. Such books and records will be audited regularly in accordance with generally accepted auditing standards, and must be maintained (except as A.I.D. may otherwise agree in writing) until three years after the expiration or termination of the Guarantee;

- (b) afford authorized representatives of A.I.D. the opportunity at all reasonable times to inspect the Financial Institution's books, records, and other documents relating to the Guarantee to verify that Loans subject to Guarantee coverage are being made and recoveries pursued and applied in accordance with these Standard Terms and Conditions; and
- (c) provide such other information and reports as A.I.D. may reasonably request.

Section 7.06 Complete Responsibility of the Financial Institution for Taxes. The Financial Institution shall pay all taxes, in whatever form and howsoever imposed, including any interest and penalties, if any, on or with respect to the Guarantee, and will indemnify A.I.D. against any such taxes that may be imposed upon A.I.D. in connection therewith. All amounts hereunder shall be made free and clear of and without reduction for such taxes.

## ARTICLE VIII

### Training

Section 8.01. A.I.D. Training. The Financial Institution recognizes that the purpose of the Guarantee by A.I.D. is to encourage greater small business lending and to this purpose agrees to reasonably cooperate in small business lending seminars, training programs and promotional programs and evaluations conducted, sponsored or supported by A.I.D. Cooperation shall include making appropriate managerial or other staff available for participation in such seminars, programs and evaluations.

## ARTICLE IX

### Expiration, Termination, Renewal

Section 9.01. Term. The term of the Guarantee is three years from the Effective Date (Section 3.02) unless (i) earlier terminated under Sections 6.04 (Failure to Pay Utilization Fee), 9.02 and 9.03 hereof or (ii) renewed under Section 9.05 hereof.

Section 9.02. Termination by A.I.D. for Convenience. A.I.D. may terminate the Guarantee at any time for any reason by notice to the Financial Institution. In the event of termination under this Section, all Qualifying Loans made and placed under Guarantee coverage up to the date of notice of such termination shall remain covered until the term of the Guarantee shall otherwise expire or be terminated.

Section 9.03 Termination by A.I.D. for Material Breach. A.I.D. may terminate the Guarantee, or, at its sole election, suspend and, at any time thereafter terminate, the Guarantee at any time prior to the end of any Guarantee Period upon the occurrence of any material breach of these Standard Terms and Conditions by the Financial Institution, including, but not limited to, failure to furnish documentation, misrepresentation, breach of covenant, insolvency or bankruptcy or the occurrence of adverse events (including significant losses under this Guarantee).

Section 9.04 Effect of Termination. No termination or suspension under Sections 6.04, 9.02 or 9.03, except for misrepresentation under Section 9.03, shall have an effect on the validity and enforceability of any claim for which a Payment Demand (Section 5.01(b)) was made prior to such termination.

Section 9.05. Renewal. This Agreement may be renewed for two additional terms of three years each upon the mutual agreement of the parties and subject to these Standard Terms and Conditions.

## ARTICLE X

### Definitions

Section 10.01 Terms, when capitalized, shall have throughout these Standard Terms and Conditions, the meanings assigned to them in the Application (including this Part V) and as follows:

- (a) "A.I.D. Payment Representative" shall mean the A.I.D. representative in the Country, or otherwise, designated by A.I.D. in its notice of acceptance (Section 3.01).
- (b) "Exchange Rate" shall mean the highest rate of exchange of U.S. Dollars for Local Currency permitted by the law of the Country and as determined in the manner provided herein.
- (c) "Governmental Authority" shall mean the government of the Country or any other country, any agency or instrumentality thereof, or any entity owned or controlled thereby.
- (d) "Guarantee Period" shall mean each six-month period occurring from the Effective Date until the term of the Guarantee expires or is earlier terminated under Article IX.
- (e) "Loss" shall mean the loss of Loan principal; provided, however, that such loss shall be net of recoveries made before Write-off (Section 5.01(d)), subject to deductions from such recoveries for actual and reasonable collection expenses.

## ARTICLE XI

### Miscellaneous

Section 11.01. Governing Law. This Guarantee shall be governed by the laws of the United States and the District of Columbia.

Section 11.02. Amendment, Assignment. This Guarantee may be amended only in writing signed by authorized representatives of both parties. The guarantee may not be assigned in whole or in part by the Financial Institution without the prior written consent of A.I.D.

Section 11.03. Jurisdiction. The Financial Institution consents to jurisdiction in the United States District Court for the District of Columbia and agrees that, unless waived by A.I.D., any action brought to resolve any breach, default, dispute or interpretation of this Guarantee shall be commenced in the United States District Court for the District of Columbia. The Financial Institution agrees not to claim, in any such legal action, that the District of Columbia is an inconvenient place for trial. The foregoing shall not, however, limit the right of A.I.D. to serve legal process in any manner permitted by law or affect the right of A.I.D. to bring any action or proceeding against the Financial Institution or its property in the courts of the Country or in any other courts having jurisdiction.

Section 11.04. Confidentiality. Proprietary information submitted to A.I.D. and designated as such by the Financial Institution as part of the Application or pursuant to these Standard Terms and Conditions shall be treated by A.I.D. as confidential commercial information.

(End of Standard Terms and Conditions  
- Annexes A - D follow)

ANNEX A

Qualifying Loan Schedule

for

(Financial Institution)

Page No. \_\_\_\_\_

(1) (2)		(3)		(4)	(5)	(6)	(7)	(8)
		Principal Amount of Loan on Date of Loan		Due Date of Loan	Principal Balance in Local Currency	Days in Arrears	Date Loan Placed Under Guarantee Coverage	Date Loan Removed From Guarantee Coverage
Name of Borrower	Date of Loan	in Local Currency	in U.S. Dollars					

This Qualifying Loan Schedule is to be kept up-to-date and in chronological order, as Loans are placed under and removed from Guarantee coverage. A Loan is placed under Guarantee coverage by making entries in columns 1-4 and 7. A Loan is removed from Guarantee coverage by making entries in columns 1-4 and 8. Separate entries are required for each time a Loan is placed under Guarantee coverage, and for each time a Loan is removed from Guarantee coverage.

Columns 5 and 6 are to be completed for each Loan under Guarantee coverage at the end of each six-month Guarantee Period, and as otherwise specifically requested by A.I.D.

This form should be duplicated when additional pages of the Qualifying Loan Schedule are needed. Each page must be numbered in accordance with the chronological order of the Schedule.

ANNEX B

CERTIFICATION TO QUALIFYING LOAN SCHEDULE

\_\_\_\_\_  
("Financial Institution")

hereby certifies that, as of the date hereof, the Loans identified in the attached Qualifying Loan Schedule are Qualifying Loans covered by the Small Business Loan Portfolio Guarantee made in favor of the Financial Institution by the United States of America, acting through the Agency for International Development ("A.I.D.").

\_\_\_\_\_  
Financial Institution

By:

\_\_\_\_\_  
Signature

\_\_\_\_\_  
Name (please print)

\_\_\_\_\_  
Title (please print)

\_\_\_\_\_  
Date



## ANNEX C

### TRANSACTION REPORT

The following is information required by the Agency for International Development (A.I.D.) upon inclusion of a borrower under the LPG project. The information is divided into two parts and will enable A.I.D. to monitor the success in lending to the small business sector. While the lending institution is asked to provide this information in compliance for each loan under LPG coverage, it is not required to certify or verify the information provided to it by the applicant borrower.

## TRANSACTION REPORT

### PART I

#### Borrower Information

1. Name of Borrower: \_\_\_\_\_
2. Business Address: \_\_\_\_\_
3. Location and/or Geographic Scope of Enterprise
  - Community of \_\_\_\_\_
  - Region of \_\_\_\_\_
  - Province of \_\_\_\_\_
  - National \_\_\_\_\_
4. Nature of Enterprise/Business Activity: \_\_\_\_\_
5. Loan Amount: \_\_\_\_\_ 6. Date Granted \_\_\_\_\_ 7. Term \_\_\_\_\_
8. Purpose of Loan: \_\_\_\_\_
  - % of Loan for Working Capital \_\_\_\_\_
  - % of Loan for Fixed Assets \_\_\_\_\_
9. Collateral/Security Provided as a % of the Loan: \_\_\_\_\_
10. Size of Enterprise/Business at time of Loan Application
  - Employees (Full-time Equivalent): Men \_\_\_\_\_
  - Annual Sales/Revenues: Women \_\_\_\_\_
11. During the tenor of the loan, estimate how many full-time equivalent employees will be hired as a result of the loan: Men \_\_\_\_\_ Women \_\_\_\_\_
12. During the tenor of the loan, will the Enterprise/Business obtain goods and/or services from suppliers as a result of the loan: Yes \_\_\_\_\_ No \_\_\_\_\_
13. Will the loan be used to obtain goods and/or services from the United States during the tenor of the loan: Yes \_\_\_\_\_ No \_\_\_\_\_ If so, what goods/services and in what quantities:  
\_\_\_\_\_  
\_\_\_\_\_
14. If the Enterprise/Business is involved directly or indirectly in exports, during the tenor of the loan, estimate how much additional foreign exchange will be earned as a result of the loan:  
\_\_\_\_\_
15. If the Enterprise/Business is involved directly or indirectly in the provision of domestic goods or services, during the tenor of the loan, estimate how much foreign exchange savings will be saved as a result of the loan: \_\_\_\_\_

### TRANSACTION REPORT

16. Will the loan result in the acquisition of technology (e.g., technical equipment, services, patents, etc.) to be utilized by the Enterprise/Borrower: Yes\_\_\_\_\_ No\_\_\_\_\_ If yes, by what amount \_\_\_\_\_
17. Does the credit being extended under this loan represent borrowing by the Enterprise/Business above previously available credit ceilings: Yes\_\_\_\_\_ No\_\_\_\_\_ If yes, by what amount \_\_\_\_\_
18. During the tenor of the loan, estimate what amount(s) of additional capital will be invested by the Enterprise/Business \_\_\_\_\_ or by investors in the Enterprise/Business \_\_\_\_\_

### PART II

#### Intermediate Financial Institution Information

1. The Enterprise/Business is:
- New Customer \_\_\_\_\_
  - Previous Customer \_\_\_\_\_
  - Existing Customer \_\_\_\_\_
2. If the loan to the Enterprise/Business is deemed successful by the financial institution, would the institution consider lending to this borrower without the partial A.I.D. guarantee: Yes\_\_\_\_\_ No\_\_\_\_\_ If no, why not \_\_\_\_\_
3. Is the loan to the Enterprise/Business for an activity and/or sector for which the financial institution does not normally lend: Yes\_\_\_\_\_ No\_\_\_\_\_

EXHIBIT A

Statement of Loss

1. Borrower

(a) Name: \_\_\_\_\_

(b) Address (principal place of business): \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

(c) National of: \_\_\_\_\_

(d) On the date of the Loan, was the  
Borrower a "small business enterprise"  
as defined by A.I.D.? Yes \_\_\_ No \_\_\_

(e) On the date of the Loan, was the  
Borrower a new customer of the  
Financial Institution? Yes \_\_\_ No \_\_\_

If No, were the Borrower's other  
loan(s) covered by the Guarantee? Yes \_\_\_ No \_\_\_

If Yes, state the total  
principal amount of each other  
loan covered by the Guarantee. \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

2. Dates: (a) of the Loan \_\_\_\_\_

(b) on which the Loan was placed  
under Guarantee coverage \_\_\_\_\_

(c) of Loan Default \_\_\_\_\_

(d) of Payment Demand \_\_\_\_\_

(e) of Write-off \_\_\_\_\_

(f) of this claim \_\_\_\_\_

3. The Financial Institution has made the following efforts to induce or compel the Borrower (or any other person that may be liable on the Qualifying Loan) to make full payment of all amounts due on the Qualifying Loan: \_\_\_\_\_  
\_\_\_\_\_

1. The Financial Institution's Loss on the Qualifying Loan, and the amount of its claim, is calculated in Local Currency as follows:

- (a) principal balance (excluding net recoveries) of the Qualifying Loan on the date of Write-off \_\_\_\_\_
- (b) net recoveries \_\_\_\_\_
  - (1) recoveries from all sources \_\_\_\_\_
  - (2) less actual and reasonable collection expenses \_\_\_\_\_
- (c) Loss (principal balance less net recoveries) \_\_\_\_\_
- (d) Covered Percentage \_\_\_\_\_ %
- (d) Financial Institution's share of Loss \_\_\_\_\_
- (e) Amount of claim \_\_\_\_\_

# ANNEX B - STANDARDIZED FINANCIAL MODEL

Balance Sheet NAME OF BANK	Currency 000	Central Bank Code	31-Dec-88	% of Total Assets
<b>ASSETS</b>				
Cash and interbank deposits				
Account with the Central Bank				
Legal Reserves				
Other Liquid Assets				
<b>TOTAL LIQUID ASSETS</b>				
<b>LOAN PORTFOLIO</b>				
Total Portfolio				
Past Due Portfolio				
Less Loan Loss Provision				
<b>Total Loan Portfolio</b>				
Other Accounts				
Investments				
Fixed Assets				
<b>TOTAL ASSETS</b>				
<b>LIABILITIES</b>				
				<b>% of Total Liabilities</b>
<b>DEPOSITS</b>				
Sight Deposits				
Time Deposits				
Demand Deposits				
<b>TOTAL PUBLIC DEPOSITS</b>				
<b>OTHER FUNDING SOURCES</b>				
<b>OTHER LIABILITIES</b>				
<b>TOTAL LIABILITIES</b>				
- Paid in Capital				
- Inflation Adjustment				
- Reserves				
- Retained Earnings				
<b>TOTAL NET WORTH</b>				
<b>TOTAL LIABILITIES AND NET WORTH</b>				
<b>CONTINGENT LIABILITIES</b>				
<b>TOTAL LIABILITIES, NET WORTH, CONT. LIABILITIES</b>				

INCOME STATEMENT		Central	:	31-Dec-88	% of Total	:
NAME OF BANK		Bank Code	:		Income	:
FINANCIAL INCOME			:			:
Interest Income			:			:
Commissions			:			:
Foreign Exchange			:			:
Recoveries			:			:
Other Financial Income			:			:
TOTAL FINANCIAL INCOME			:			:
FINANCIAL EXPENSES			:			:
FINANCIAL INCOME			:			:
OPERATING EXPENSES			:			:
Personnel			:			:
Administrative, Overhead			:			:
TOTAL OPERATING EXPENSES			:			:
NET OPERATING INCOME			:			:
Other Income			:			:
Other Expenses			:			:
Income Taxes			:			:
NET INCOME			:			:
Exchange Rate per US\$			:			:

NAME OF BANK		RELATIVE	:	31-Dec-88	Peer	:
RATIO ANALYSIS		WEIGHT	:		Average	:
1. ASSET QUALITY			:			:
Past Due Portfolio/Total Portfolio		30%	:			:
Provisions/Total Portfolio			:			:
Provisions/Past Due Portfolio			:			:
2. LIQUIDITY AND FUNDING			:			:
Primary Assets/Total Deposits		20%	:			:
Total Loans/Total Deposits			:			:
Total Loans/Total Funding Liabilities			:			:
3. PROFITABILITY			:			:
Net Income		20%	:			:
Return on Equity			:			:
Return on Assets			:			:
Operating Expenses/Financial Income			:			:
4. CAPITAL ADEQUACY			:			:
Net Worth/Tot.Assets + Contingencies		30%	:			:
Net Worth/Public Deposits			:			:
Net Worth/Total Funding Liabilities			:			:

## GUARANTEE AUTHORIZATION

Name of Country: \_\_\_\_\_

Project Number: \_\_\_\_\_

Guarantee Number: \_\_\_\_\_

Name of Project: Small Business Loan Portfolio Guarantee

Name of Beneficiary: \_\_\_\_\_

Guarantee Limit: \_\_\_\_\_

Initial Term of Guarantee: Three Years

Amount of PSRF Funds Administratively Reserved to Pay Claims: \_\_\_\_\_

1. Pursuant to Section 108 (i) of the Foreign Assistance Act of 1961, as amended (21 U.S.C. 21516), and Delegation of period of ten (10) years from the date hereof the issuance of a guarantee to [name of beneficiary] assuring against losses not to exceed the local currency equivalent of \$[guarantee limit]. The Guarantee will cover no more than 50% of losses of loan principal (excluding interest) on qualifying loans to small business enterprises.
2. The guarantee shall be subject to all of the terms stated above and the following:
  - A. Fees. The beneficiary shall pay to A.I.D.:
    - (1) a facility fee equal to one-half of one percent (.5%) of the U.S. Dollar guarantee limit, payable prior to the effectiveness of the guarantee; and
    - (2) a utilization fee equal to a percentage not less than 1.5% and not more than 2.5% of the average U.S. Dollar value of qualifying loans made by the beneficiary during each six-month period of the guarantee, payable no later than 60 days after each ended guarantee period.
  - B. Guarantee Term. The guarantee shall be issued in the form of a fully executed guarantee agreement made effective not later than 180 days from the date of this authorization. The guarantee shall be effective upon payment of the facility fee for an initial term (unless earlier terminated) of three years. The guarantee shall be renewable for two additional terms of three years each upon the mutual agreement of A.I.D. and the beneficiary, subject to the terms and conditions of this authorization. No claim shall be paid by A.I.D. unless it pertains to a qualifying loan made during a guarantee term and it is made not later than six months after the end of the last guarantee term.



C. Terms and Conditions. Subject to the foregoing, the guarantee shall be extended upon such terms and conditions as A.I.D. may deem appropriate, including, but not limited to the following:

- (i) Qualifying loans shall be limited to loans made to small business enterprises meeting eligibility criteria set forth in the guarantee agreement between A.I.D. and the beneficiary; and
- (ii) The beneficiary shall agree to cooperate in small business lending seminars, training programs and promotional programs and evaluations conducted, sponsored or supported by A.I.D.

\_\_\_\_\_  
Assistant Administrator  
Bureau for Private Enterprise

\_\_\_\_\_  
Date

Clearances:

DAA/PRE: \_\_\_\_\_ Date \_\_\_\_\_  
PRE/I: \_\_\_\_\_ Date \_\_\_\_\_  
FM/LMD: \_\_\_\_\_ Date \_\_\_\_\_  
PPC/PDR: \_\_\_\_\_ Date \_\_\_\_\_  
[Regional Bureau]: \_\_\_\_\_ Date \_\_\_\_\_  
GC/PRE: \_\_\_\_\_ Date \_\_\_\_\_

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[Letterhead of A.I.D.]

[Date]

[Name, Address of Financial Institution]

NOTICE OF ACCEPTANCE

Dear \_\_\_\_\_:

This notice is to advise you that A.I.D. has accepted your application for the Small Business Loan Portfolio Guarantee ("Guarantee") dated \_\_\_\_\_, 19\_\_.

This notice is also to advise you of the Facility Fee now due and payable by you as well as other matters, as follows:

1. Fees

A Facility Fee of \$\_\_\_\_\_ \* is due and payable no later than \_\_\_\_\_, 19\_\_. (The Facility Fee is based on .5% of \$\_\_\_\_\_, the Guarantee coverage selected by you in your application.) Please pay the Facility Fee directly to the A.I.D. Payment Representative identified below. Upon subsequent notice by A.I.D. that it has received payment of the Facility Fee, the Guarantee will become effective.

A Utilization Fee will also be charged for the Guarantee. You will receive a separate notice of ~~payment~~ due for such fee after the expiration of each Guarantee Period. (See paragraph 4 below.)

2. Reports

In accordance with the terms and conditions of the Guarantee, you are required to submit to A.I.D. no later than 30 days after the end of each Guarantee Period the following:

- (a) a copy of the Qualifying Loan Schedule in effect as of the last day of the ended Guarantee Period, together with a Certification; and
- (b) a Transaction Report for each Qualifying Loan made in that Guarantee Period.

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\*Local currency equivalent to be provided in lieu of U.S. Dollar amount if A.I.D. elects to accept payment of the Facility Fee in local currency.

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Forms for the mentioned Qualifying Loan Schedule, Certification and Transaction Report are included in part V, annexes A, B and C of the application.

3. A.I.D. Payment Representative

For purposes of making payment of the Facility and Utilization Fees, your A.I.D. Payment Representative is:

\_\_\_\_\_  
Name

\_\_\_\_\_  
Address

\_\_\_\_\_  
Telephone/Telex

\_\_\_\_\_  
Country

\_\_\_\_\_  
Account No.

\_\_\_\_\_  
Bank

Please advise us of your payment by telex or telefax. For these purposes, send your telex or telefax to:

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

We will notify you subsequently by telex or telefax that we have received payment.

4. Guarantee Periods

The first Guarantee Period will commence on the date that A.I.D. advises you by telex or telefax that it has received your payment of the Facility Fee. Each subsequent Guaranty Period is a six-month period commencing on the date following the expiration of the immediately preceding period. Unless the Guarantee is earlier terminated, the last Guarantee Period will expire at the end of the three-year term of the Guarantee. We will advise you of the beginning and ending dates for your Guarantee Periods when we notify you that we have received your payment of the Facility Fee.

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5. Small Business Enterprise

The definition of "small business enterprise" for (country) is as follows:

[to be provided]

No loan made by you will be a Qualifying Loan covered by the Guarantee unless it is made to a small business enterprise. (See part V, section 2.01 of your application for all criteria of a Qualifying Loan).

Very truly yours,

By: \_\_\_\_\_  
Signature

Name: \_\_\_\_\_

Title: \_\_\_\_\_

[Letterhead of A.I.D.]

[Date]

[Name, Address of Financial Institution]

**NOTICE OF UTILIZATION FEE DUE**

Dear \_\_\_\_\_:

This notice is given under the Small Business Loan Portfolio Guarantee made by the United States of America, acting through A.I.D., in your favor effective as of \_\_\_\_\_, 19\_\_\_\_.

This notice is to advise you of the Utilization Fee of \$\_\_\_\_\_ \* now due and payable by you.

The Utilization Fee is based on \_\_\_\_\_% of the average daily U.S. dollar value of qualifying loans made by you during the six month guarantee period ended \_\_\_\_\_, 19\_\_\_\_, (Guarantee period #\_\_\_\_\_), as determined by the Qualifying Loan Schedule submitted by you for that period.

Please pay the above amount of the Utilization Fee no later than \_\_\_\_\_, 19\_\_\_\_. Please note that a termination of the guarantee may result upon your failure to make timely payment.) For purposes of payment, your A.I.D. payment representative is:

Name: \_\_\_\_\_

Address: \_\_\_\_\_

Telephone/Telex: \_\_\_\_\_

Country: \_\_\_\_\_

Account No.: \_\_\_\_\_

Bank: \_\_\_\_\_

\*Local currency equivalent to be provided in lieu of U.S. dollar amount if A.I.D. elects to accept payment of the Facility Fee in local currency.

Please advise us of your payment by telex or telefax. For these purposes, send your telex or telefax to:

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

We will notify you subsequently by telex or telefax that we have received payment.

Very truly yours,

By: \_\_\_\_\_  
Signature

Name: \_\_\_\_\_

Title: \_\_\_\_\_

[Letterhead of A.I.D.]  
[DATE]

[NAME, ADDRESS OF FINANCIAL INSTITUTION]  
Dear

NOTICE OF GUARANTEE EFFECTIVENESS

AID acknowledges receipt of your payment of the facility fee of \_\_\_\_\_ on (example July 31, 1989). The Small Business Loan Portfolio Guarantee made by the United States of America Acting through A.I.D in your favor is effective as of this date.

The guarantee is effective for a term of three years from (example July 31, 1989) unless earlier terminated or renewed. For reporting and other purposes, the guarantee is divided into six Guarantee Periods, each extending for six months. Your guarantee Periods and reporting schedule are as follows:

<u>Guarantee Periods</u>	<u>Period Number</u>	<u>Reports Due</u>	<u>Date Reports Due</u> (thirty days after period ends)
July 31 - Jan. 31, 90	1	Qualifying Loan Schedule Transaction Reports Certification	February 28, 1990
Jan. 31 - July 31,'90	2	Qualifying Loan Schedule Transaction Reports Certification	August 31, 1990
July 31 - Jan. 31,'91	3	Qualifying Loan Schedule Transaction Reports Certification	February 28, 1991
Jan. 31 - July 31,'91	4	Qualifying Loan Schedule Transaction Reports Certification	August 31, 1991
July 31 - Jan. 31,'92	5	Qualifying Loan Schedule Transaction Reports Certification	February 28, 1992
Jan. 31. - July 31,'92	6	Qualifying Loan Schedule Transaction Reports Certification	August 31, 1992

Forms for the Qualifying Loan Schedule, Certification and Transaction Report are found in Annexes A - C of Part V to your Application.

Very truly yours,

\_\_\_\_\_  
(Signature)

\_\_\_\_\_  
(Please Print Name)

\_\_\_\_\_  
(Please Print Title)

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