

UNCLASSIFIED

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

PANAMA

PROJECT PAPER

SMALL BUSINESS DEVELOPMENT

AID/LAC/P-201

Loan Number:525-W-056
Project Number:525-0240

UNCLASSIFIED

PROJECT DATA SHEET

1. TRANSACTION CODE

A = Add
 C = Change
 D = Delete

Amendment Number: PDAAQ515

DOCUMENT CODE
3

2. COUNTRY/ENTITY

Panamá

3. PROJECT NUMBER

525-0240

4. BUREAU/OFFICE

Latin America/Caribbean

05

5. PROJECT TITLE (maximum 40 characters)

Small Business Development

6. PROJECT ASSISTANCE COMPLETION DATE (PACD)

MM DD YY
08 30 89

7. ESTIMATED DATE OF OBLIGATION

(Under 'B' below, enter 1, 2, 3, or 4)

A. Initial FY 84 B. Quarter 4 C. Final FY 87

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

A. FUNDING SOURCE	FIRST FY <u>84</u>			LIFE OF PROJECT		
	B. FX	C. L/C	D. Total	E. FX	F. L/C	G. Total
AID Appropriated Total						
(Grant)	(500)	()	(500)	(3,000)	()	(3,000)
(Loan)	(1,500)	()	(1,500)	(6,000)	()	(6,000)
Other U.S. 1.						
Other U.S. 2.						
Host Country		74	74		2,100	2,100
Other Donor(s) PSIs		400	400		6,000	6,000
TOTALS	2,000	474	2,474	9,000	8,100	17,100

9. SCHEDULE OF AID FUNDING (\$000)

A. APPROPRIATION	B. PRIMARY PURPOSE CODE	C. PRIMARY TECH. CODE		D. OBLIGATIONS TO DATE		E. AMOUNT APPROVED THIS ACTION		F. LIFE OF PROJECT	
		1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan
(1) SDA	710	810	840			500	1,500	3,000	6,000
(2)									
(3)									
(4)									
TOTALS						500	1,500	3,000	6,000

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

720

11. SECONDARY PURPOSE CODE

660

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

A. Code

COOP

B. Amount

1.5

13. PROJECT PURPOSE (maximum 480 characters)

The Project purpose is to create a self-sustaining integrated public/private sector process capable of providing financial and business assistance to small scale enterprise.

14. SCHEDULED EVALUATIONS

Interim MM YY MM YY Final MM YY
 09 86 10 86 01 89

15. SOURCE/ORIGIN OF GOODS AND SERVICES

000 941 Local Other (Specify)

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

17. APPROVED BY

Signature

Title

Director, USAID/Panama

Date Signed

MM DD YY
08 23 84

18. DATE DOCUMENT RECEIVED IN AID/W, OR FOR AID/W DOCUMENTS, DATE OF DISTRIBUTION

MM DD YY

-1-

PROJECT AUTHORIZATION

Name of Country: Panama
Name of Project: Small Business Development
Number of Project: 525-0240
Loan Number: 525-W-056

1. Pursuant to Section 106 of the Foreign Assistance Act of 1961, as amended, I hereby authorize the Small Business Development project for Panama involving planned obligations of not to exceed Six Million United States Dollars (\$6,000,000) in loan funds ("Loan") and Three Million United States Dollars (\$3,000,000) in grant funds ("Grant") over a five (5) year period from the date of authorization, subject to the availability of funds in accordance with the A.I.D. OYB/allotment process, to help in financing foreign exchange and local currency costs for the project.

2. The project ("Project") consists of assistance to create a self-sustaining, integrated public and private sector mechanism which will provide credit and business technical assistance to small scale enterprises (SSEs) in Panama.

3. The Project Agreement, which may be negotiated and executed by the officer to whom such authority is delegated in accordance with A.I.D. regulations and Delegations of Authority, shall be subject to the following essential terms and covenants and major conditions, together with such other terms and conditions as A.I.D. may deem appropriate.

a. Interest Rate and Terms of Repayment

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

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

Commodities financed by A.I.D. under the Loan shall have their source and origin in Panama or in countries included in A.I.D. Geographic Code 941, except as A.I.D. may otherwise agree in writing. Except for ocean shipping, the suppliers of commodities or services financed by A.I.D. under the Loan shall have Panama or countries included in A.I.D. Geographic Code 941 as their place of nationality, except as A.I.D. may otherwise agree in writing. Ocean shipping financed by A.I.D. under the Loan shall be financed only on flag vessels of Panama or countries included in A.I.D. Geographic Code 941, except as A.I.D. may otherwise agree in writing.

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

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

d. Conditions Precedent to First Disbursement (Loan and Grant)

Prior to any disbursement or the issuance of any commitment documents under the Project Agreement, to finance any Project activity, except for the contracting of technical assistance, the Cooperative Country shall, except as AID may otherwise agree in writing, furnish to AID in form and substance satisfactory to AID:

1. Evidence that the Loan Fund has been legally established and a Loan Fund Account established in the National Bank of Panama (BNP).
2. Evidence that the Guarantee Fund has been legally established and the Guarantee Fund account established in the BNP.
3. A phase out plan for MICI's Loan Program which includes provisions to transfer proceeds of its liquidated loans to this Project.

e. Conditions Precedent to Subsequent Disbursement (Loan and Grant)

Prior to any disbursement, or the issuance of any commitment documents under the Project Agreement to finance any Project activity, except for the procurement of computer equipment and software, vehicles, technical assistance and the contracting of a Project Officer, the Cooperating Country shall, except as AID may otherwise agree in writing, furnish to AID in form and substance satisfactory to AID an Agreement of Understanding which describes the roles, functions and responsibilities of NBC, MICI, APEDE, UMPYME and the Small Business Council for Project implementation.

f. Conditions Precedent to Disbursement for Loan and Guarantee Funds:

Prior to any disbursement, or to the issuance of any commitment documents under the Project Agreement to finance any activity under the Loan Fund or Guarantee Fund, except for the procurement of computer equipment and software, vehicles, technical assistance and the contracting of a Project Officer, the Cooperative Country shall, except as AID may otherwise agree in writing, furnish to AID in form and substance satisfactory to AID:

1. A Participation Agreement signed between NBC and at least two (2) Participating Financial Institutions (PFI).
2. Operating procedures and regulations for the Loan Fund and the Guarantee Fund.
3. Evidence that the NBC has appointed appropriate, qualified key staff.

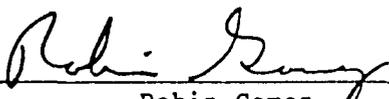
g. Conditions Precedent to Disbursement for Business Assistance Component:

Prior to any disbursement, or to the issuance of any commitment documents under the Project Agreement to finance any activity under the Business Assistance Component, except the procurement of computer equipment and software, vehicles, technical assistance and the contracting of a Project Officer, the Cooperative Country shall, except as AID may otherwise agree in writing, furnish to AID in form and substance satisfactory to AID, evidence that MICI has appointed appropriate, qualified key staff for Project implementation.

h. Covenants

The GOP shall covenant that, unless AID otherwise agrees in writing, it will:

1. Be liable for all claims against the Guarantee Fund which exceed the amount of funds available in the Guarantee Fund.
2. Provide budgetary support to MICI over the life of the Project of not less than the equivalent of \$1,600,000 for Project activities, and to provide adequate budgetary support to MICI for on-going activities after the life of the Project.
3. Make reasonable efforts to retain personnel trained under the Project in positions related to the Project.



Robin Gomez
Mission Director

8/13/84
Date

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ID 6946N

SMALL BUSINESS DEVELOPMENT

PROJECT PAPER

July 30, 1984

PROJECT PAPER OUTLINE
SMALL BUSINESS DEVELOPMENT

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ABBREVIATIONS/ACRONYMS

AID	Agency for International Development
APEDE	Asociación Panameña de Ejecutivos de Empresa
BA	Business Assessment
BAC	Business Assistance Component
BANCOMER	Banco Comercial de Panama
BDA	Banco de Desarrollo Agropecuario
BINSA	Banco Industrial, S.A.
BI.PAN	Banco Internacional de Panama
BNP	Banco Nacional de Panama
BT	Business Technicians
CBN	Comisión Bancaria Nacional
COFINA	Corporación Financiera Nacional
COLAC	Confederación Latinoamericana de Cooperativas de Ahorro y Crédito
CONEP	Consejo Nacional de la Empresa Privada
DGPE	Dirección General de la Pequeña Empresa
DICOMEX	Dirección de Comercio Exterior
DISA	Desarrollo Industrial, S.A.
EA	Executing Agency
EPG	Employment Planning and Generation Project
ERG	Entrepreneurial Resources Group/AID
FA	Fiduciary Agent
FEDPA	Federación de Cooperativas de Ahorro y Crédito de Panamá
FUNDES	Fundación de Desarrollo Económico y Social
GF	Guarantee Fund
GOP	Government of Panama
IBRD	World Bank
IDB	InterAmerican Development Bank
IFARHU	Instituto para la Formación y Aprovechamiento de Recursos Humanos
IIPUP/C	Type C Small Enterprise Development Project
IMF	International Monetary Fund
INDESA	Investigación y Desarrollo, S.A.
IPAT	Instituto Panameño de Turismo
LF	Loan Fund
LIBOR	London InterBank Offering Rate
MICI	Ministerio de Comercio e Industrias
MIPPE	Ministerio de Planificación y Política Económica
MITRAB	Ministerio de Trabajo y Bienestar Social
OEF	Overseas Education Fund
PANAJURU	Patronato Nacional de la Juventud Rural Panameña
PARS	Policy Analysis and Research System
PFI	Participating Financial Institutions
PP	Project Paper
PROAG	Project Agreement
SB	Small Business
SIP	Sindicato de Industriales de Panamá
SSE	Small Scale Enterprise or Entrepreneur
UNIDO	United Nations Industrial Development Organization
UNPYME	Unión Nacional de Pequeñas y Medianas Empresas
URBE	Regional Growth and Service Centers Project

I. SUMMARY AND RECOMMENDATIONS

A. Recommendations

The USAID/Panama Mission recommends authorization of a loan/grant of \$9.5 million to the Government of Panama (GOP) to establish a financial and business assistance mechanism which will provide credit, loan guarantees and business assistance to Small Scale Enterprises (SSEs). The Loan will be fully funded in FY 1987. Loan terms include a 10 year grace period, 10 year repayment schedule, and an interest rate of 2% during the grace period and 3% thereafter on the outstanding disbursed balance. The Project is to be fully disbursed within 54 months from the date the conditions precedent to first disbursement have been satisfied.

B. Borrower/Grantee

The Borrower/Grantee will be the GOP. Project implementation will be coordinated by the Comisión Bancaria Nacional (CBN). The Ministry of Commerce and Industry (MICI) will provide business assistance services. The Signatory for the GOP will be the Ministerio de Planificación y Política Económica.

C. Project Summary

The sector goal is job creation, through a confluent marshalling of public and private resources, for stimulation and support of viable private sector economic activities. The Project purpose is to create a self-sustaining integrated public and private sector process, capable of providing credit and business assistance to small scale enterprise. The Project will finance a loan/guarantee mechanism, training, technical assistance, equipment and materials, travel/per diem and operating expenses with AID loan/grant funds and GOP counterpart funds. The funds will be utilized for the creation and operation of three distinct project components: (1) a Loan Fund; (2) a Guarantee Fund; and (3) a Business Assistance Component. A fourth component, the Consejo Nacional de la Pequeña Empresa, will be funded wholly by the GOP.

The first component, the Loan Fund, will be managed by the Comisión Bancaria Nacional (CBN) which will act as a Executing Agency (EA) for the GOP. The EA will utilize the services of the Banco Nacional de Panamá (BNP) as Fiduciary Agent to carry out the daily operations of the Fund, discounting between 50% to 70% of the loans made by participating financial institutions (PFIs), e.g. commercial banks and FEDPA; in response to presentation of appropriate documents. These PFIs, taken together, provide a national lending network which will lend at market rates to small businesses which have viable projects. The monies loaned to small business will be supplied in roughly equal proportion by PFIs and by the Loan Fund. The Fund will lend to PFIs at rates which allow the Fund to generate surplus revenues. These surpluses will be capitalized thus increasing its loanable funds. The Loan Fund, will primarily provide funds to coops which are generally illiquid, and to a lesser extend to the participating commercial banks. The participating financial institutions will relend at market rates, thus obtaining acceptable revenues and generating increased lending to small business.

The second component, the Guarantee Fund, will also be administered by NBC. Each Fund will be treated as a separate cost center. The Guarantee Fund will guarantee up to 70% of the uncollateralized portion of sub-loans made by the PFIs. The 30% of uncollateralized exposure of the PFIs is small enough to reduce their risks, yet large enough to insure careful lending practices. The Guarantee Fund will increase its capitalization by investment of its base capital and of fees collected which equal 5% of the amount guaranteed.

The third component, the Business Assistance Fund, will be implemented by the Dirección General de la Pequeña Empresa (DGPE) in the Ministerio de Comercio e Industrias (MICI) and will provide business assistance to SSEs by helping them analyze their business needs, develop and present projects, prepare loan applications, and manage their operations until the loan is paid.

The fourth component, the Consejo Nacional de la Pequeña Empresa, will provide guidance and recommendations for program modification to the executing agency and to MICI, and will monitor the project for the GOP. It will also make policy recommendations to the President.

The Project when fully functioning will be capable of emitting 1000 loans and of generating more than 1000 direct jobs per year; will have a composite portfolio in excess of \$12.0 million; and will continue to increase the capital base of the loan and guarantee funds throughout its existence. After full repayment of the AID loan at the end of year 20, the Guarantee fund will have increased its capital base to \$2.2 million and the loan fund will be capitalized at approximately \$6.0 million.

Total project funding over a five year period is \$17.1 million, of which AID will provide \$6.0 million in loan funds and \$3.0 million in grant funds. The PFIs will provide \$6.0 million to the Loan Fund and the GOP will provide a counterpart contribution of \$2.1 million.

D. Financial Summary

Project funds will be allocated as follows:

TABLE 1

SUMMARY COST ESTIMATES AND FINANCIAL PLAN
(MILLIONS OF \$)

<u>SOURCE</u> <u>USE</u>	<u>U S A I D</u>		<u>COUNTERPART</u>		<u>TOTAL</u>
	<u>GRANT</u>	<u>LOAN</u>	<u>GOP</u>	<u>PFIs</u>	
Loan Fund 1/	.3	6.0	.0	6.0	12.3
Guarantee Fund 2/	1.0	.0	.5	.0	1.5
Business Assistance 3/	1.7	.0	1.6	.0	3.3
Small Business Council	.0	.0	.0	.0 4/	.0
	3.0	6.0	2.1	6.0	17.1

- 1/ See Annex B.1
 2/ See Annex B.1
 3/ See Annex B.3
 4/ GOP costs incurred for Small Business Council consist primarily of salaries paid to government employees who participate as council members. The amount of salary apportioned to Council related activities is quite small and variable, and is not shown in project cost estimates.

The following is a summary of estimated input cost for implementing the planned activities over five years:

TABLE 2

SUMMARY PROJECT COST 1/
 (\$000s)

<u>ELEMENTS</u>	<u>U S A I D</u>		<u>COUNTERPART</u>		<u>TOTAL</u>
	<u>GRANT</u>	<u>LOAN</u>	<u>GOP</u>	<u>PFIs</u>	
Training	66	-	14	-	80
Tech. Assist.	1,534	-	1,586	-	3,120
Equipment/Material	100	-	-	-	100
Loan Fund	300	6,000	-	6,000	12,300
Guarantee Fund	1,000	-	500	-	1,500
TOTAL	<u>3,000</u>	<u>6,000</u>	<u>2,100</u>	<u>6,000</u>	<u>17,100</u>

1/ See Table 4 on page 31 for cost breakdown.

E. Project Development Group

USAID/Panama Project Team

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II. PROJECT BACKGROUND

A. The Problem

About 14% of the Panamanian workforce is now unemployed or visibly under-employed. Nearly 73% of all the unemployed are concentrated in the Canal Corridor. At the Atlantic extreme of the Corridor, Colon, has an unemployment rate of 25%; at the Pacific extreme, San Miguelito, adjacent to the City of Panama, has a rate of about 20%.

Unemployment in the country is expected to increase with particularly high impact in these urban areas. Economic growth over the next several years will not be sufficient to absorb the annual growth of the labor force, which is projected at 3%. Rural-urban migration of the unemployed

will, at best, continue unabated and may in fact increase. The growth of the public sector has been checked, and that sector can no longer absorb a significant number of workers as it did during the past decade.

The GOP, reacting to the distress of the unemployed and to the concomittant probability of political and social tensions posed by an expansion of unemployment, has made job creation in the private sector a national priority. To attain its stated national objective of creating 25,000 new jobs per year, the GOP is undertaking three courses of action. It will:

-Accelerate investment and export promotion efforts;

-Support a substantial increase in low and lower middle income housing construction;

-Stimulate domestically-oriented production with special emphasis on assistance to the 30,000 small firms and family enterprises that make up about 30% of that sector.

This Project, designed to support the third strategy, recognizes that expansion of small business opportunities is determined, in large degree, by market forces, thus a small business assistance program will not, of itself, induce formation or expansion of small scale enterprise. Instead it can assist small entrepreneurs to respond effectively to perceived opportunity. Nevertheless, even in this period of low economic growth, opportunities for small business expansion are evident. As the economy picks up, small business activities should expand, strengthen the uptum, and absorb a significant number of workers.

However, before the small business potential of Panama can be fully realized two conditions must be met: (1) small scale entrepreneurs must have ready access to commercial credit; and (2) must improve their business skills. This Project responds to these inter-related requirements within a self-sufficient and a largely private sector credit mechanism and a governmental/private sector business assistance program.

B. Constraints to Expansion of Small Scale Enterprise.

1. Loans to small scale enterprises in Panama have been emitted in varying degrees by the commercial bank system, the financieras, the savings and loan cooperatives, informal money lenders and government subsidized credit programs.

Small business lending of the commercial bank system has been largely directed to the larger, well collateralized firms. Even the few firms which can provide sufficient collateral are, according to many bankers, only of marginal interest to the bank because of the relatively high transaction costs associated with small denomination loans. The savings and loan cooperatives report that about 15% of their portfolios are comprised of small business loans. The cooperatives are, however, illiquid; most have limited membership and those that are open to the public have little experience in evaluating business projects.

Small businessmen, with what they believe to be excellent projects, frequently must turn to money lenders and to the few financieras

which make non-consumer loans. Interest rates from these sources vary from 32% to 120% per year.

Government sponsored loan programs have, over the past 5 years, made only 725 small business loans. The loan application approval process is characteristically cumbersome and lengthy. Six months to a year may pass before a successful applicant receives a first disbursement.

In short, available loan sources have the following characteristics: banks, with high liquidity show only marginal interest in small business loans; savings and loan coops, which show interest are illiquid; informal sources of credit offer ruinous rates; and traditional government programs are unresponsive.

2. Availability of Technical Assistance

The need for technical assistance to small business has in varying degree been acknowledged by small business organizations, international agencies and the GOP over the past several years. However, its importance had been obscured by preoccupation with credit availability. Provision for technical assistance was included in the AID assisted EPG project, but such assistance took the form of classroom training, and such training was given infrequently. In the small business component of the URBE project, technical assistance is implicitly provided under a form of supervised credit. In practice the assistance was ill-defined and eclectic, and was incorporated into the loan approval process. No standards or procedures were established for basing assistance on the needs of clients, nor were personnel specifically trained to provide loan-linked assistance.

From formal evaluations of the training and technical assistance efforts to date, and from informal reactions of the small business community, it has become increasingly clear that loan-specific technical assistance is required, but is not readily available. The recognition of the need for loan-specific technical assistance is consistent with observations made elsewhere, e.g. the Dominican Republic, wherein it has been observed that project-related assistance provided to borrowers, prior to and during the life of each loan, is a necessary condition for successful small business lending. At this time, no program exists in Panama which provides for such assistance.

C. Panamanian Response

An AID assisted examination of small business project experience was initiated by the Ministerio de Comercio e Industrias (MICI) in 1983. At that time employment generation had become a major preoccupation of the GOP. The impact of fiscal austerity was increasingly felt and policies calling for reliance on a market directed economy were emerging. These considerations affected the examination and proposals for new approaches.

A MICI-administered small business lending component of the AID - supported funded URBE project had been initiated in the southwest region of Panama in 1978. Loans at 8% interest were offered to enterprises with a capital base of not more than \$50,000. A review of that project revealed the following data:

1. From an average of \$652,000 loaned each year, 344 jobs were created; a startlingly low cost of \$1,896 per job;
2. Forty two percent of all loans emitted were below \$5000, and the average of all loans was approximately \$8000; and
3. A sustained demand level of somewhat more than \$1.0 million per year was evident.

At the same time, the data revealed excessively high administrative/operational costs, substantial delinquency rates and long delays in the loan approval and disbursements procedures.

The Minister of MICI, recognizing that the costs of maintaining an extensive administrative structure was inherently high and that revenues generated from a low interest bearing portfolio of loans, further reduced by delinquency and loss were inherently low, concluded that continuation of that cost/revenue relationship would render the program ineffective and eventually lead to decapitalization.

In 1979, the GOP, with financial assistance from the AID Regional Housing Office, initiated an experimental project IIPUP/C in San Miguelito, a very populous low-income suburb of Panama City. Project funds were intended to finance a small financial entity which would serve as a long term business assistance resource to the community. Events prevented the establishment of the entity and the funds were disbursed through a MIPPE-operated lending program. Review of the program revealed that a 100 jobs were created at a capital cost of \$2,400 per job. Average loan size was \$9,200. However, delinquency rates were exceptionally high. In an attempt to reduce overhead and administrative costs, the project was absorbed by MICI.

The next GOP/AID small business activity, the BNP lending component of the EPG Project, drew in part on the MICI-IIPUP/C experience to produce a more favorable cost-revenue relationship than those of earlier projects. The BNP project was targeted at the higher end of the small business loan market. To maintain low delinquency and loss rates, commercial bank-type loan approval procedures and collateral requirements were established, as was a system for provision of training to clients. A 3% charge was levied on the loans to cover the costs of the service.

A review of the operation of the BNP project over the period October 1981 through June 1983 reveals the following:

1. It has made 192 loans with a total value of \$4.6 million.
2. The average loan size was \$22,000.
3. It created 800 jobs at a per job cost of \$5,625.
4. Largely because of centralization of decision making in the capital, loan approval and disbursements time varies from 3 months to 6 months.
5. It costs about \$1.00 for each \$9.00 loaned.

While this project is relatively successful, it achieves its degree of success by dealing with the cream of the small business sector and making relatively large individual loans. Recent data shows that the average loan amount has increased to \$28,000.

Over the past several years financial intermediaries and private sector organizations have shown interest in assisting small scale industry. APEDE, the Panamanian Association of Executives with AID assistance, is providing business training to selected owner/managers of small scale enterprises.

Private financial institutions have made some small business loans in a response to a perceived social commitment and as experiments in lending to the small business sector. However, their officers point out that small business loans represent for them the highest risk and lowest yields of all possible items in their portfolios. Their full participation in a small scale enterprise lending program would be largely influenced by devices and instruments which would reduce risk and improve yields.

Two other sources of loans for small business report other constraints. The credit union cooperatives, which are distributed throughout Panama, have made a limited number of small scale enterprise loans to their members and are unable to extend additional credits primarily because of lack of resources. The cooperatives through their federation, FEDPA, have previously proposed that they play a role in a national small business loan program. They continue to press their proposal.

The 94 "financieras" (Consumer Credit Institutions) occasionally make some small business loans, but the extremely high effective interest rates makes borrowing from these sources relatively unattractive. The fact that SSEs find ultimate recourse in "financiera" credit is indicative of unmet demands by traditional and government-sponsored credit programs. (A discussion of projected demand is presented in Section IV A Page 34)

The GOP, conscious of the demonstrated potential for job creation through small enterprise, yet recognizing that present SSE assistance programs were inadequate in scope and in cost/effectiveness, began in 1982 to explore new project possibilities.

While MICI was seeking a new and more effective small business assistance program other agencies began to play a role. The need for major attention to small business was highlighted in the MICI/UNPYME/APEDE seminar of November 1982, and communicated to the President. The seminar attended by high level representatives of the GOP and of major private sector organizations recommended that:

1. Bureaucratic obstacles to public sector lending programs be eliminated.
2. Provision be made for satisfying the collateral requirements of the lending institutions.
3. A permanent technical assistance program be established.
4. Responsibility for Small Business Programs be centralized.

5. Well defined policies be established for development of the small business sector.

In October of 1983 after the President received these conclusions, he created a Small Business Council by Decree. The Council is charged with development of Small Business policies and with recommending programs consistent with those policies.

In the same month, the President of the Republic who had, in various public statements, indicated a commitment to small business assistance, made that commitment formally in a major policy address "The Declaration of Chitre." However, the degree of GOP financial commitment to a small business program is and will be circumscribed however by the IMF imposed austerity plan. It is also influenced by the Government's new policy of utilizing private sector instruments to the degree feasible. Conscious of costs as never before, recognizing that government operated small business programs generated high overhead and operating costs, and aware of the potential for relatively low cost lending by private intermediaries, the Ministry of Commerce and Industry and the Office of the President began to look for a project configuration in which the interests of small business would be served, in which governmental responsibilities would be discharged and in which private financial intermediaries would be the service instrumentalities. A GOP/AID policy dialogue which had commenced a year earlier helped shape the new project configuration - which gave substance to a major departure from previously held Small Business Assistance Policies of the GOP.

The potential of small business development also received increased attention of the private sector. A specific AID funded effort to improve the capabilities of the small businessmen was initiated in 1981 with APEDE. That association, utilizing the services of its members, provides classroom training to small business persons over a period of 12 months. Although generally considered useful, the training is relatively expensive and to date has been given to only about 300 persons.

Arrangements were made between APEDE and the BIPAN in which the latter would lend to selected graduates of APEDE training. APEDE began to seek funding for a loan guarantee program to support such lending.

At about the same time, under the sponsorship of the Catholic church, Swiss funds were made available for the establishment of a large fund to guarantee small business loans of a cooperating bank, the Banco General. Plans were made to provide technical assistance to small business through Caritas other Catholic Church organizations and Panajuru. The focus of the proposed church-sponsored guarantee program is primarily upon small rural agricultural operatives (See Sections III J.4, other Donors, Page 33).

Each of the various approaches were in themselves incomplete and limited in scope, but they signaled a growing consensus that private sector lending institutions could play a major role in small business development if provisions were made for loan guarantees and if small business skills were improved through loan-specific technical assistance. The similarity of independent conclusions by both private sector and governmental entities established a consensus which was eventually reflected in support for this project by representatives of the Ministerio de Comercio e Industrias, the

Ministerio de Trabajo y Bienestar Social, the Banco Nacional de Panamá, the Comisión Bancaria Nacional, the SIP, the Cámara de Comercio, the Cámara Panameña de la Construcción, the Unión Nacional de Pequeñas y Medianas Empresas, and the Asociación Panameña de Ejecutivos de Empresa in their capacities as members of the Consejo Nacional de la Pequeña Empresa.

III. DETAILED PROJECT DESCRIPTION

A. Sector Goal

The goal of the Project is job creation through a confluent marshalling of public and private resources for stimulation and support of viable private sector economic activities. The job creation goal is a common theme in USAID/Panama projects. In this instance, the focus is upon small business, which accounts for approximately 30% of the total enterprises in Panama. The traditionally low capital requirements for job creation in the Small Business sector makes development of that sector a particularly highly cost effective means of employment generation. The USAID projects have increasingly emphasized and supported the role of the private sector as the "motor" of development and employment generation. This project seeks to create conditions, which will permit the small business sector to overcome special obstacles and to fulfill its economic potential.

B. Project Purpose

The purpose of the Project is to create a self-sustaining integrated public/private sector process capable of providing loans and business assistance to small scale enterprise. Within the integrated system, provision has been made to maintain continual evaluation of the state of small business and to elicit policy recommendations for governmental consideration. Thus the Project serves immediate loan and technical needs, and provides a mechanism for policy evolution.

In the achievement of the primary purpose of the Project secondary purposes of considerable importance are served. Private financial agencies will be used to carry out the loan portions of the Project, thus giving substance to the avowed GOP policy of reliance on the private sector, instead of the previous policy of total reliance on government agencies. The participating financial institutions will provide a minimum of 50% (30% for Coops) of the funds loaned to small business, thus, for the first time in Panama leveraging government loan funds in Small Business Programs. Borrowers under this Project will pay market interest rates and the loan fund will be revenue producing, thus advancing the GOP policy of reducing subsidy in its small business programs and permitting market forces to establish the cost of money to small business borrowers.

C. Beneficiaries (Target Group)

The direct beneficiaries of the Project include small business owners, present employees, and new workers, engaged as a result of increased business activities. Assistance effort will be directed to small business not presently served by existing programs, with special emphasis on micro-enterprise. The target groups by classification and anticipated needs are as follows.

Micro Enterprise (1-5 employees):

- Short-Term Working Capital Loans
- Legalizing Operations (This includes registration, compliance with Social security laws and access to benefits under incentive laws.
- Management Assistance: Packaging Loan Applications.
- Minimal Follow-Up Help

Small Enterprise (5-20):

- Short/Medium Working Capital Loans, Especially for inventory acquisition.
- Management Assistance: Marketing, Accounting, Legalization of Operations.

Medium (15-50):

- Fixed Asset Financing
- Management Training; (Professionalization of Management Below Owner level).

Firms with 30 or less employees and whose assets, including private assets of the owners are less than dollars 100,000 will be eligible for fixed and working capital loans, not to exceed dollars 50,000. The target group represents the bulk of Panamanian small business, and excludes only that up-scale portion which is being served by the small business program of the National Bank of Panama (BNP) under the AID funded Employment Planning and Generation Project (EPG). Thus the entire small business spectrum will be covered by one of the two projects.

Priority will be given to micro-enterprise in the provision of business assistance by MICI. To induce PFI's to provide for the credit needs of micro enterprise, higher interest spreads will be offered to financial intermediaries which lend to them. Some of the assistance needs of Small and Medium scale enterprise will not be served directly by this Project, but will be referred to APEDE for service within their training program and to a newly proposed UNIDO sponsored Technical Assistance Project.

Drawing upon the recorded job creation effect of existing small business lending programs; USAID consultants concluded that, a program with substantial emphasis on micro-enterprise, and with a high degree of lending for working capital, could produce one new direct job for approximately four thousand dollars in new investment. On the basis of that estimate and a projected cumulative lending outlays of more than \$19 million over the five year project period approximately 5,000 new jobs would be created. The injection of new purchasing power from the salaries of the new workers, from increased income of owners and their frequently under-employed workers, and from increased business purchases will produce secondary employment effects of undetermined magnitude. Investigación y Desarrollo (INDESA), a local economic consulting firm, estimates secondary employment effects at least equal to the direct employment generated.

Beyond direct and indirect employment effects, the Project benefits financial intermediaries, technical assistance suppliers, the GOP and the economy as a whole.

Financial intermediaries will be able to extend their lending at marginal costs to a new client group with reasonable expectations of profit. Suppliers of business assistance e.g. members of the associations of accountants, graduates of business schools and others contracted by MICI, will receive training, exposure to small business and its problems, and a more intimate knowledge of the economy in which they function.

We anticipate that the project will advance the role of women in development by providing a loan funding base which will be utilized by the women trained under the AID sponsored Overseas Education Fund (OEF) programs. It is also possible to utilize OEF trainers as contractors under the MICI coordinative business assistance program.

Other programs of the GOP will also benefit from the loan and grant elements of this project mainly Instituto Panameño de Turismo's (IPAT) artisan/handicraft promotion effort, and proposed activities of the Dirección de Comercio Exterior (DICOEX) to bring small producers into international markets. Participants in these programs will be eligible for the benefits of this project.

The GOP benefits directly and indirectly. The tax base will be broadened and revenues enhanced. The success of a self-sufficient small business loan system will relieve the GOP of the need for recurrent injections of funding into the credit system by inducing the banking sector to provide funds. It will also obviate the necessity of incurring additional foreign debt to support its small business public credit system.

The nation-wide scope of the Project will widely disseminate its benefits. Local economies outside the metropolitan areas will be strengthened, thus contributing albeit marginally, to a reduction in urban migration. The increase in well being associated with employment increase should impact positively on the Panamanian social and political ambience, contributing to stability and domestic tranquility.

Finally, the economy as a whole will benefit from the stimulation of economic activities, from greater local value added, and to some degree at least, from an increase in foreign exchange earnings.

D. End of Project Status

When the Project ends in 1990, it will have established an integrated, fully functioning and self sustaining credit/assistance mechanism capable of making one thousand loans per year. It will have a composite loan portfolio of approximately \$12 million, (\$6.0 million from the loan fund and \$6.0 million from the participating commercial banks). Loans are expected to average between \$4,000 and \$5,000 and have an average term of 3 years. Loans in the portfolio will primarily support labor intensive projects which have an average capital/labor ratio of \$4,000/1, thus producing an employment creation rate of about 1,000 jobs per year. As the Project continues, recycling of revenues will bring the composite portfolio up to nearly \$13 million yielding a job creation rate of 1,700 jobs per year.

One of the three essential loan instruments in the Project, a Comisión Bancaria Nacional managed loan fund, will have provided 50% of the \$12 million loaned to small business; will have increased its capitalization

through revenue retention from \$6 million to \$6.4 million; and established the basis for accelerated capital growth.

The second essential instrument, a Comisión Bancaria Nacional managed Guarantee Fund, will have guaranteed up to \$8.5 million of the uncollateralized portion of the \$12 million loaned; increased capitalization from \$1.5 million to \$1.7 million; and be positioned to maintain a guarantee portfolio equal to 70% of new loans made in subsequent years.

The third essential loan instrument, the private financial institutions, will have provided approximately \$6 million in loans to small business. There will be approximately 40 financial institutions participating in the Project, branches of which will provide full or nearly full national coverage.

The technical support instrument, a business assistance mechanism managed by MICI, will have carried out business assessment, and will have provided loan-specific business assistance to 6,800 small businesses. It will have an annual capacity to carry out 2,000 business assessments of small businesses and to provide loan-specific direct advisory services to 1,000 businesses.

The Consejo Nacional de la Pequeña Empresa, established to make policy and program recommendations to the GOP will be fully functioning and will have formulated a coherent small business development policy. The nationwide loan/business assistance mechanisms will constitute an information system, feeding into the Consejo Nacional de la Pequeña Empresa the concerns of the small business community, evaluations of the loan and assistance programs, and suggestions for the attention of the Council.

MICI will have completed the dismantling of its small business lending program; and will have re-directed some of its resources to provision of business assistance to the small business community.

The End of Project status, as described above, applies to activities completed and capabilities acquired by the 5th year of operations. This obscures several major accomplishments which will not be evident until the AID loan is paid off in the 20th year. At that time the Loan Fund would be debt free and capitalized at about \$6.0 million; and the guarantee fund capitalized at about \$2.6 million, thus providing a flexible base for continuation or modification of small business lending without recourse to public funds. Should, as seems likely, the default rates on the guarantee fund, be less than projected at this time, the incremental earnings would be used to defray part or all of business assistance costs.

E. Project Rationale

As a result of formal and informal evaluations MICI leaders concluded that employment generation effects could indeed be produced by small business development, but that flaws in existing programs precluded the attainment of desirable levels and distribution of such effects. Expansion of small business development programs was needed, but unless the defects observed were remedied, expansion would be relatively fruitless.

Two fundamental flaws noted in current programs had to be remedied.

1. Lending under these programs required that borrowers pledge adequate collateral, a condition which the bulk of the small business community of Panama was unable to meet. Thus even well conceived and potentially profitable projects were unable to receive loan funding.
2. Successful management of loan funded projects requires that the responsible entrepreneur have, or have available to him, a range of adequate business skills. The bulk of the small business community is bereft of these. Thus even if the problem posed by collateral requirements were resolved, the businesses funded would remain highly vulnerable. Present projects have not adequately addressed this problem.

It was concluded that provisions to remedy the noted flaws would have to be made in a revision of existing programs, or in new projects if otherwise warranted.

The BNP small business lending program funded under the AID EPG project was not considered as a candidate for major revision. It was regarded as a relatively effective instrument serving the high end of the small business market and those few borrowers which could pledge adequate collateral. As such it had a limited but justifiable role.

Thus attention focused on the remaining GOP small business project; the MICI lending program. The evaluations had revealed administrative, technical and fiscal flaws, which in varying degrees debilitated the MICI project and yielded a high cost/low performance result. Continuation of the project in its present form would inevitably lead to decapitalization.

A number of proposals for restructuring the MICI operation were advanced; including the formation of a new small business bank which would have absorbed the MICI project. In a review of the proposals additional flaws, inherent in governmentally operated lending programs, were identified. It was noted that such programs cannot be totally politically neutral. Even where the lending process has been successfully isolated from political influence, the borrowing public, regarding governmental lending as a form of largesse, is reluctant to repay loans; and would be collectors incur the threat of political retaliation. It was this generally accepted observation which gave rise to the proposal for a special autonomous small business bank.

Another telling observation arising from the evaluations was that special lending programs administered by the Government required new administrative structures and staff, resulting in high overhead and operational costs. Where lending is limited to a special group e.g. small businessman, portfolio levels are frequently insufficient to generate enough revenues to offset those high overheads. This is especially so when interest rates are maintained at low levels. An unintended effect of artificially maintained low interest rates is decapitalization and consequent denial of loan opportunities to the bulk of the small business community. Private financial institutions which lend across a wide spectrum of clientele, can take on additional loan activity at marginal costs. Specialized governmental lending, on the other hand, must absorb the full cost of overheads and operations, thus establishing the least fiscally attractive process.

These observations led to a conditional conclusion that, if a reasonable small business lending alternative could be found, MICI would withdraw from a lending role.

The recognition that low interest rates further jeopardized the fiscal integrity of institutions engaged in inherently risky lending to small business, was accompanied by acknowledgement that such rates might not serve the best interests of the small business community. Its availability led untutored entrepreneurs to the deceptive conclusion that low interest payments could compensate for the marginal viability of projects being considered. To the extent that such projects were sometime successful, they were so because the business was insulated from the realities of the money markets. In short, subsidized low interest rates were not necessarily wholly benign and subsidized credit would be a necessary condition for the continued survival of marginal projects.

While the GOP and USAID discussed the evaluation of MICI and the observations derived from that evaluation, new factors impinged on the development of this Project.

1. The GOP concluded that it must rely on the private sector as its main economic motor, thus formally abandoning its experiments with para-statal businesses which had characterized the Torrijos years.
2. At the same time, in response to IMF agreements, it began to retrench. Under pressure of reduced budget allocations, unnecessary or marginally effective programs came under scrutiny. Small business programs were not excepted.

On one hand the GOP felt compelled by economic rationale to assist small business, and the economic rationale was echoed by the small business community. On the other hand it was increasingly clear that a burdened treasury could hardly justify expenditures on programs which were ineffective. It sought a solution which would remedy the defects observed in existing programs, which could have the necessary national employment generation effects, and which at the same time would reduce or eliminate the necessity of successive subsidy.

The ideal solution sought would have the following characteristics. It would:

1. utilize non-governmental resources to the greatest extent possible;
2. provide rapid and adequate access to loans for all strata of small business throughout the country;
3. be self sustaining and stable;
4. respond to economic realities of small business; and
5. have maximum employment generation effect.

The incorporation of these characteristics in one project required that private sector resources be mobilized for small business lending. The Panamanian banking community with a nationwide network of branches enjoying high liquidity and experiencing a reduced demand for loans was clearly positioned to supply loans if motivation to do so could be created. The savings and loan cooperatives, had previously expressed interest in serving as lenders to small business. They, however, were without sufficient funds to do so. It was concluded that a strategy would be required which would induce private banks to lend, and in which the cooperatives could be funded for that purpose. That strategy would have to insure that public purposes were served within a framework and under conditions acceptable to the small business community.

F. Project Strategy

Project strategy focused on three sets of inter-actions: the first on the required compatibilities of participating financial institutions and the small business community; the second on Government and Private financial intermediaries; and the third on Government and small business community.

A canvas of the banking community revealed that the high risk and relatively high transaction costs of small business lending by private financial institutions required that the following conditions be met before they could effectively lend to small business:

1. Interest spreads sufficiently ample to cover costs and to produce a nominal profit. This implied interest charges at least equal to prevailing market rates.
2. Risks be minimized by collateral or guarantee.
3. Freedom to utilize their established standard procedures in loan making.

The small business community, polled extensively, responded to PFI requirements by stating almost universally that market rates of interest were acceptable provided that the long delays in loan procurement, which had characterized public lending, would not characterize the lending of private institutions. The willingness of the small business community to accept market rates established the first principal of the Project, and provided the basis for resolution of other issues. The banks' insistence on their own simple procedures was completely in accordance with small business' desire for rapid reaction to loan applications. Thus a second principal was derived, viz. that loan approval decisions would be made on the basis of standard financial analyses by the banks. This implied simplicity in procedure and the acceptance of decisions related to prevailing economic realities.

Interaction of the private banks and the small business community left two issues unanswered: how the banks could minimize their risk, and how the small businessmen could formulate projects which would meet bank financing requirements.

Resolution of the risk issue came from the interaction of the banks and the GOP. The banks were unable to minimize the risks of financial exposure without collateral. The GOP was willing to substitute loan

guarantees in lieu of client collateral, but subject to conditions which would maintain the integrity of a proposed fund from which the guarantees would be provided. To maintain the discipline of bank lending, banks had to accept a reasonable degree of risk. Should the GOP guarantee 100% of small business loans, risks would in reality be assumed by the government. Such an arrangement would surely induce a casual approach to the lending process on the part of the banks and their clientele. It was proposed that the GOP establish a fund which would guarantee only 70% of the uncollateralized portion of a loan. Such guarantees would substantially reduce bank exposure, yet enough exposure would be present to insure that the banks would treat each loan with due care. The banking community accepted the proposal in principal and five banks indicated their willingness to lend under such an arrangement. Thus one component of the Project emerged -- a Loan Guarantee Fund.

A second component, a loan fund, was also defined. The savings and loan cooperatives which also comprised a national network were lending up to 15% of their funds to small enterprises and were unable to lend additionally because of poor liquidity. The coops were also especially well positioned to lend to the micro enterprise, a potential client group previously neglected. The loan fund would make resources available, primarily to the coops to fund up to 70% of sub-loans to small business. It would also be available to participating banks to cover up to 50% of such bank sub-lending. Thus the GOP loan fund would leverage at least an equal amount of bank funds. Increased leverage would be likely as the banks, after experiencing initial success with lending under this project, would use their own lower cost monies in greater degree.

In the third interaction between the GOP and the small business community, the GOP, seeking to protect the solvency of the Guarantee and Loan Funds, sought a revenue producing formula for use of the funds. The small business community had already accepted the proposal of paying market rates. A formula was devised which called for lending to sub-borrowers at a maximum rate of LIBOR plus eight percent (8%); thus, providing for flexible response to the money markets, while simultaneously permitting a spread of up to 8% to participating financial institutions - a spread considered fully adequate by the banking community. This formula was subsequently adjusted in conferences between the USAID, the Comisión Bancaria Nacional and MIPPE. The new formula calls for no ceiling on interest rates. These will be adjusted by the Comisión Bancaria Nacional in response to prevailing market conditions. The Comisión will also reserve the right to adjust interest rates upward by as much as 3% during the life of any loan. The proceeds of such adjustments would be allocated to the Guarantee Fund. The Comisión would utilize this right only if, in its judgement, the revenues of the Guarantee Fund were inadequate to cover default claims. In practice the rate initially contemplated and accepted by those banks who have indicated their desire to participate, is LIBOR plus 5%. Competition among banks may possibly further reduce the rate. Assuming that financing of the Loan Fund was provided by an AID concessional loan, it would provide an ample spread for the fund, thus permitting it to grow, even while the AID loan was being repaid. This concept was a reversal of earlier GOP policies which called for interest rate subsidies to individual borrowers. Now the subsidy inherent in a concessional loan redounds to the benefit of the small business community as a whole, insuring continuation of the lending program and a manifold increase in individual beneficiaries.

The Loan Fund would be protected by the Guarantee Fund, but how would the Guarantee Fund maintain its solvency? It would charge a fee to the financial intermediaries choosing to use it. That fees would have to produce enough revenue to, at least cover, defaults and operating costs. At a projected default rate of 4.5% of portfolio a fee of a 5% would have to be applied to the uncollateralized portion of each sub-loan which requires a guarantee. This would bring the effective cost of borrowing at present market rates up to about 20%, for one year loans; and 17.4% for three year loans. Small business representatives indicated that prevailing interest rates from non-banks sources were greatly in excess of the proposed rates, and the latter were acceptable.

Second, the Loan Fund would invest its base capital to produce additional revenues, and provide for accumulation of additional capital.

Agreement was readily obtained on the need to provide business and financial management assistance to the small business borrowers. Such assistance was deemed necessary to protect the Guarantee Fund from inordinate claims resulting from poor projects and poor management. It was also considered as an appropriate and necessary governmental activity to improve the business skills of the largest segment of the private sector. The small business community regarded such assistance as essential to the fiscal well being of its members.

However, acceptance was not universal and considerable concern was expressed by business and governmental representatives that the reversal of the long time governmental practice of highly subsidized lending to small business should not be perceived as complete abandonment of small business to market vagaries. The levels of interest called for in the project were, in the opinion of the representatives, the absolute maximum which could be imposed without jeopardizing the project and the credibility of those who supported it. The interest rates will probably remain a sensitive issue. Fortunately the project has the flexibility to move them up or down as events dictate.

The unanimity of agreement on the need for management assistance to small business, was accompanied by lengthy discussion of the nature and intensity of such assistance. At one extreme a minority held that existing small business had acquired skills sufficient for their survival and that only limited specialized information and training would be required. Other assistance would be of marginal nature. At the other extreme, it was held that extensive technical and management training was necessary for full development of existing as well as new small business ventures. Both positions were substantiated by studies and evaluations of small business programs throughout the world. The choice ultimately agreed upon was that the assistance to be provided would, (a) be loan-specific; i.e. deal with the project for which a small business borrowed funds; (b) be limited to transfer of business skills rather than attempt to transfer production techniques, and (c) to include a vetting system which would select clients for assistance only after there was solid indication that the assistance was needed, could be absorbed, was relatively simple and appeared to be cost effective.

With the resolution of the business assistance issue all the main elements of the Project had been identified and accepted. It was now

necessary to define roles and procedures more precisely and establish dimensions of the Project.

G. Project Components

There are four components to the Project; the first three, a Loan Fund, a Guarantee Fund and a business assistance component are intended as operational instruments. The fourth, the Consejo Nacional de la Pequeña Empresa will function as an advisory unit to the GOP and will monitor the Project. The operational components respond to the strategy considerations discussed previously and are designed to permit decentralized and simplified administration within a mutually supportive framework.

The operating components are designed to provide special assistance to any of the approximately 30,000 Panamanian firms which employ less than 30 workers and have personal and business assets of less than \$100,000. The structure, administrative procedures and resources provided must contribute to a system capable of making 1000 loans per year.

1. The Loan Fund

A \$6.0 million loan fund will be established by the GOP and administered by an Executing Agency, the Comisión Bancaria Nacional. The Comisión Bancaria Nacional will contract with the BNP to be its fiduciary agent; e.g. to disburse, collect and invest funds in conformance with directions of the Comisión Bancaria Nacional.

Under terms and conditions set forth in participatory agreements designed by the Comisión Bancaria and executed between the BNP and the participating financial institutions the financial institutions would, with their own funds, make loans to the eligible small business. The terms and conditions of those loans made by the private financial institutions would be as follows:

- a. Maximum amount of loan to an individual business: \$50,000.
- b. Maximum amount of loan for the expansion of an on-going activity: normally 90 percent of the total required investment.
- c. Maximum amount of loan for the establishment of a new enterprise: normally 80 percent of the total required investment.
- d. Maximum period for the maturity of the loan: 5 years. In exceptional cases where depreciation of assets purchased from loans seriously affect the viability of the project, the period can be extended with the consent of the Executing Agency up to a maximum of 7 years.
- e. Maximum grace period: 1 year, except in exceptional circumstances at the discretion of the lender a 2 year period may be granted.

- f. Effective cost of money to the borrower: to be established by the executing agency and to correspond to market rates.

Approval or rejection of loan requests by small business will be solely at the discretion of the financial institutions. Upon disbursement of loans the financial institutions shall be entitled to reimbursement of 50% or 70% of the value of the loan. Such reimbursement will be considered a loan from the fund at a rate reflecting the prevailing LIBOR rate. The institutions assume the risk and obligation to repay the Loan Fund.

Under this arrangement it will be assumed that the loan for which reimbursement is sought is in full conformity with the provision of the Participation Agreement. The Executing Agency will receive a copy of each approved loan application with the reimbursement requests. No loan review will be conducted by the Executing Agency except for extraction of information required for program evaluation:

The Participation Agreement would, among others, specify eligible SSE borrowers, maximum amount of loan, method of reimbursement from the loan fund, method of reimbursement from Guarantee fund for bad debts, maturity and grace period of loans to SSEs, method of payment of principal and interest to the Executing Agent, administrative and legal steps to be taken by PFIs in cases of default by SSEs, cost of money to PFIs from Loan fund, percentage of loans eligible for guarantee and the premium to be charged, and maximum rate of interest chargeable by PFIs.

The role of the Executing Agent and its fiduciary agent would be established in the Loan Agreement and/or in a special agreement between the Comisión Bancaria Nacional and the BNP. The role is described in Section V.3.

The size of the Loan Fund was determined by two requirements. It's minimum level would be determined by the smallest portfolio capable of generating revenues in excess of costs. It would optimally be funded at a level sufficient to have a substantial impact on small business development. A pro forma cost/revenue exercise indicated that the fund could break-even with a fully performing portfolio of about \$4.0 million with an average loan size of \$4,000.

A Loan Fund fund portfolio of that level would be matched by an equal amount of private institution monies. Effective demand for small business loans would have to be sufficient to support a composite portfolio of at least \$8.0 million in loans with an average life of three years.

Surveys indicated a demand far in excess of this level. The financial institutions, which have agreed to participate in the Project, estimate their lending rates under the Project as follows:

<u>Institution</u>	<u>Minimum Per Year</u>	<u>Probable Per Year</u>
BIPAN	\$ 500,000	1,000,000
Banco Exterior	1,000,000	1,500,000

<u>Institution</u>	<u>Minimum Per Year</u>	<u>Probable Per Year</u>
Chase	-	640,000
Bancamer	-	250,000
Banco del Comercio	-	N/A
FEDPA	-	800,000

Assuming the relative accuracy of these estimates, loans with an average term of three years would produce a composite portfolio of about \$12.0 million, some \$6.0 million of which would be included in the Loan Fund portfolio -- a sum sufficient to generate substantial surpluses.

A twelve million dollar composite portfolio of 3 year loans, replenished by annual new loans in the amount of \$4.0 million, would with an average loan of \$4,000, produce about one thousand jobs per year, and impact upon one thousand small firms.

When capitalized revenues are recycled into the lending stream, and, as is also anticipated, participating banks provide more than 50% of the funds sub-lent, the fund will have a capacity for serving additional clients and a substantially higher impact on small business development.

To help monitor, supervise and implement the Loan Guarantee Funds, Grant Funds will be utilized to purchase two (2) micro-computers for the Executing Agency. The micro-computers for the Executing Agency will be used to develop a data base on each approved loan and guarantee issued. Reports on loan status, arrears, disbursements, trends in portfolio and other related items will be prepared on a monthly and or quarterly basis by the Executing Agency.

2. The Guarantee Fund

The CBN will act as Executing Agency for this fund as well as for the loan fund. Each will however, be treated as separate cost centers. (The role and responsibilities of the Fiduciary Agent are shown in Section V).

The Guarantee Fund will be funded in part by an AID grant of \$1.0 million and in part by a GOP contribution of \$500,000. The GOP contribution will be generated by liquidation of the loan portfolio held by MICI under the small business lending components of the URBE Project and of the Integrated Program for the Urban Poor (IIPUP/C). The MICI lending activity will be phased out over a two-year yielding the sum of approximately \$250,000 on each of the second and third years of this project. The AID grant would be disbursed immediately after the completion of CPs. Two purposes are served by early disbursement. (1) The fund will be palpably credible -- A condition essential to its function. (2) It will permit immediate investment of the funds - a condition essential to its self-sufficiency.

The fund, if maintained in a relatively liquid state, would provide "a collateral base" upon which private financial institutions could predicate loans to collateralless borrowers. The PFI's would, at their option, secure a guarantee for up to 70% of the uncollateralized portion of a loan made under this Project. The option would be exercised by filling out a simple form and forwarding it along with a check to cover guarantee fees to the Executing Agency.

The terms and conditions which govern the use of the guarantee mechanism will be set out in a participation agreement executed by the CBN and the private financial institutions (See Loan Fund, Page 19).

The operational design of this fund was conditioned by the fact that Panama has no experience with guarantee programs.

Default rate were projected on the basis of the experience of private banks, savings and loan cooperatives and the various public lending programs for small business. Banks and coops report default rates of less than 1/2 of one percent of outstanding portfolios. Default rates of the small business lending programs of MICI and of the BNP are not readily available because of the large scale practice of re-negotiation of troubled loans and inadequate collection procedures. The USAID reviews of the BNP portfolio indicate that about 19% of the portfolio is not performing. Non-performing loans in the MICI portfolio is at least at that level.

The careful lending practices of the financial intermediaries who will lend under this project, have contributed to their low default rate. These will be affected in part by the inherently riskier nature of small business lending and in part by lack of recourse to borrowers collateralized assets. The soundness of projects selected for financing, and the effectiveness of small business assistance become more important elements in lenders risk analysis, than would be the case where high collateral provides an ultimate cushion for the lenders.

It is reasonable, given these conditions that default rates under this project would be greater than the PFIs' historical rates. To insure prudent sub-loan approvals and disbursements, and hence containment of the defaults rate, the PFI's will take 30% of the risk on uncollateralized portion of each loan guaranteed.

Taking into account experience elsewhere, as well as the unique element of this project which tends to bring lending practices in line with normal bank standards, it was the consensus of the banks, coops and AID consultants that the default rate would run somewhere between 2% to 4-1/2%. Project projections are based, in the interest of prudence, on the higher estimate.

The earnings from invested capital and from the 5% one-time charge on amounts guaranteed will be sufficient to meet all claims against the fund and to accumulate surpluses. At default rates above 4-1/2%, the Guarantee Fund would begin to decapitalize. Should it fall as low as 2%, a more likely eventuality, the additional revenues could be sufficient to defray part or all of Business Assistance Costs. At this stage it is prudent to plan on the basis of the more conservative estimates, and a default rate of 4-1/2% is used as a basis for Guarantee fund self-sufficiency calculation.

The participating banks will be selected under criteria which calls for a record of financial soundness and a history of prudent banking practices as evidenced by low default rates and sound footings. Recognizing that failure of PFI's attributable to causes outside the purview of this project would adversely impact on its financial position the executing agency will place a limit on the amount of funds allocated to each participating PFI. The limit will be set on the basis of the PFI's financial strength and condition.

The executing agency may, at its discretion, suspend new loans or guarantees to any participating PFI if, in its judgement, the PFI is in non-compliance with participating agreements or if its condition is considered unsatisfactory.

The executing agency honors claims against the guarantee fund within 90 days after a PFI has initiated legal collection action on a defaulted account. As in the case of the loan fund, periodic spot checks will be made of borrower/grantee performance. These will be routinely supplemented by reports of the business assistance personnel who will periodically visit borrowers. The obligation of the guarantee fund is, at this time, limited to repayment of 70% of uncollected principal. It will enjoy full subrogation rights after payment of claims.

3. The Business Assistance Component

This component will provide business assistance to SSE's, helping them in analyzing their business needs and opportunities, in preparing of loan applications and supporting documents, in record keeping, and managing their operations until the loan is paid.

The agency charged with this role, MICI, will perform the following functions:

- a. It will provide technical assistance to the SSE's with a permanent and contracted staff who have the appropriate technical capacities, and are geographically positioned to provide such assistance rapidly, effectively, and at low cost, e.g., APEDE, the associations of accountants, and the university business faculties.
- b. It will utilize a decentralized system for responding to requests for technical assistance from individual members of the SSE community through financial institutions or through government offices.
- c. Its technicians will carry out business assessments of SSEs to assist, where appropriate, in the preparation of loan applications to be presented to the financial institutions.
- d. It will provide assistance and advice over a one-year period to those businesses which receive loans. In exceptional cases the assistance may continue far up to three years.
- e. It will participate in periodic qualitative and quantitative evaluations of the Project.
- f. It will identify small business policy issues for consideration by the Consejo Nacional de la Pequeña Empresa.

The Dirección General de la Pequeña Empresa of MICI now charged with lending to small business, will relinquish that role and be reorganized to carry out the above listed business assistance functions. It will operate through personnel stationed in six regional MICI offices and four will be supplemented by FEDPA personnel. Each MICI office will be staffed with a MICI small business supervisor and two business technicians, and as needed, by contracted technicians.

Outreach agencies including UNPYME, the Federation of Chambers of Commerce, APEDE, the members of FEDPA and participating banks will make the Project known to potential clients by means of meetings, announcements, radio and television. UNPYME will offer special project familiarization seminars in six regions of Panama.

Small businessmen, in need of loan assistance, may call at any of the regional offices for assistance. Should the businessman believe that he has a viable project ready he may apply directly to the regional office or to a participating financial institution, which may accept or reject his application. Should it be rejected, the regional office will refer him to the appropriate UNPYME, or FEDPA, APEDE or MICI office for assistance. Upon the applicant's presentation of his problem to a regional office, the office supervisor will assign a technician to the case and arrange for a visit to the applicant's establishment. At which time he will conduct a business assessment. The activities carried out in the business assessment and in subsequent assistance activities are as follows:

a. Business Assessment

- (1) Conduct entrance interview with small business owner and provide him with an overview of the BAC project.
- (2) Identify type of assistance requested by small business owner.
- (3) Develop a profile of the business firm. The profile will include Company Name; Mailing Address; Business Phone; Years Business Established; Name of Business Contact Person and Title.

Type, size and characteristics of Business:

It will identify the principal products and services offered and special capabilities of the business firm (description) and will verify the gross receipts of last business year and the number of full and part-time employees.

- (4) Assess the business' present market and its capabilities.
- (5) Prepare both a Business and Personal Financial Statement.
- (6) Identify main business problem(s).

- (7) Identify what business owner has done about problem(s).
 - (8) How the business owner proposes to solve business problem(s).
 - (9) Recommendations for loan application and management technical assistance needed to qualify for a loan.
- b. Determine Small Business' Capability for Utilizing Loan Funds
- (1) From consultation with Participating Financial Institution (PFI) Loan Officer(s) who work on BAC loans:
 - (a) Determine if status of the small business qualifies for a loan;
 - (b) if small business qualifies, acquire loan application forms from PFI;
 - (c) if small business does not qualify, Business Technician (BT) prepares a technical assistance plan for the business owner with the assistance of APEDE, UNIDO, etc. to help business qualify for a future loan.
- c. Loan Application Preparation
- (1) Business Technician prepares loan application papers with the business owner according to loan application requirements of the PFI
- d. Post Loan Approval Activities
- (1) Business Technician (BT) with the business owner reviews business plan as stated in loan application.
 - (2) BT provides management technical assistance to meet the loan payment requirements, through the following actions.
 - (a) assess and/or develops business and personal financial control procedures.
 - (b) assess and/or develops business organization and personnel.
 - (c) prepares a checklist for business management assistance to ensure loan payments.
 - (d) strengthens marketing and sales procedures used by small business owner.

- (3) Provide additional business technical assistance during 2nd and 3rd year of the loan, as appropriate.

In order to provide the services outlined above, the BAC will require well trained and experienced personnel, and skilled management of such personnel. Therefore, the Project design calls for: stringent personnel selection standards, specialized training for all persons selected, including contractual personnel, standardized and monitored procedures and careful performance evaluations.

The standardized procedures will be set forth in an operations manual which will facilitate the decentralization of all operations. The supervisors in the regional offices will have full autonomy in operating under the procedures of the operations manual. They will report weekly to central management, and will be subject to quarterly budget adjustments based on performance and projected needs. Coordination with participating financial institutions and outreach groups will be a principal function of the regional supervisor.

Policy and uniform operational adjustments will be made from time to time by central management in response to formal and informal evaluations.

The Central Manager will also be the MICI representative on the Consejo Nacional de la Pequeña Empresa, and with his staff, will serve as Technical Secretariat to that Council, thus the BAC will be both a channel of information to the Council and an instrument of policy.

While the loan and guarantee components of the Project will, if properly managed, be fiscally self-sufficient, the business assistance component will be funded from re-allocations of the MICI budget. A gradually declining amount of AID grant funds will supplement that budget.

Methods of self-financing from user charges were explored and rejected. A fee structure tied to the size of loans made under the Project added so much to the cost of a loan as to make the final interest charges unacceptably high. Despite small business acceptance of a shift in loan charges from 8% under the MICI program to 18% under the loan/guarantee element of this Project, it was clear that the imposition of significantly higher rates would be impolitic; and recuperation of business assistance costs would indeed require significantly higher rates. Further, they would raise serious issues of equitability, in as much as the larger firms would in fact subsidize smaller firms; and non users of T.A. would balk at any payments. The acceptance of the upward shift in rates which apply under this Project is a quantum leap and represents a shift in both governmental and private sector outlook. This in itself, is a notable accomplishment of this Project and should not be jeopardized by placing extra demands upon the system at this time.

The MICI authorities pointed out that under their overall charter and their role as Secretariate to the Consejo Nacional de la Pequeña Empresa, the MICI has an obligation to assist the small business community, and that the most practical and effective form of assistance would be training and guidance to the community to help their transition into the market

economy. Further, they noted that funding for such assistance could become available as they phased out the MICI lending operation thus shifting resources from a marginally useful to a significantly useful function. Cost comparisons between a MICI operational business assistance program, under the guidelines noted and possible program of private institutions, showed no important differences. Even in the eventuality of cost reductions in privately operated assistance programs, there was no guarantee of stability of funding, interest or capability. Only MICI, operating under government mandate could fulfill those conditions.

To help monitor, supervise and implement the business assistance field activities, Grant Funds will be utilized to purchase 7 vehicles (1 per field office and 1 for the administration). One vehicle will be assigned to each of the six regional officer and one will be used by the administrative office to monitor the operations of the regional offices. The field office vehicles will be used by the supervisors and business technicians while performing their official duties as described in Annex B, Section 3. Preliminary calculations indicate that each vehicle will travel 40 kms. per work day for a total 8,520 kms. per year.

Six Micro-computers will also be purchased to process the field data, keep the records and complete the report formats which will be utilized by the BAC. Like the vehicles, each of the micro-computers will be assigned to the regional officer. The micro-computer assigned to the Panama Office will also be shared by the Administrative Office.

With the help of the micro-computers, the MICI will maintain a data base of project activities, keep administrative records and prepare project reports. Prior to implementation, a complete set of forms will be designed for this component and the data will be stored in the micro-computers. Annex B. Section 3 contains a list of the forms to be used in this component.

4. Consejo Nacional de la Pequeña Empresa

The Consejo Nacional de la Pequeña Empresa was established by executive decree to serve as a small business policy and program advisory board to the Government of Panama. Comprised of government and private organizations most concerned with small business development, it has met regularly and conscientiously since its inception. It is involved in the AID sponsored Policy Analysis and Research System (PARS) Small Business Policy Study, and has reviewed, discussed and approved this Project; and recommended that the Minister of MICI formalize his approval.

The Council will monitor this Project and the proposed UNIDO technical assistance project, also housed in MICI, and is expected to be active in an increasing range of activities pertaining to small business development.

H. Project Activities/Outputs

1. The Loan Fund (LF)

The Loan Fund will be administered by the Comisión Bancaria Nacional, acting as the Executing Agency for the GOP. By the end of the fifth

year the loan system linking the fund, the participating financial institutions, and the small business clientele will be fully functioning.

Outputs:

A national private small business lending network including banks and savings and loan coops; emission of more than \$19 million in small business loans, a consolidated loan portfolio of \$12.0 million and an annual lending rate of 1000 loans per year, and an earned surplus of \$386,000.

Funding:

AID \$6.0 million development loan, \$0.3 million grant, financial institutions \$6.0 million loan. The AID grant component will cover administration costs of the Loan Fund during start-up phase of operations, a period estimated at approximately 2 years.

2. The Guarantee Fund (GF)

The fund will be fully functioning and will have adjusted its guarantee fee to reflect historical default rates.

Outputs:

The fund will have guaranteed more than \$13 million in loans, and its capitalization will increase from \$1.6 million to \$2.2 million during the life of the Project. This component will be self-sufficient.

Funding:

AID \$1.0 million Grant, disbursed the first two years of the Project and a minimum of \$500,000 from proceeds of the liquidated loans of the URBE and IIPUP/C projects.

3. The Business Assistance Component (BAC)

The Business Assistance Component will be administered by the Ministerio de Comercio e Industrias and will frequently be the bridge between the PFIs and the SSEs. The BAC will improve the small businesses' ability to manage their operations, make loan applications, repay the loans and create jobs.

Outputs:

A business assistance mechanism capable of providing 2,000 business assessments per year; plus loan-specific business assistance to 1000 small businesses.

Funding:

AID \$1.7 million Grant and \$1.5 million from the GOP.

TABLE 3

SUMMARY OF PROJECT OUTPUTS BY COMPONENTS AND YEAR

<u>Outputs</u>	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>Cumulative Totals</u>
<u>1. Credit Fund</u>						
Number of Loans in Portfolio	200	500	800	900	1,000	3,400
Outstanding Portfolio(\$Millions)	0,8	2,8	6,0	9,6	12,3	12,3
Direct Jobs Created	200	566	1,056	1,510	1,709	5,041
Surplus Earned	-	-	6	130	250	386
<u>2. Guarantee Fund</u>						
Amount of Portfolio						
Guaranteed (\$000s)	560	1,960	4,200	6,728	8,590	8,590
Surplus Earned (\$000s)	78	149	131	94	48	500
<u>3. Business Assistance Component</u>						
Business Assessments	400	1,000	1,600	1,800	2,000	6,800
Business Assistance	200	500	800	900	1,000	3,400
Follow-up Assistance	-	200	700	1,300	1,700	3,900
Regional Seminars						
Familiarization Seminars	6	6				12
Participants	250	250				500
Training Seminars	6	6	6	6	6	30
Participants	200	200	200	200	200	1,000
<u>I. Project Inputs</u>						

The Project inputs by component are summarized in Table 4. The inputs allocated to the Credit Fund are funds which will be contributed by an AID \$6.0 million loan and \$6.0 million in counterpart loan by PFI's. A \$300,000 grant has been allocated to cover the operational deficit of the Loan Fund during the first 2 years of the project. The Guarantee Fund will be capitalized through a \$1.5 grant from AID.

The bulk of the inputs in the Business Assistance Component will be allocated in the technical services areas; i.e., business technicians who provide assistance to SSEs. Complementary inputs of this section include training of the personnel who will provide the service, plus equipment, material and operational outlays.

TABLE 4

SUMMARY OF PROJECT INPUTS BY COMPONENT AND COST
((\$000s))

<u>Component</u>	<u>Quantities</u>	<u>Total</u>	<u>U S A I D</u>		<u>Counterparts</u>	
			<u>Grant</u>	<u>Loan</u>	<u>GOP</u>	<u>FSIs</u>
1. Loan Fund		<u>12,300</u>	<u>300</u>	<u>6,000</u>		<u>6,000</u>
Credit		12,000	-	6,000	-	6,000
Operating Deficit <u>1/</u>		300	300	-	-	-
2. Guarantee Fund		<u>1,500</u>	<u>1,000</u>	-	<u>500</u>	-
3. Business Assistance		<u>3,300</u>	<u>1,700</u>	-	<u>1,600</u>	-
a. Training	121 persons	<u>80</u>	<u>66</u>	-	<u>14</u>	-
b. Technical Assistance		<u>1,920</u>	<u>1,240</u>	-	<u>680</u>	-
Technical Services	59 person/yr.	<u>1,336</u>	<u>656</u>	-	<u>680</u>	-
Local Contracts	2 person/yr.	34	34	-	-	-
T.A. to MICI	25 person/yr.	200	200	-	-	-
Project Liaison	5 person/yr.	250	250	-	-	-
Evaluation	2	100	100	-	-	-
c. Equipment & Vehicle		<u>100</u>	<u>100</u>	-	-	-
Vehicle	7	<u>70</u>	<u>70</u>	-	-	-
Micro-computer	6	30	30	-	-	-
d. Travel/Per Diem						
Business Tech.		<u>74</u>	-	-	<u>74</u>	-
e. Operating Expense		<u>1,126</u>	<u>294</u>	-	<u>832</u>	-
Officer	MICI/UNPYME	<u>212</u>	<u>12</u>	-	<u>200</u>	-
Fuel	19,875 gallons	50	-	-	50	-
Personnel (Adm.)	64 person/yr.	864	282	-	582	-
PROJECT TOTAL		<u><u>17,100</u></u>	<u><u>3,000</u></u>	<u><u>6,000</u></u>	<u><u>2,100</u></u>	<u><u>6,000</u></u>

1/ Includes the purchase of 2 micro-computer for the executing agency.

J. Relation to AID Program Objectives

The Project constitutes another pragmatic linkage between the GOP and the private sector. The small business community, an under-developed element of the private sector, will be strengthened and made more productive by utilization of resources of the GOP and the financial community resources.

Public purposes - employment generation and income augmentation - are served. Private sector purposes - increase in institutional and personal profits and/or salaries are served. These purposes are fully consistent with AID policies and program objectives. Moreover, the Consejo Nacional de la Pequeña Empresa provides an instrument for the identification of policy issues and for their resolution.

1. Relationship to CDSS

This project is an intrinsic component of our country strategy for three reasons. First, unemployment is an important economic and political problem which is going to get worse during the next three to four years even under the most optimistic assumptions. We believe that the most effective means for reducing unemployment is by encouraging job creation in the private sector, particularly in labor intensive activities; past attempts at job creation through public works programs have been costly and have not been self-sustaining. Small businesses are generally labor intensive. We forecast that the average investment per job in the small business sector would be US \$4,000, compared to an incremental capital labor ratio in the economy as a whole of US \$65,000. Thus, small business development is cost effective for increasing productive employment.

Second, given the present levels of public debt, the GOP will have to maintain strict fiscal austerity during at least the next five years and as a consequence, economic growth must depend on private sector activity. This project supports directly the private sector, and it uses private commercial banks to retail the funds and as a consequence, public sector involvement will be minimized. Additionally, AID's funds will be leveraged significantly as the private participating banks will also provide funds for the project.

Third, the project is being used as a mechanism to encourage MICI to move out of small business lending, an activity for which a government ministry is ill-suited, and to concentrate its support of small business on the provision of technical assistance. The dismantling of the MICI lending operation is a positive accomplishment and may be viewed as a project output.

2. Complementary Mission Projects

This project is one in a pattern of Mission projects (active and planned) which together address all major constraints to the fulfillment of private sector potential. It has a direct relationship with the PARS, which will fund policy studies on behalf of the Consejo Nacional de la Pequeña Empresa. It relates to the industrial park component of the UR&E Project, which will provide sites for small business in David and Chitre. It will provide a basis for expanding the APEDE program by increased utilization of that organization as a supplier of business assistance. It will provide

support to the Skill Training for Women project, which is being carried out with the Overseas Education Fund.

3. Relationship to AID Policy Papers

The project is fully consistent with two recent AID policy papers: Bureau of Private Enterprise Policy Paper; May 1982 and AID Policy Paper, Institutional Development, March 1983. The first states that, "The goal of the Agency's new private sector initiative is to foster the growth of productive, self-sustaining, income and job producing private sectors...". The objectives derived from this goal, and to which this project responds include to "Stimulate and help create conditions conducive to the flow of US and host country private capital into productive investment in priority sectors in developing countries". It particularly suggests as lines of action, "Help to establish, finance and improve privately-owned development finance companies and other financial institutions which will provide the capital and management expertise for its development of the private sector in developing countries" and, "Help establish training institution and programs both managerial and technical, to support private sector development..."

The second policy paper states that, "It is AID policy to help countries establish and strengthen public and private institutions in support of mutually agreed, priority development objectives."

This Project proposes innovative and cost reducing institutional design for specific purposes and contributes to the more effective use of institutions presently operating.

Other Donors

Two proposed programs will have direct or indirect bearing on this project. A UNIDO project for technical, i.e. production assistance to small business, and a loan guarantee program sponsored by the Catholic Church.

The proposed UNIDO project now under preparation calls for the establishment of a division within the Directorate of Small Business of MICI, which will be dedicated to improvement of equipment maintenance, to improvement of business technology and of the production processes of small business.

The UNIDO budget for the project is tentatively estimated at more than \$500,000 and less than \$1,000,000. The UNIDO team has been in contact with the Mission and expressed their intention to have their project complement and support the AID project. The Mission will encourage and assist them to this end.

The Catholic Church sponsored guarantee project will be administered by a new non-profit organization called FUNDES, an acronym for Fundacion de Desarrollo Económico y Social. FUNDES will loan to projects which meet conditions, as yet unspecified. The major target groups of the project appear to be small agriculturists and agro related activities.

In meetings held with the FUNDES representative, it was evident that fiscal, technical, and administrative guidelines were not yet established. However the use of the Instituto para la Formación y

Aprovechamiento de Recursos Humanos (IFARHU), Caritas and other church-based organizations would be expected to provide outreach and business assistance services. The capacity of these agencies to attain professional standards of assistance in the short run is doubtful.

Nevertheless, the FUNDES should prove a useful complement to the AID/Comisión Bancaria Nacional project in the long run, and areas of cooperative support can probably be defined.

IV. PROJECT ANALYSIS

A. Demand Analysis

The order of magnitude of demand for small business loans initially determined by AID consultants was projected at levels far above the lending anticipated by this project. The immediate effective demand for loans under this project was projected by the participating private financial institutions, after review of the project concepts, provisions and administrative and fiscal mechanisms. These immediate effective demand projections were at levels which indicated the probability of rapid draw down of the AID loan funds and attainment of self-sufficiency for both the loan and guarantee funds within a three year period.

The order of magnitude was determined by a review of loan approval rates of loan applications of medium, small and micro business made in 1982 to the commercial banks, the credit cooperation, the financieras, the BNP small business program and the MICI small business program. Tabulations of approximately 56,000 credit applications, consolidated by the Comisión Bancaria Nacional were examined by the consultants. The tabulation undoubtedly contains many duplications, and clearly included applications for extension of existing loans. Therefore, the total of 56,000 is substantially exaggerated. Nevertheless, the pattern that emerges is clear and informative. Approval rates were as follows: Commercial banks, 32%; Credit Cooperatives, 15%; Finance Corporations, 33%; BNP, 24%; and MICI, 9%.

Major reasons for rejections; and the project's remedial response to rejection causes are shown in the following tabulation.

<u>Reasons for non-approval</u>	<u>%</u>	<u>Project will assist</u>
(1) Lack of liquidity (Funds) at Lending Institutions <u>1/</u>	-	yes
(2) Client weaknesses:		
(a) Lack of guarantee	50	yes
(b) Lack credit history	15	no
(c) Lack Com/Ent. experience	10	yes, partly
(d) Lack of required documents	-	yes
(e) Bad credit record	10	no
(3) Size of loan request too small	15	yes

1/ Lack of liquidity represents at least 50% of the cause for non-approval among coops. Commercial banks and BNP have sufficient liquidity.

The consultants concluded that the project could increase approvals of rejected applications by at least 5% to 10%. The face value of loan applications rejected, after severe adjustment for duplication was estimated at \$110 million. Acceptance of 5% to 10% of applications now being rejected would result in additional loan emissions of \$5.5 million to \$11 million per year.

The data base for these estimations is flawed by the probable inclusion of applications of larger firms in the totals of rejected loans. However, an examination of rejections by credit cooperatives, finance corporations, the BNP and MICI reveals that applications for \$20 million in small business loans were rejected by those institutions in 1982.

Over \$4.0 million of the rejections by the coops were because of lack of liquidity. Rejections of applications of \$5.0 million in small business loans by the BNP and MICI were attributable to lack of collateral, and some \$8.0 million in small business loan applications were rejected for unknown reasons.

These small business-specific rejection data are consistent with the judgemental findings of the consultants.

Immediate effective demand estimates were provided by the banks and coops which are expected to participate in the program. Their annual estimates, shown in Section III F.1. total \$4.2 million. This is more than sufficient to meet project targets.

In order to anticipate the growth potential of this project and to select special target groups within the small business sub-sector a formal demand study is being conducted by Peat, Marwick and Mitchell. We expect that this demand study will refine the order of magnitude estimates made by earlier consultants. Given the flexibility of the project and the potential for greater use of PFI resources, the demand study will be periodically updated.

B. Financial Analysis

The Project calls for total disbursement of \$17.1 million by the end of year 5 of the project. The distribution of this amount among the participating parties is: USAID \$9.0 million and Panama \$8.1 million. The USAID portion consists of \$6 million in loan funds and \$3.0 million in grant funds. The whole of the loan funds will be utilized for the 50 percent reimbursement of loans made by PFIs to SSEs. Of the \$3.0 million grant funds, \$1.0 million provides the capital base of the Guarantee Fund, \$1.7 million is for the Business Assistance Component of the Project and the remaining \$0.3 million is to cover the operational deficit of the Loan Fund in the first two years as well as, project evaluations, and funding the project officer. The Panamanian portion consists of \$6.0 million in loan funds from the PFIs participating in the Project and a \$2.1 million GOP contribution to the Business Assistance component of the Project.

The distribution of the total outlay of funds among the three components of the project, i.e., Loan Fund, Guarantee Fund and Business Assistance Component is \$12.3 million, \$1.5 million and \$3.3 million respectively. The following tables give (1) the distribution of the Project funds by participants and purpose and (2) by year.

TABLE 5

PROJECTED FINANCIAL PLAN
(\$000)

Component	U S A I D		C O U N T E R P A R T S		
	Grant	Loan	GOP	FSIs	TOTAL
A. Loan Fund	300	6,000	-	6,000	12,300
B. Guarantee Fund	1,000	-	500	-	1,500
C. Business Assistance	1,150	-	1,600	-	2,750
D. Evaluation	100	-	-	-	100
E. Technical Assistance	200	-	-	-	200
F. Project Liaison	250	-	-	-	250
TOTAL	3,000	6,000	2,100	6,000	17,100

Note: Because of rounding, figures may be slightly different from those in the annex, and sums may not add.

TABLE 6

PROJECTION OF EXPENDITURES BY YEAR
(\$000)
YEAR No. 1

Component	U S A I D		C O U N T E R P A R T S		
	Grant	Loan	GOP	PFI	TOTAL
A. Loan Fund <u>1/</u>	155	400	-	400	955
B. Guarantee Fund <u>2/</u>	750	-	-	-	750
C. Business Assist. <u>3/</u>	445	-	74	-	519
D. Evaluation <u>3/</u>	-	-	-	-	-
E. Technical Assist. <u>3/</u>	100	-	-	-	100
F. Project Liaison <u>3/</u>	50	-	-	-	50
TOTAL	1,500	400	74	400	2,374

1/ See Annex B.1

2/ See Annex B.1

3/ See Annex B.3

TABLE 7

PROJECTION OF EXPENDITURES BY YEAR
 (\$000)
YEAR No. 2

Component	U S A I D		C O U N T E R P A R T S		
	Grant	Loan	GOP	PFI	TOTAL
A. Loan Fund <u>1/</u>	145	1,000	-	1,000	2,145
B. Guarantee Fund <u>2/</u>	250	-	250	-	500
C. Business Assist. <u>3/</u>	422	-	102	-	524
D. Evaluation <u>3/</u>	-	-	-	-	-
E. Technical Assist. <u>3/</u>	100	-	-	-	100
F. Project Liaison <u>3/</u>	50	-	-	-	50
TOTAL	967	1,000	352	1,000	3,319

1/ See Annex B.12/ See Annex B.13/ See Annex B.3

TABLE 8

PROJECTION OF EXPENDITURES BY YEAR
 (\$000)
YEAR No. 3

Component	U S A I D		C O U N T E R P A R T S		
	Grant	Loan	GOP	FSIs	TOTAL
A. Loan Fund <u>1/</u>	-	1,600	-	1,600	3,200
B. Guarantee Fund <u>2/</u>	-	-	250	-	250
C. Business Assist. <u>3/</u>	268	-	308	-	576
D. Evaluation <u>3/</u>	50	-	-	-	50
E. Technical Assist. <u>3/</u>	-	-	-	-	-
F. Project Liaison <u>3/</u>	50	-	-	-	50
TOTAL	368	1,600	558	1,600	4,126

1/ See Annex B.12/ See Annex B.13/ See Annex B.3

TABLE 9

PROJECTION OF EXPENDITURES BY YEAR
 (\$000)
YEAR No. 4

Component	U S A I D		C O U N T E R P A R T S		
	Grant	Loan	GOP	PFI	TOTAL
A. Loan Fund <u>1/</u>	-	1,800	-	1,800	3,600
B. Guarantee Fund <u>2/</u>	-	-	-	-	-
C. Business Assist. <u>3/</u>	15	-	536	-	551
D. Evaluation <u>3/</u>	-	-	-	-	-
E. Technical Assist. <u>3/</u>	-	-	-	-	-
F. Project Liaison <u>3/</u>	50	-	-	-	50
TOTAL	65	1,800	536	1,800	4,201

- 1/ See Annex B.1
2/ See Annex B.1
3/ See Annex B.3

TABLE 10

PROJECTION OF EXPENDITURES BY YEAR
 (\$000)
YEAR No. 5

Component	U S A I D		C O U N T E R P A R T S		
	Grant	Loan	GOP	PFI	TOTAL
A. Loan Fund <u>1/</u>	-	1,200	-	1,200	2,400
B. Guarantee Fund <u>2/</u>	-	-	-	-	-
C. Business Assist. <u>3/</u>	-	-	580	-	580
D. Evaluation <u>3/</u>	50	-	-	-	50
E. Technical Assist. <u>3/</u>	-	-	-	-	-
F. Project Liaison <u>3/</u>	50	-	-	-	50
TOTAL	100	1,200	580	1,200	3,080

- 1/ See Annex B.1
2/ See Annex B.1
3/ See Annex B.3

For the purpose of this Project, the financial analysis will deal with the LF and the GF. The third component, BAC, is not income producing and therefore is not subject to such an analysis.

1. The Loan Fund

It is assumed that 200 loans of an average value of \$4,000 will be made in the first year. Thereafter, the number of loans made annually will grow reaching 1,000 per year by the end of the fifth year. Approximately 50% of the funds will be provided by the Loan Fund, the remainder by PFI's. By year 5 the entire AID loan of \$6.0 million will have been drawn down yielding a composite portfolio of \$12.3 million.

The Loan Fund will earn a spread of 8% on the AID loan during the first ten years and 7% on the second ten. During the first two years of the Project an operating loss of about \$250,000 is projected. This will be covered by AID grant funds. From then on all profits will be reinvested producing an annual rate of return of 10% which will take the total loan portfolio to its peak size with \$15.7 million outstanding by year 10, the year before the end of the grace period on the AID loan.

In subsequent years, with the repayment of the loan, the total portfolio will decline gradually to \$11.6 million in year 20. At which time the loan will have been fully repaid and the LF will have a capital of \$6.2 million (Refer to Annex C.1 Financial Analysis).

2. The Guarantee Fund

In the design of the project very conservative assumptions have been used in the financial projection of the GF. However, as has been explained in the Annex, because of lack of experience in this type of operation in Panama, these conservative assumptions may also prove to be optimistic. If this were to be the case, more stringent conditions would have to be applied. Conversely, experience may prove that the assumptions used here are too conservative. It is recommended that any change in the direction of easier or harsher terms and conditions would be the subject of a thorough review after the GF has been operational for a reasonable period of time.

The model assumes that the GF is capitalized with a \$1.5 million USAID initial fund; 70% of the outstanding uncollateralized portion of loans are automatically guaranteed; average life of a loan is 3 years; bad debts equal 4.5% of the total amount of guarantees outstanding per year, guarantee premiums are a one time 5% flat fee on all guarantees issued -collected in advance-; and finally, return on capital and accumulated profits is 10%. Under these conditions the Guarantee Fund will be financially viable. By year 10, it will have capital reserves of \$2.1 million and by year 20, \$2.2 million (Refer to Table C.1 Financial Analysis).

C. Institutional Analysis

Panama does not have a central bank. The Balboa, the official unit of currency, is equal to the United States dollar and the U.S. dollar paper note is the medium of exchange. To the extent that central banking functions are exercised, these are delegated to the Comisión Bancaria Nacional and the Banco Nacional de Panamá (BNP).

1. Comisión Bancaria Nacional (CBN)

The Comisión Bancaria Nacional was created by Cabinet Decree No. 238 of July 2, 1970, as an agency of the Ministerio de Planificación y Política Económica. It was created for the purpose of controlling and monitoring the banking system, and to determine within the administrative sphere, the interpretation and scope of legal regulations concerning bank matters. The objective is to ensure soundness and efficiency in the system and promote the proper ambience to further develop the international banking system.

The Comisión Bancaria Nacional is composed of seven members as follows:

The Minister of Planificación y Política Económica. (Chairman)
The Minister of Hacienda y Tesoro.
The General Manager of the Banco Nacional de Panamá.
Three representatives from private banks (nominated by the Comisión Bancaria Nacional).
One representative appointed by the Executive Branch.

Controls are exercised through a technical secretariat by means of monthly and periodic reports required from the banks, audits and annual independent audits by registered accountants. The commission monitors the legal reserves, the banks liquidity, contingency credit and interest rates on local saving deposits.

2. Banco Nacional de Panamá (BNP)

BNP is an autonomous agency wholly owned by the GOP. It was founded in 1904, operates as a commercial bank, is the principle depository of the government, performs the clearing operations of the banking system, and acts as supplier of paper money to the banks operating in Panama.

BNP is the oldest and largest domestic bank in Panama. Its total footing of \$1.3 billion in December, 1983 was the 5th largest among 111 general licence and international banks in Panama. While the 4 larger banks are wholly or predominantly engaged in business outside Panama, BNP's operations are almost totally internal. The BNP's domestic loans of \$877 million at the end of December 1983 were equal to 25 percent of the total domestic loans outstanding (\$3.5 billion) and by a very wide margin larger than Chase Manhattan and Citibank ranking 2nd and 3rd (\$372 million and \$225 million) respectively. Also in domestic deposits, BNP with \$660 million leads the banking community. Half of all domestic demand deposits are held by BNP (\$340 million) and BNP's share in total domestic deposit is equal to 20 percent of all domestic deposits (\$3.4 billion). BNP has capital and reserves of \$75 million.

The BNP will act as the Fiduciary Agent for the Executing Agency, managing the daily operations of the Loan and Guarantee Funds, as shown in Section V.A.3.

3. Federación de Cooperativas de Ahorro y Crédito de Panamá (FEDPA)

FEDPA is the national federation of 107 credit unions. It is governed by a Board of 9 members, one elected by the credit unions of each province. The Board appoints the General Manager of FEDPA. FEDPA was established 23 years ago (1961).

FEDPA maximum loan limit to creditworthy members is 3 times its net worth (capital and reserves). These funds are also used by credit unions for agricultural loans, fixed assets in small business and working capital. FEDPA loans for agriculture and small business have maturities of 54 months and for working capital 42 months. The rate of interest charged is 10.5 percent. FEDPA's reserves equal 3% of the total balance of its loans. The law provides that of FEDPA's profits 35% should be allocated to reserves and 65% can be distributed. The largest loan made by FEDPA was \$1.5M, and the smallest \$750,000.

FEDPA's resources consist of 5% of the shares of the member credit unions, 5% in shares of the amount credit unions borrow from FEDPA, and long term concessionary loans from AID, COLAC and the Banco de Desarrollo Agropecuario (BDA). FEDPA loans from these organizations were \$1.9 million, \$3 million, and \$2.1 million, respectively. FEDPA has also borrowed a few hundred thousand dollars on a short term basis from commercial banks. In December 1983 the outstanding balance of loans payable was \$4.3 million.

FEDPA had 19 applications for loans in 1983 from 15 member Cooperatives for the total amount of \$3.56 million. With the exception of one application that was pending at the end of the year, approvals added up to \$3.51 million. FEDPA'S disbursements on loans in 1983 was \$6.2 million.

In December 1983 the total assets of FEDPA was \$9.45M. of which \$7.46M. was loans to credit unions. FEDPA's capital and undistributed profits in December 1983 were \$3.7 million.

There are 124 credit unions legally incorporated in Panamá, 107 of which are affiliated with FEDPA. Of these, 24 with a membership of 11,000 are open unions, and 83 with a membership of 31,000 are closed unions.

Of all the unions, 66 are in Panama City with another 15 in the province of Chiriqui. Open unions are geographic in nature and accept for membership people in diverse activities. They are primarily located in rural areas. Membership in a closed union is usually restricted to employees of a particular organization. They are primarily located in urban areas.

4. Ministerio de Comercio e Industrias (MICI)

The MICI was created on June 3, 1969 by Cabinet Decree No. 145 as the institution in charge of developing and supporting activities to create and expand the Industrial and Commercial Sectors. The principle functions of MICI in these areas is to: plan, organize, coordinate, direct and control all activities related with the formulation and execution of government policies in these areas.

MICI is composed of 4 National Directorates, i.e., Commerce, Finance, Natural Resources and Business Development. The Small Business Directorate is part of the National Directorate for Business Development and

has as its main objectives the development of SSEs with emphasis on labor intensive investment.

The MICI Dirección General de la Pequeña Empresa (DGPE) was created on May 10, 1979 by Executive Decree Number 43 for the purpose of providing financial and technical assistance to SSEs. The SBD consists of a General Director and Deputy Director with four (4) main departments and 9 regional offices; with a staff of 79 persons of which 32 are professionals. Its present operating budget (excluding in-kind contribution from the GOP) is approximately \$250,000.

The Mission has reviewed various organizational alternatives and selected the Ministerio de Comercio e Industrias (MICI) to coordinate the Business Assistance Component (BAC) for the following reasons:

- The enabling legislation of May 10, 1979 reflected in MICI's charter assigns primary responsibility to this agency for the provision of loans and technical assistance to SSEs.
- The Project will insure a major policy reform within the GOP. MICI will phase-out its loan program and concentrate its effort in business and technical assistance; thus encouraging the private financial institutions to provide capital and loan expertise for the development of small business.
- The MICI presides over the Consejo Nacional de la Pequeña Empresa and acts as the Technical Secretariat. This Project will provide the necessary information needed so that the Council may recommend Project and policy modification to create a climate conducive to the growth and development of small business.
- The BAC is not financially self-sufficient and its operating expenses will be absorbed by the GOP.
- It is the GOP's responsibility to provide training and education for its citizens and this is the major thrust of the BAC.
- MICI has physical office infrastructure throughout the country. The BAC in MICI will be the link between the SSEs, PFIs and Consejo Nacional de la Pequeña Empresa. The Central Office will be located in Panama City with six field offices throughout the country.

The MICI through the BAC will be a bridge between the Participating Financial Institutions (PFI) and the SSEs and in many senses an advocate for small businesses; since it will provide information to the Consejo Nacional de la Pequeña Empresa on policies and regulations that affect this sub-sector.

The organization, staffing and resource allocation of the BAC is designed to provide general business assistance to 6,800 SSEs in the first five years of operation. The proposed organizational structure reflects functional allocation to the following three specially designed units:

Field Offices

Major Function: Provide consultation and business assistance directly to SSEs.

Major Duties:

- Perform business assessments and assess feasibility of business.
- Assist in preparation and implementation of business plans.
- Assist in preparation of loan applications.
- Establish elementary accounting systems in the SSEs.
- Provide general consultation on administrative, accounting and financial matters.
- Collect general statistical information for overall Project monitoring and evaluation.

Training Office

Major Function: Provide the required training to support the implementation of the BAC.

Major Duties:

- Identify training requirements and needs.
- Identify institutions that can provide Training and Technical Assistance.
- Arrange for periodic training programs by other institutions.
- Report on, evaluate and adjust the training programs.
- Select technicians to develop the content and materials for the courses.
- Maintain records of personnel that have been trained.

Administrative/Contract Office

Major Function: Provide full administrative and procurement support to the BAC.

Major Duties:

- Preparation of the Annual Budget.
- Maintain accounts of the BAC funds.
- Prepare checks, disburse advances and pay expenditures in accordance with the budget.
- Prepare the payroll and distribute the checks.
- Maintain personnel records.
- Process requests for advance funds, or request for reimbursements.
- Provide financial information to the manager.
- Prepare reimbursement vouchers, financial reports, and other documentary materials for AID.
- Prepare contracts for the technicians and institutions to be utilized in the Project.

V. PROJECT IMPLEMENTATION ARRANGEMENTS

A. Project Management and Coordination

1. Role of USAID

The Office of Private Sector Development (OPSD) has primary responsibility for monitoring the Project. With the assistance of the Offices of the Controller and of Development Resources, the Project Liaison will:

- Assist the implementing agencies in preparation of documents required for competitive procurement.
- Assist in developing financial plans and work plans.
- Review and monitor the implementing agencies annual training and technical assistance plans and suggest modifications as needed.
- Coordinate Project evaluation activities.
- Monitor Project activity, ensuring compliance with conditions and covenants, taking management action as necessary.
- Report on the Project to Mission management and AID/W as appropriate.

2. Role of the GOP

The borrower/grantor will be the Government of Panama (GOP) through the Ministerio de Planificación y Política Económica. The GOP will be the guarantor of the loan and be responsible for the repayment of the principal and interest. The borrower will designate the Comisión Bancaria Nacional as the Executing Agency to manage and administer the Loan and Guarantee Funds according to the terms and conditions of the Loan Agreement; and in concert with AID, determine, review and amend the terms and conditions of the Project as appropriate.

The GOP will be responsible for providing the counterpart resources and assuming the contingent liability of the Guarantee Fund as stated in the financial plan and Project Agreement (PROAG).

3. Role of the Executing Agency (Comisión Bancaria Nacional)

The authority and responsibility of the Government for the execution of the financial components of the Project will be delegated to the Executing Agency according to the terms and conditions defined in the PROAG between the GOP and AID. The Executing Agency (EA) will be the Comisión Bancaria Nacional, which will be responsible for establishing and administering two separate funds (i.e. Loan Fund and Guarantee Fund). To accomplish this, the EA will utilize the services of the Banco Nacional de Panamá, to carry out the day to day operations of both funds. In this sense the BNP will act purely as a Fiduciary Agent receiving specific instructions from the EA. The EA will assign personnel within a special project implementation unit to monitor and coordinate the financial components of the project.

The Project Agreement would give authority to the EA to;

- Withdraw funds from the AID project loan/grant according to the loan/grant agreement.
- Pay the principle and interest of AID loan.
- Select the PFIs.
- Prepare and sign the Participation Agreement with PFIs.
- Reimburse the PFIs the agreed upon participation in loans to SSEs.
- Establish the guarantee premium and adjust if necessary.
- Collect from PFIs repayment of the loans and accrued interest.
- In case of default by PFI's, take all necessary actions for recovery of its funds.
- Cancel its share of participation in the loans made by PFIs in case of violation of the terms and conditions of the Participation Agreement.
- Cancel the Participation Agreement with PFIs in cases of repeated violations of the Agreement.
- Examine, on a selective basis, individual files of loans made by PFIs for adherence to the terms and conditions of the Participation Agreement.
- Establish, if necessary, the maximum amount of lending by individual PFIs.
- Invest all surplus funds in safe and attractive short term investments.

Of these functions, the following routine operational activities will be carried out by the BNP;

- Withdraw funds from the AID project loan/grant according to the loan/grant agreement.
- Pay the principle and interest of AID loan.
- Reimburse the PFIs the agreed upon participation in loans to SSEs.
- Collect from PFIs repayment of the loans and accrued interest.
- Maintain duplicate records of all loans and guarantees made and issued by the PFIs.
- Invest all guarantee funds in safe and attractive short term investments.

4. Role of FEDPA

FEDPA will have the responsibility of channeling funds to the credit unions (cooperatives) which participate in the Project. FEDPA will receive a revolving fund to provide loan funds to its member cooperatives. FEDPA will be liable for the payment of the interest and principal to the Loan Fund. The cost of funds to FEDPA will vary between LIBOR and LIBOR minus 2 points. The provision of funds to FEDPA at rates lower than those applicable to commercial banks is intended to give the coops a spread commensurate with the costs of lending to micro-enterprise, thru major target group.

FEDPA will:

- Select the cooperatives that will participate as financial institutions.
- Draw on the Loan Fund and prepare all reimbursement requests.
- Sign participation agreements with the cooperatives.
- Reimburse up to 70% of the amount of the loan and collect repayment of loan.
- Monitor and spot check the cooperatives to insure the adherence to the terms and conditions of the Participation Agreement.
- Maintain duplicate records of all individual loans made and guarantees issued through the participating cooperatives.
- Provide technical assistance to the cooperative credit committees in the analysis of loan requests.

FEDPA is expected to play a key role in micro-enterprise lending. Given the limited number of open coops (the only ones open to the public), there will be gaps in coop national coverage. In order to reduce or eliminate these gaps, FEDPA will employ four technicians whose duties will include the establishment of outreach lending by open coops. They will make arrangements with closed coop offices in areas where no open coops exist, to accept applications on behalf of open coops located outside the area. They will function as representatives of the participating open coops and assist in processing loan applications and in providing business assistance.

During the life of the project FEDPA will encourage the formation of new open coops in areas which are not adequately covered by the system.

5. Role of Participating Financial Institutions (PFIs)

The PFIs are the banks and savings and loan cooperatives that will be the direct lenders to the SSEs. They are encouraged to make medium term loans for acquisition of fixed assets and for permanent working capital. The Banks should fund from their own resources at least half of each loan, and the cooperatives 30%.

The approval or rejection of loan requests from SSEs is the prerogative of the PFIs and there shall be no outside interference in this process.

Upon the disbursement of a loan, the PFI will submit a request for reimbursement of up to 50% of the amount loanable; and, if the PFI has elected to use the guarantee fund, an application for the amount to be guaranteed, accompanied by a check equal to 5% of the amount. The request and application will be accompanied by a copy of the approved sub-loan application. Upon receipt of the documents the fiduciary agent would credit the account of the PFI in the amount requested and register a loan to the PFI in that amount. It would deposit the check to the account of the Guarantee Fund; and register the Guarantee.

The PFIs will subscribe to a Participation Agreement with the Fiduciary Agent of the Loan Fund, which will set forth program standards and guidelines including:

- Definition of SSE loans eligible for reimbursement from the Loan Fund and guarantee from the Guarantee Fund.
- Maximum individual loan amounts.
- Repayment terms and conditions.
- Maximum rate of interest chargeable to SSE borrower.
- Procedures for reimbursement from the Loan Fund.
- Maximum percentages reimbursable from the Loan Fund.
- Cost of money drawn from the Loan Fund by the PFI.
- Method of payment of principle and interest by the PFI to the Loan Fund.
- Method of calculating the amount of coverage per loan from the Guarantee Fund and premium to be charged.
- Administrative and legal steps to be taken by the PFI in the event of SSE loan default.
- Method of securing payment from the Guarantee Fund of the Guaranteed portion of uncollectible loans.

6. Role of MICI

The MICI will coordinate the activities of the Business Assistance Component through its main and regional offices. They will be responsible for establishing an institutional mechanism capable of providing assistance to 2,000 SSE's per year. They will coordinate the system to provide:

- Business assessments: assessing the status of existing firms with regards to its market, operations, financial status, feasibility of its on-going operation and proposed ventures, and development of business plans.
- Business assistance: providing guidance on the implementation of the business plan and assisting in developing an elementary book-keeping system.
- Business follow up: monitoring the SSEs performance and obtaining statistical data on employment, sales, incomes, loan performance, etc. to assist SSE meet loan obligations.

To provide this service MICI will:

- Contract Business Technicians from various professional and business associations.
- Contract an organization like APEDE to and train the Business Technicians.
- Maintain rosters of trained personnel to be utilized on task orders as required.
- Coordinate its activities with the Executing Agency, PFIs and other institutions.

7. Role of UNPYME

UNPYME is the small business organization in Panamá that is formally recognized by the GOP and Private Sector. UNPYME is a member of both the Consejo Nacional de la Pequeña Empresa and the Consejo Nacional de la Empresa Privada (CONEP).

Under this Project, UNPYME will sponsor a series of familiarization seminars, to disseminate the advantages that this Project offers to small and micro-enterprises. As a member of the Consejo Nacional de la Pequeña Empresa, it will also receive information from MICI and its own members on training needs and in conjunction with APEDE will sponsor courses as required.

8. Role of APEDE

APEDE is the private organization that will probably be contracted by MICI to provide the training courses and material to prepare the business technician and supervisors for the business assistance program. In coordination with MICI and UNPYME they will help provide training courses throughout the country. Their present training program, may also be adjusted to complement the resources of this Project.

9. Role of the Consejo Nacional de la Pequeña Empresa

The Consejo Nacional de la Pequeña Empresa will recommend program and policy modification to the GOP, in order to promote a climate conducive to the development of Small Business. The council will maintain

close contact with the implementation agent for Business Assistance Component and with Executing Agency monitoring the progress of the Project. As necessary, it will submit observations to the GOP and AID on issues that affect the Project and their recommendations of appropriate actions to be taken.

B. Summary Project Implementation Plan

The Comisi Bancaria Nacional and the Ministerio de Comercio e Industrias will be designated as the implementing agencies in the Project Agreement. They will be responsible for Project planning, administration and coordination of inputs such as the financial and business assistance program. The components will require substantial time to fully develop and implement. A five year implementation period is anticipated to establish a self sustaining financial mechanism and a coordinated business assistance mechanism. The proposed schedule for the implementation of the major activities is:

<u>Dates</u>	<u>Activities</u>
<u>1984 3rd Qt.</u>	
<u>General</u>	
August	Loan/Grant Authorization.
August 30	Project Agreement signed.
August	Financial Plan presented to AID
August	Legal Opinion of the Solicitor General.
September	Initial Conditions Precedent met (Section E.1)
<u>Executing Agent</u>	
August	Establishment of Loan and Guarantee Funds.
August	Selection and assignment of personnel.
August	Preparation of Participation Agreements for the Loan and Guarantee Funds.
August	Preparation of Standard Procedures and Guidelines for the Loan and Guarantee Funds.
August	Preparation of Operational Formats.
September	Participation Agreements signed with PFI's.
<u>Business Assistance Component.</u>	
August	Preparation of RFP's long term technical assistance.
August	Preparation of job descriptions for Business Assistance Component.
August	Administrative staff selected and contracted.
September	Contract Officer establishes contract procedures.
September	Administrative Officer develops procurement specification for equipment.
September	Selection and contract of training organization.
September	Preparation of training materials and operational manual.
September	Selection of personnel to be trained.
September	Selection and Contract of Project Liaison.

1984 4th Qt.

General

October Agreement of Understanding between participating institutions.
November Subsequent Conditions Precedent met (Section E.2).

Executing Agent

October Request for advance.
October Loan Fund lending and Guarantee mechanism operational.

Business Assistance Component.

October Completion of negotiations on long term technical assistance contract.
October Project personnel trained and assigned to field offices.
October Project promotional campaign begins (Familiarization Seminar).
October Business Assessment and Assistance begins.

1986 3rd Quarter

March Initial Project Evaluation.

1989 3rd Quarter

January Final Project Evaluation.

C. Financial Implementation Arrangements

The following charts provide information related to the methods of implementation and financing for the project's funds.

1. Loan Fund

<u>Methods of Implementation</u>	<u>Methods of Financing</u>	<u>Approximate Amount (\$000s)</u>
Host Country (H.C.) I.C.I	Direct Reimbursement	6,000.0

As noted in the above chart the Banco Nacional de Panama (BNP) an Intermediate Credit Institution (ICI) will act as the Fiduciary Agent for the Credit Funds. Its functions will be to verify and disburse or transfer 50% of the reimbursement requests presented by the Participatory Financing Institutions (PFI), in conformance with the terms and conditions set forth in Participatory Agreement executed between the BNP and the PFI.

After disbursing or transferring credit funds to the PFI, BNP will submit a reimbursement request to USAID/Panama in the amount disbursed or transferred to the PFI.

2. Guarantee Fund

<u>Methods of Implementation</u>	<u>Methods of Financing</u>	<u>Approximate Amount</u> <u>(\$000s)</u>
Host Country (H.C.) I.C.I	Direct Payment	\$1,000.0

Prior to disbursement the Executive Agency will develop the operating procedures, regulations and guidelines for the Guarantee Fund as a condition precedent.

3. Technical Assistance Fund

<u>Methods of Implementation</u>	<u>Methods of Financing</u>	<u>Approximate Amount</u> <u>(\$000s)</u>
T.A. U.S. IQC	Direct Pay	\$250.0
T.A. FSN. PSC	Direct Pay	200.0
T.A. Institutional Cont	Direct Pay	100.0
Commodities AID Procur	Direct Pay	100.0
Training H.C.	H.C.Reimbursement	75.0
Technical Support (MICI)	H.C. Reimbursement	975.0
Technical Support (NBC)	H.C. Reimbursement	300.0
TOTAL		<u>\$2,000.0</u>

The Ministerio de Comercio e Industrias (MICI), thru the Dirección General de la Pequeña Empresa (DGPE), is selected to coordinate the Business Assistance Component (BAC).

The BAC is not financially self-sufficient and its operating expenses will require the project support which gradually will be decreasing until year five when BAC will be capable of providing the funds from it's own resources

4. Implementing and Financing Procedure:

a. The USAID/Panama, as indicated in the above chart, will contract and procure directly the following personal services and commodities:

- 1) Under IQC a Senior Technical Advisor will be provided to MICI for two years.
- 2) Under PSC an AID Project Officer Liason will be provided for five years to MICI.
- 3) Under Institutional Contract outside consultants will be provided for two evaluations.
- 4) AID will procure directly large dollar items such as the automated data processing information system and the seven vehicles to be provided to MICI.

b. The Host Country (H.C.) will be expected to contract, procure commodities for training and certify payment before submitting reimbursement requests to USAID/Panama.

As noted in the above charts, the planned methods of financing all fall within the three AID preferred methods.

The MICI financing functions under the project will be the same as those of other Directorates of the Ministry. The initiation of financing and payment requests will be done by the DGPE. The DGPE Management and Administrative Office in conjunction with the MICI Legal Affairs Office and the Panamanian Controller General's will provide the actual contracting, commodity procurement and payment verification service to the BAC. The Fiscal Control by line item (project component) is the sole responsibility of the BAC.

Before the first disbursement of funds by AID the BAC, the USAID Office of the Controller will assure that an adequate system of fiscal control over the project component is in place.

5. The contracting and commodity procurement process is as follows:

The Panamanian Law does not authorize ministries (except Ministry of Agriculture) to sign contracts and provide commodities related to its activities without the signature of the President of the Republic. USAID/Panama is in possession of a copy of the Fiscal Code that regulates the contracting and procurement process. A description of its application is contained in the Norwich Consulting Enterprise Inc. study, financed by USAID/Panama in 1982 under Contract No 525-90-C-00-1027-00.

a. In the case of local personal service contracts (PSC's), such as those contemplated by the project (under 50,000) the procedure is as follows:

- 1) the beneficiary office prepares the scope of work.
- 2) at least three individuals are contacted by phone or a notice in local newspapers is published to request applicants for the described position.
- 3) An evaluation of the candidate is done by the beneficiary office.
- 4) The Management/Admin Office negotiates with the selected applicant the terms, conditions and salary. Also prepares a contract in draft and send it to the Budget and Fiscal Office.
- 5) The Budget and Fiscal Office will verify the availability of funds.
- 6) The contract in draft is sent to the Legal Affairs Office for verification and approval.
- 7) The Management/Admin Office prepares the contract in final and call the selected applicant to sign the contract. Once the contract is signed by the applicant it is sent for the Minister's signature

- 8) The contract is returned to the Management /Admin Office and then sent to the Controller Office for the REFRENDUM.
- 9) In the Controllers Office it is sent to the Auditing Department and to the Legal Affairs Office for review of funding and legal terms.
- 10) The Management/Admin Office receive the contract once again and prepares a note with the Minister's signature to be sent to the Presidency for signature. The Presidency Ministry review the contract.
- 11) The President signs the contract and return it to the Ministry were the order to proceed is written.

USAID/Panama will assure that the DGPE is aware of the importance of maintaining documentation related to contracting actions for possible AID review before and after the PACD.

b. During the life of this project it is anticipated that a modification of the above procedure will be utilized to avoid the long contracting process. Thru a Ministerial Decree signed by the President, the Ministry will appoint the qualified personnel that will be working under this project.

c. In the case of commodity procurement the DGPE requests the commodities in writing to the MICI Management/Admin Office. For commodities valued at under \$50,000, such as those contemplated under the project, the Management /Admin requests at least three quotations from potential suppliers (either by phone or in writing depending on the complexity of the procurement action). The supplier who meets the specifications at the lowest price is awarded a purchase order.

USAID/Panama will assure that the MICI Management/Admin Office is aware of the importance of maintaining price quotation documentation for possible AID review before and after the PACD.

Contingent upon the establishment of the project component fiscal control by DGPE mentioned above, the contracting and commodity procurement system appears adequate.

6. Payment verification for Personal Service Contracts is as follows:

The MICI Management/Admin Office maintains a copy of the signed contract on file. Checks are prepared by the Department based solely on the contract terms and without further authorization are forwarded to the Controller General Resident Auditor. (The frequency of check preparation is determined by the contract-usually bi-monthly). The Auditor assures that the payment is in accordance with the contract and signs the check. The check is then countersigned by the Management/Admin Officer and forwarded to the contractor.

This contract payment verification system provides for neither invoice submission by contractors nor DGPE indication that the services being paid have been rendered. To correct these vulnerability USAID/Panama will require that all AID financed contracts call for invoice submission by the contractor and approval by DGPE of each invoice before payment. USAID/Panama will assure that the MICI Management/Admin Office is aware of the importance of maintaining invoices in the Contract File for possible AID review before and after the PACD.

7. Payment verification for commodity purchases is as follows:

The DGPE authorizes the MICI Management/Admin Office to make payment to the vendor. This is done by signing the invoice which indicates that the item was received in satisfactory condition. The MICI Management/Finance Office then compares the invoice to the terms of the purchase order and prepares the check accordingly. The invoice, the purchase order and the check are forwarded to the Controller General Resident Auditor. All documents are reviewed by the Auditor for completeness and accuracy and then verified for payment by stamping the invoice (which also prevents duplicate payment). The Resident Auditor then signs the check. The check is sent to the MICI Management/Admin Office who then countersigns it. Finally, the check is forwarded to the vendor.

The payment verification system for commodity purchases appears adequate.

Contingent upon the establishment of the requirement for DGPE approval Personal Service Contractor's invoices mentioned above, the payment verification system for Personal Service Contracts and Commodity Procurement appears adequate.

D. Procurement of Goods and Services

1. Overview

AID guidelines suggest that the Borrower under an AID project be charged with the procurement of goods and services unless there are mitigating circumstances. In the case instant, it is felt that a realistic assessment of the GOP's current administrative constraints suggests the need for some initial procurement help by AID. Specifically, AID will purchase (1) the automated data processing information system and (2) the business assistance vehicles AID will also contract the (3) Senior Technical Advisor to MICI and (4) the Project Liaison.

Once the actions described above have been completed, it is expected that AID's active procurement/contracting support role will end. With the planned technical assistance and training in institutional development, policy and strategy and investment promotion, the GOP will assume responsibility for the procurement of all goods and services financed under the Project.

2. Considerations of the Gray Amendment

In accordance with the provision outlined in the Gray Amendment contained in the second Continuing Resolution for FY-85, USAID/P is

proposing an AID direct contract mechanism utilizing competition between Section 8(a) firms contained in the Small Business Act. It is anticipated that the procurement of seven vehicles and eight micro-computers will be implemented through the assistance of AID/W's Office of Small and Disadvantaged Business Utilization (PRE/SDB).

3. Procurement of Goods and Services: ICI Procedures

The procurement policies for Intermediate Credit Institutions stated in Handbook 1B, Chapter 19 will govern the acquisition of goods and services by SSEs that receive subloans from PFIs. The principal policies which will govern such procurements under the Project are summarized below.

General Rules: Offshore Procurements

If an ICI or a SSE uses funds made available through the Project to import goods the procurement policies, described in Chapters 4, 5, 7, 10, 11, 17, 22 and 23 of Handbook 1B) will govern the transactions. It is not expected that major offshore procurements will be carried out by SSEs.

General Rules: Local Procurements

Subloans less than \$5,000. There are no special procurement policies that must be complied with when an ICI subloan to the SSE is \$5,000 or less. AID regulations require that AID review the adequacy of an ICI's operational plans and procedures, lending criteria, guideline and credit manuals prior to lending to the ICI. On the basis of the Mission's review of the operations, procedures and criteria utilized by the participating financial institutions under the Project, the Mission is satisfied that such institutions will lend to eligible SSEs who are capable of utilizing the subloan in accordance with the purposes of the Project.

Subloans Exceeding \$5,000. The following procurement policies apply to SSEs who receive subloans exceeding \$5,000. When a cooperative association or acquires goods or services to satisfy the requirements of subloans made to its members, the combined amount of such subloans will determine which policies apply. That is, if the combined amount of such subloan is less than \$5,000, there is no requirement of adherence to special procurement policies. If the combined amount does exceed \$5,000, the procurement policies for subloans exceeding \$5,000 described below apply.

a. Eligibility of Commodities. To the extent relevant, AID general policies governing the eligibility of commodities are applicable. These policies are outlined in Chapter 4 of Handbook 1, Supplement B. SSEs will have to comply with statutory restrictions in the Foreign Assistance Act with respect to commodities such as abortion equipment, motor vehicles, luxury items, police and law enforcement commodities and services, etc.

b. Indigenous Goods. This category of commodities includes goods of "local source and origin that have been mined, grown or produced in the Cooperating country through manufacture, processing or assembly. Subborrowers may purchase indigenous goods without limitation.

c. Shelf Items. Shelf items are defined includes "goods that are normally imported and kept in stock in the form in which imported,

for sale to meet a general demand in the country for the item; they are not goods which have been specifically imported for use in an AID-financed project." SSEs may purchase shelf items produced in and imported from a country included in Code 941. SSEs may procure shelf items with their source and origin in any Code 899 country when the price of one unit of the goods does not exceed \$5,000.00. If the unit price is higher than \$5,000 a waiver must be obtained. Shelf items produced in or imported from countries not included in Code 899 may not be financed by SSEs under the Project.

d. Competition. Small scale enterprises participating under the Project will be expected to follow AID's general principle of competitive procurement. This principle provides that "the buyer shall pay no more than the lowest available competitive price including transportation costs", and is satisfied if the buyer has followed good commercial practices and accepts the most advantageous competitive offer, price and other pertinent factors considered, such as quality of the goods and services, delivery time, transportation costs, payment terms, availability of spare parts, and installation and repair services. It is expected that SSEs under the Project will normally follow negotiated procurement procedures rather than formal competitive bidding procedures.

E. Project Evaluation

Two major project evaluations will be held during the early part of the second and at the end of the third year of the Project. The focus of these evaluations will be on the performance and adequacy of inputs, the performance of the implementing agents, and measurement progress toward outputs. Using the results of each evaluation the GOP/AID Project team will hold a workshop to prepare an action document that contain major findings and recommends corrective actions.

The evaluation will be a joint GOP/AID effort to review the progress and impact of the Project and will be prepared by outside consultants.

1. Initial Evaluation

During the first evaluation, a special study will be made on the effectiveness of the financial and business components. A survey will be made to provide baseline information for use in future surveys. The survey will focus on measuring SSEs and PFIs response to the financial and business assistance components. Among the topics to be examined will be:

- SSE awareness and participation in the Project.
- Adequacy of the spread to PFIs and the Fiduciary Agent.
- Adequacy of the premium and coverage of the guarantee mechanism.
- Terms and condition of the sub-loans.
- Possibility of leveraging the funds with major banks.
- Adequacy of the business assistance recommendations.
- Desire of SSEs to undertake business assistance recommendations.
- Progress toward self-sufficiency of the financial component.
- Coordination between the participating institution.

2. Final Evaluation

The final evaluation will take place in January 1989. An input and output level performance review will again be undertaken. In addition, a review will be made towards achievement of the targets at each level of the logical framework. An expanded survey will be repeated and questions regarding the impact of the Project on employment generation will be studied.

A major focus of the evaluation will be an examination of the effectiveness of the financial and business assistance model developed under the Project, as well as the aspect of self-sufficiency. In addition, the effectiveness of the institutional structure to carry out the Project will also be examined, identifying obstacles and weaknesses in the institutional framework requiring adjustments.

F. Conditions, Covenants and Negotiating Status

The Project has been thoroughly discussed with members of the public and private sectors at the national level and has been formally presented to the Consejo Nacional de la Pequeña Empresa, Ministerio de Planificación y Política Económica, Ministerio de Comercio e Industrias, Comisión Bancaria Nacional, Banco Nacional de Panamá, FEDPA and all major private sector business organizations.

Reaction has been favorable and there appear to be no major impediments to negotiating and signing the Project Loan and Grant Agreement in FY 1984. The formal GOP request for the Project from the Minister of Planning is shown in Annex B. On the basis of Mission analysis, in addition to the standard conditions, we are recommending the following:

1. Conditions Precedent to Disbursement (Loan and Grant)

Prior to the first disbursement under the Loan or Grant, or to the issuance by AID of documentation pursuant to which disbursements will be made, the Borrower will, except as AID may otherwise agree in writing, furnish to AID in form and substance satisfactory to AID:

- a. A legal opinion of the Attorney General that the Agreement has been duly authorized and/or ratified by, and executed on behalf of the Borrower, and that it constitutes a valid and legally binding obligation of the Borrower in accordance with all of its terms.
- b. A statement of the name of the person holding or acting in the office of the Borrower specified in Section 9.2, and of any additional representatives, together with a specimen signature of each person specified in such statement.

2. Conditions Precedent to Disbursement for Financing Project Activities (Loan and Grant)

Prior to any disbursement under the Loan or Grant, or to the issuance by AID of documentation pursuant to which disbursements will be made to finance any Project activity, except for the contracting of technical

assistance, the Borrower shall, except as AID may otherwise agree in writing, furnish in form and substance satisfactory to AID:

- a. Evidence that the Loan Fund has been legally established and a Loan Fund Account established in the National Bank of Panama (BNP).
- b. Evidence that the Guarantee Fund has been legally established and the Guarantee Fund account established in the BNP.
- c. Evidence that the National Banking Commission (NBC) and the Ministry of Commerce and Industry (MICI) have each appointed a Project Manager.
- d. Specification of the annual fee to be charged by the NBC with a detailed budget supporting the total cost of services to be provided by the NBC.
- e. A phase out plan for MICI's Loan Program, which includes provisions to transfer the proceeds of its liquidated loans from the Rural Growth and Service Centers Project (URBE) and the Integrated Improvement Program for the Urban Poor Type C's small business lending projects (IIPUP C), to the Loan Fund and Guarantee Fund of this Project, of which a minimum of \$500,000 will be provided to the Guarantee Fund.

3. Conditions Precedent to Subsequent Disbursement (Loan and Grant).

Prior to any disbursement, or the issuance by AID of documentation pursuant to which disbursement will be made to finance any Project activity, except for the procurement of computer equipment and software, vehicles and technical assistance, the Borrower shall, except as AID may otherwise agree in writing, furnish in form and substance satisfactory to AID an Agreement of Understanding which describes the roles, functions and responsibilities of the National Banking Commission (NBC), acting as the Executing Agency, the Ministry of Commerce and Industry (MICI), the Panamanian Association of Business Executives (APEDE), the National Union of Small and Medium Enterprise (UNPYME) and the Small Business Council for Project implementation.

4. Conditions Precedent to Disbursement for Loan and Guarantee Funds:

Prior to any disbursement or to the issuance by AID of documentation pursuant to which disbursements will be made to finance any activity under the Loan Fund or Guarantee Fund, except for the procurement of computer equipment and software, the Borrower shall, except as AID may otherwise agree in writing, furnish to AID in form and substance satisfactory to AID:

- a. A Participation Agreement signed between NBC and at least two (2) Participating Financial Institutions (PFI).
- b. Operating procedures and regulations for the Loan Fund and the Guarantee Fund.

- c. A master list of all reporting forms to be used during Project implementation and a copy of each such form.
- d. A financial plan which details by component the Loan, Grant and GOP counterpart funds budgeted for all activities to be carried out over the first year of the Project.
- e. Evidence that NBC has appointed all qualified key staff for Project implementation.
- f. A work plan for the first year of the Project, which details each Project Activity to be carried out during such quarter and a budget which details the proposed AID funds for each such activity

5. Conditions Precedent to Disbursement for the Business Assistance Component

Prior to any disbursement, or to the issuance by AID of documentation pursuant to which disbursements will be made to finance any activity under the Business Assistance Component, except the procurement of computer equipment and software, vehicles and technical assistance including the contracting of a Project Liaison Officer, the Borrower shall, except as AID may otherwise agree in writing, furnish to AID in form and substance satisfactory to AID the following:

- a. A financial plan which details by component the Grant and GOP counterpart funds budgeted for all activities to be carried out over the first year of the Project.
- b. Evidence that MICI has appointed appropriate qualified key staff for Project implementation as specified in Annex 1, Section C.3 of the Project Agreement.
- c. A work plan for the first year of the Project, which details each Project activity to be carried out during each quarter and a budget which details the proposed AID funds for each such activity.

6. Condition Precedent to Disbursement for the Business Assistance Component After September 30, 1987.

Prior to any disbursement, or to the issuance by AID of documentation pursuant to which disbursements will be made to finance any object activity under the Business Assistance Component after September 30, 1987, the Borrower shall, except as AID may otherwise agree in writing, furnish to AID in form and substance satisfactory to AID, evidence from the joint AID/GOP scheduled third year evaluation that the Business Assistance Component has effectively met its objectives and should be continued throughout the life of the Project.

7. Recurring Condition Precedent to Disbursement (Loan and Grant)

Prior to any disbursement, or the issuance by AID of documentation pursuant to which disbursements will be made to finance any new Project

activity, each Project year after the first Project year, the Borrower shall, except as AID may otherwise agree in writing, furnish to AID in form and substance satisfactory to AID the following:

- a. A financial plan which details Loan, Grant and GOP counterpart funds budgeted for all activities to be carried out for such Project year.
- b. A quarterly work plan to be submitted each quarter during such year, which details each Project activity to be carried out in such quarter and a budget which details the proposed AID funds needed for each such activity.
- c. Subsequent changes in any Participation Agreement between the Executing Agency and the PFIs.

8. Covenants

The GOP shall covenants that, except as AID otherwise agrees in writing, it will:

- a. Be liable for all claims against the Guarantee Fund which exceed the amount of funds available in the Guarantee Fund.
- b. Provide budgetary support to MICI over the life of the Project of not less than the equivalent of \$1,600,000 for Project activities, and to provide adequate budgetary support to MICI for on-going activities after the life of the Project.
- c. Make reasonable efforts to retain personnel trained under the Project in positions related to the Project.
- d. In the event that a minimum of \$500,000 from the liquidated loans from MICI Loan Program is not provided to the Guarantee Fund by the end of the third year of the Project, it will provide such funds from other sources.
- e. Obtain previous AID approval of the contract between the Comisión Bancaria Nacional and the Banco Nacional de Panamá and prior AID approval for any subsequent changes to the contract.

ANNEX A

LOGICAL FRAMEWORK

PANAMA SMALL BUSINESS DEVELOPMENT PROJECT
PROJECT DESIGN SUMMARY: LOGICAL FRAMEWORK MATRIX

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
A. Sector Goal:			
To increase employment opportunities through small scale enterprise development.	(1) Increase in SSE investment. (2) Increase in loan approvals. (3) Leveraging of public money for investment purposes. (4) Increase in employment by SSEs.	(1) Census, national statistics, special surveys, studies, and progress reports.	(1) Economic policies more favorable to growth are adapted as planned by GOP. (2) Continued Panamanian political stability. (3) World and regional economies begin steady recovery from current recession. (4) Public resources are available in adequate quantities. (5) Financial and Business assistance provided will be adequate and approximate for SSEs.
B. Project Purpose			
1) To establish an institutional mechanism (Resource Centers) which will marshal public private resources capable of providing a continuous source of credit, guarantee and business assistance to the Small Scale Enterprises in Panama. 2) To strengthen GOPs institutional capacity to evaluate and develop Small Scale Enterprise Development Policies	<u>EOPS</u> (1)-A self sustaining financial mechanism in place by 1989 capable of; <ul style="list-style-type: none"> . processing 2,000 loan applications and approving 1,000 loans per year. . Stimulating the creation of 1,700 jobs per year at an average loan investment of \$4,000 per job. - A credit guarantee mechanism securing up to 70% of the uncollateralized loan portfolios.	(1) Reports of the Fiduciary Agents and PFIs (2) Audits of loan records by Fiduciary Agents (3) Evaluation reports, including field visits and interviews (4) Project Audit and Evaluation (5) Resolutions issued by the Small Business Council.	(1) Reduction in risk and increase in yields will motivate private and financial intermediaries to provide 50% of funds. (2) Demand for small business loans is sufficient to justify and maintain this self-sufficiency of the Project instruments.

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
	<p>(2) An institutionalized business assistance fully financed by the GOP by 1988 capable of</p> <ul style="list-style-type: none">- providing up to 2,000 annual business assessments- providing business assistance to 1,000 SSE loans applicants.- providing Follow-up assistance to 2,000 SSE loans. <p>(3) An explicit small scale enterprise development policy formulated by the GOP.</p>		<p>(3) GOP Fiscal portion will permit recurrent support.</p> <p>(4) GOP and private sector support continues under new government following 1984 elections.</p> <p>(5) Provision of loan guarantees will remove major obstacles to a private sector lending program which calls for commercial interest rates.</p>

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NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS					MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS	
	Year	1	2	3	4			5
C. <u>Project Outputs</u>								
1)A self-sustaining Credit Fund managed by a Fiduciary Agent capable of approving 1000 new loans per year, through existing private financial institutions.	1)-Number of Loans in Portfolio -Outstanding Portfolio (\$000,000) -Direct jobs created -Number of Banks. -Number of Coops.	200 0.8 200 5 10	500 2.8 566 6 15	800 6.0 1056 7 20	900 9.6 1510 8 25	1000 12.3 1709 9 30	(1)-Fiduciary Agent's Management Information System and Annual Report. -Banks and Coops who sign the participation Agreement with the Fiduciary Agent ProgramsEmployment census.	(1) Level of demand sufficient to generate enough revenues for self-sufficiency.
2)A self-sustaining credit guarantee system, permitting access to commercial credit.	(2) Amount of Portfolio Guaranteed (\$000)	560	1960	4200	6728	8590	(2)Guarantee premium received by the Fiduciary Agent. -Amount of Guarantee certificates issues by Fiduciary Agent.	(2)-Guarantee will eliminate principal obstacle to credit for SSE -Default can be held to projected levels.
(3) A Business Assistance Component coordinated by MICI, capable of improving SSE ability to manage their businesses, make loan applications, repay their loans and create jobs.	(3) Number of Business Assessments -No. of Persons Trained. . MICI Technicians. . Contracted Technicians . MICI Supervi.	400 5 0 6	1000 12 0 6	1600 12 9 6	1800 12 14 6	2000 12 17 6	(3)MICI's Management Information System: . Number of firms receiving Business Assessments. . Number of curriculum developed for the classes. . Number of attendants to classes. . Contracts with training institutions. . Number of SSEs receiving Follow-up business assistance.	(3)-Business assistance is capable of substantially improving SSEs operation. -Business assistance are available nationally and can perform at low cost rates.

(12)

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS					MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
	. Adm. Person.	13	13	13	13	. Number of regional seminars/workshops.	
	. Coop.					. Number of SSEs attending seminars/workshops.	
	Credit Off.	2	4	4			
	- No. of SSEs						
	Follow-ups	-	200	700	1300	1700	
	- Regional Seminar Attendance						
	. Familiarization Seminar	250	250		-	-	
	. Training Seminar	200	200	2000	200	200	
4) A routine system of project evaluation which will identify policy issues, and program adjustment recommendations for the Small Business Council.	(4) Monthly Small Business Council Meetings.					(4) Recommendations of Small Business Council to GOP and Small Business Development program.	(4) Small Business Council recommendation will receive priority within the GOP.
						(5) Quarterly Project Review -Results of Project Evaluation. -AID/GOP Files Consultants -Reports of Project Staff -Annual Report. -Client Interviews -Other Agency Observations -Consultant Reports	

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NARRATIVE SUMMARY	OBJECTIVELY	VERIFIABLE	INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
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D. Project Inputs:
by Function (\$000)

COMPONENT	A I D		COUNTERPART		TOTAL
	GRANT	LOAN	GOP	PFI's	
1. Loan Fund	300	6,000	0	6,000	12,300
2. Guarantee Fund	1,000	0	500	0	1,500
3. Business Assistance	1,150	0	1,600	0	2,750
4. Evaluation	100	0	0	0	100
5. Technical Assistance	200	0	0	0	200
6. Project Liaison	250	0	0	0	250
TOTAL	3,000	6,000	2,100	6,000	17,100

(1) Yearly disbursement schedule, annual working plans, and approved GOP Investment Budget and Audits presented by the Fiduciary Agent and MICI.

(1) Budgetary resources are available and disbursed, according to schedule and financial plans presented by the MICI.

by Component

COMPONENT	A I D		COUNTERPART		TOTAL
	GRANT	LOAN	GOP	PFI's	
1. Credit Fund	0.3	6.0	-	6.0	12.3
2. Guarantee Fund	1.0		0.5	-	1.5
3. Business Assistance	1.7		1.6	-	3.2
TOTAL	3.0	6.0	2.1	6.0	17.1

(In Millions of \$)

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(DOC. 4360P

ANNEX B

T E C H N I C A L A N A L Y S I S

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ANNEX B

T E C H N I C A L A N A L Y S I S

SECTION 1 : Financial Analysis

SECTION 2 : Institutional Analysis, Structure of the Financial System

SECTION 3 : Business Assistance Component

SECTION 4 : Employment/Unemployment

SECTION 5 : Demand Analysis

1

(DOC. 4360)

ANNEX B

TECHNICAL ANALYSIS

SECTION 1

FINANCIAL ANALYSIS

V.

F I N A N C I A L A N A L Y S I S

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FINANCIAL ANALYSIS OF THE LOAN AND GUARANTEE FUNDS

The purpose of this analysis is to determine the financial viabilities of the Loan and Guarantee Funds and verify if the stream of projected income will in fact cover the expenses of the funds, permit payback of the loan to USAID and see if the surplus can be capitalized to create a self-sustaining mechanism.

A. Loan Amount and Objectives

The USAID loan of \$6M. and grant of \$3.5M is intended to achieve the following principle objectives.

1. Create new jobs.

It is estimated that among SSEs an investment of about \$4,000 will result in the creation of one new job. Disregarding the multiplier effect and assuming that investment by SSEs will be financed 10 % by the borrower and the remaining 90% in equal proportion by the Loan Fund (LF) and Participating Financial Intermediaries (PFI), the \$6M. participation from the Loan Fund, and the \$2M. accumulated profits by year 10 of the Project would represent a total outstanding portfolio of about \$18M. Assuming average maturity of 3 years for the loans it would mean that in year 5 the Project has generated 5000 new jobs.

2. Mobilize the resources of the PFIs for extension of credit for investment to SSEs.

Under the Project PFIs are entitled to a maximum reimbursement of 50% of the amount of loans made by them to SSEs. Therefore for every dollar of disbursement from the LF there will be at least a matching dollar lent by PFIs from their own resources.

3. Eliminate subsidized interest rates and standardize financial terms and conditions for lending to SSEs.

The risk factor and high cost of administration discourage the PFIs to lend to SSEs. The exceptions are the operations of MICI and BNP, both government organizations, which have access to limited amounts of special funds and provide credit to SSEs on concessionary terms.

Alternatively, the few private financial institutions (financieras) that do engage in such an operation are protected by an exorbitant rate of interest. The Project through the guarantee mechanism reduces significantly the risk factor and through the LF participation in the loan allows for an attractive spread to cover the high cost of administration thereby making it possible for SSEs to have access to loans at a reasonable non-subsidized rate.

4. Only sound bankable project would be financed.

The decision to approve or reject a SSE loan application rests solely with the PFIs without any interference by any other authority. The PFIs assume the risk and the obligation to repay the loan fund's participation. It is to be expected that under this arrangement normal banking practices would be adhered to and no special concessions would be granted to unbankable projects.

5. Encourage on a much wider scale the provision of medium term credit to SSEs by private financial institutions.

At present, there are very few financial institutions which are engaged in lending to SSEs. Although the information available does not lend itself to an analysis of the end use of such loans, the short maturities of these loans as well as the informed judgement of the lending officers and experience in other countries indicate that the majority of these transactions are consumer loans. The LF by making medium term funds available and encouraging PFI participation should escalate investment by SSEs.

6. The Loan Fund and the Guarantee Fund operations should be self-sustaining.

The Project has been so designed that these funds would not be subsidized by the Government and would continue their operations even after the repayment of USAID loan. The LF, as is expected, will incur a small loss in the first two years of its operation. This would be financed from the USAID grant. From year 3 onwards it would show profit. When the loan is fully repaid, the fund would have accumulated profits equal to its initial resources. The GF would also generate enough income to take care of its administrative expenditures, offset payments for bad debts, and show a profit.

7. Introduce and develop a more widespread and effective use by SSEs of technical assistance.

Initially the technical assistance component of the Project would be limited to helping the prospective borrower and the PFIs with the evaluation of the viability of the Project, assessment of the financial requirements, and ability to repay the loan, including assistance in the preparation of the loan application. Also, the borrower would receive very basic training in bookkeeping. At a later stage the technical assistance may include training and counselling in other areas of business management.

B. Institutional Arrangement for Project Implementation

The execution of the Project would involve:

1. The Government of Panama (GOP).
2. An Executing Agency (EA).
3. Participating Financial Intermediaries (PFI).
4. Small Scale Enterprises (SSE).

1. Government of Panama

GOP would be the borrower of the USAID loan and the recipient of the grant funds. It would be responsible for the repayment of the principle and payment of the interest of the loan. In consultation with USAID, GOP will determine, review and amend the scope of activities which would qualify for Project assistance, the terms and conditions for the operation of the LF and the GF, the terms and condition for lending by PFIs to SSEs, and the criteria for the selection of PFIs.

2. Executing Agency

The authority and responsibility of the Government for the execution of the financial components of the Project will be delegated to the Executing Agency according to the terms and conditions defined in the PROAG between the GOP and AID. The Executing Agency (EA) will be the Comisión Bancaria Nacional, which will be responsible for establishing and administrating two separate funds (i.e. Loan Fund and Guarantee Fund). To accomplish this, the EA will utilize the services of the Banco Nacional de Panamá, to carry out the day to day operations of both funds. In this sense the BNP will act purely as a Fiduciary Agent receiving specific instructions from the EA. The EA will assigned personnel within a special project implementation unit to monitor and coordinate the financial components of the project.

The Project Agreement would give authority to the EA to:

- Withdraw funds from the USAID Project Loan/Grant according to the Loan/Grant Agreement.
- Pay the principle and interest of USAID loan.
- In consultation with the Banking Commission select the PFIs.
- Prepare and sign the Participation Agreement with PFIs.
- Reimburse the PFIs its share of participation in loans to SSEs.
- Collect from PFIs repayment of its share of the loans made by PFIs and the accrued interest.
- Cancel its share of participation in the loans made by PFIs in case of violation of the terms and conditions of the Participation Agreement.
- Examine, on a selective basis, individual files of loans made by PFIs for adherence to the terms and conditions of Participation Agreement.
- Cancel the Participation Agreement with PFIs in cases of repeated violations of the Agreement.

- Establish, if necessary, the maximum amount of lending operation under the Project by individual PFIs.
- In case of default by PFIs, take all necessary action for the recovery of its funds.
- Establish the guarantee premium.
- In case of default by an SSE reimburse the PFI the guaranteed amount.
- Maintain records of all loans made by PFIs and all guarantees issued.
- In consultation with the Government invest all surplus funds in safe and attractive short term financial instruments.

Of these functions, the following routine operational activities will be carried out by the BNP;

- Withdraw funds from the AID project loan/grant according to the loan/grant agreement.
- Pay the principle and interest of AID loan.
- Reimburse the PFIs the agreed upon participation in loans to SSEs.
- Collect from PFIs repayment of the loans and accrued interest.
- Maintain duplicate records of all loans and guarantees made and issued by the PFIs.

The BNP in managing the day to day operations of the LF and the GF acts on the behalf of the EA and on the account of the EA. Its services are paid for from the income of the LF. Although the sound and efficient management of the funds is instrumental in the successful implementation of the project, the BNP is not liable for any losses incurred by the LF or GF except where, according to an independent authority, its mismanagement has been the cause for the loss.

3. Participating Financial Intermediaries

PFIs are the banks and savings and credit cooperatives legally established in Panama. Any financial institutions which expresses interest and are in good standing with the Banking Commission and FEDPA would, in principle, be eligible for participation in the Project. Activities to be financed, beneficiaries, terms and conditions for reimbursement from the LF and GF, terms and conditions for on-lending to SSEs, would be the subject of a Participation Agreement between EA and PFIs. The Participation Agreement would, among others, specify eligible SSE borrowers, maximum amount of loans, method of reimbursement from LF, method of reimbursement from GF for bad

debts, maturity and grace period of loans to SSEs, method of payment of principle and interest to EA, administrative and legal steps to be taken by PFIs in cases of default by SSEs, cost of money to PFIs from LF, percentage of loans eligible for guarantee and the premium to be charged, and maximum rate of interest chargeable by PFIs.

The PFIs are the lenders to SSEs. They are encouraged to make medium term loans for acquisition of fixed assets and for permanent working capital because the LF will participate in half of the loan amount and the GF will guarantee 70% of the uncollateralized portion of the loan. In the case of PFIs with a small current account and savings account deposits the rate of interest charged by the EA should be a further incentive.

The approval or rejection of loan requests by SSEs is the prerogative of PFIs and there shall be no outside interference. Upon the disbursement of the loan, according to the Loan Agreement between PFIs and SSEs, the PFIs are entitled to reimbursement from the EA and the LF a maximum of 50% of the disbursed amount. It is assumed that the loans made for which reimbursement is requested are in conformity with the provisions of the Participation Agreement. The EA will immediately credit the account of the PFI with the amount requested. There will be no review of the loan requested by the EA. PFIs assume all the risk and are responsible for the payment of the principle and interest according to the loan agreement to the EA. PFIs are also entitled to automatic guarantee by the GF of 70% of the uncollateralized amount of the loan. The PFIs will collect from the borrower the guarantee premium and immediately credit the account of the GF with the proceeds. The administrative and legal actions to be taken in case of bad debts for eligibility for refund from the GF is described in the Participation Agreement. As is evident from the foregoing the PFIs share their own resources in the loans made under the Project and also assume a reasonable amount of risk. It is expected that the effective cost of money to SSEs, exclusive of guarantee, will be about 15%. This would allow a 5 - 6% spread for PFIs and 7 - 8% spread for the LF. The large spread for PFIs would compensate the high cost of administration of such loans, provide some degree of self-insurance for the 30% exposure, and allow an attractive profit. The inclusion of a one time guarantee premium of 5% up front included in the loan, assuming average maturity of 3 years, would increase the cost of money to the borrower to approximately 18%. This may be high. The assumption here is a 2% annual default on the outstanding balance of guarantees issued. If experience proves that the rate of default is considerably lower, the guarantee premium would be adjusted accordingly and the cost of money to the SSEs will be reduced.

4. Beneficiaries (SSEs)

a. The Loan Fund, Terms and Conditions, Financial Projection

The Project LF would provide medium term credit for the acquisition of fixed assets and the permanent working capital requirements of SSEs engaged in all productive, distributive, service and agrobusiness activities. The terms and conditions of these loans made by PFIs would be as follows:

- Maximum amount of loan to an individual of \$50,000
- Maximum amount of loan for the expansion of an on-going activity will be normally 90% of the total required investment.
- Maximum amount of loan for the establishment of a new enterprise will be normally 80% of the total required investment.
- Maximum period of the maturity of the loan is 5 years.
- Maximum grace period is 1 year, except in exceptional circumstances and at discretion of the lender is 2 years.
- Effective cost of money to the borrower, in no case to exceed LIBOR plus 8%.

The USAID loan of \$61. to GOP would be a standard loan with a maturity of 20 years, repayable in equal installments in the 2nd 10 years, carrying an interest of 2% in the 1st 10 years and 3% in the 2nd 10 years.

Assuming that:

- The total amount of the loan would be disbursed by year 5 of the Project.
- A spread of 8% in the 1st 10 years and 7% in the 2nd 10 years of the Project would accrue to the Government.
- The cost to the Project for the management of the fund by the EA would be about \$170,000 annually.
- The Projected deficit in the 1st 2 years of the operation of the Project (about \$250,000) would be financed from grant funds, and,
- All profits in subsequent years would have a return of 10%.

The total amount of loans outstanding at year 10 of the Project, the year before the repayment of the principle of USAID loan starts, would exceed \$15M. (\$7.8M. from the LF). From then on it would decline to about \$11.6M. (\$5.9M. from the LF), and after the full repayment of USAID loan the LF would have a capital of \$6.21.

b. The Guarantee Fund; Terms and Conditions, Financial Projection

Panama has had no experience with a guarantee operation of the type designed in the Project. Because of lack of a track record and the uncertainties involved in this operation very conservative assumptions have been used. The information collected from the commercial banks and savings and loan cooperatives indicate a much lower rate of default than the one applied in these projections. However, for the reason mentioned above, but

more importantly for the crucial role that the guarantee mechanism is expected to play in the expansion of credit to SSEs it is important that the GF be eminently sound and successful. Panama is a world banking center. Unlike others LDCs, there is a free flow of funds in and out of the country. All through the decade of the 70's domestic credit was far in excess of domestic deposits. Therefore, liquidity is not a problem in Panama and inaccessibility of SSEs to credit is not due to shortage of funds. Probably the most important consideration contributing to lack of interest among financial institutions in lending to SSEs is the fear of the high risks involved in such an operation. The guarantee mechanism to a large extent would eliminate this fear and should gradually encourage the financial intermediaries to use their own resources for loans to SSEs. For this reason the GF should be well capitalized, efficiently managed and capable of sustaining larger losses than seem to be presently the case. Obviously if in fact the assumption made here for the financial projection of the GF prove to be too conservative they would be changed in due course.

These assumptions are:

- The GF is capitalized with \$1.0 million of USAID grant funds over a period of two years and the COP/MICI will transfer a minimum of \$500,000 from the proceeds of its liquidated loans from the Rural Growth and Service Center Project (URBE) and the Integrated Development Program for the Urban Poor (IIPUP/C) to this component during the first 3 years of the project.
- Automatic guarantee is issued by the EA for 70% of the outstanding uncollateralized portion of the loan.
- Guarantee premium would be a one time 5% of the total amount of guarantee collected in advance. PFIs would collect the premium and credit the account of the EA.
- Average life of the loan is 3 years.
- Bad debts would be 4.5% of the total amount of guarantees outstanding per year.
- Return on capital and accumulated profits would be 10%.

Under these assumptions the GF would accumulate profits and its capital and reserve would be about \$2.1 million in year 10 of the Project and \$2.2 million in year 20.

	A	B	C	D	E	F	G	H	I	J	K	L
11	FINANCIAL PROJECTION OF THE LOAN FUND											
21	*****											
31	ASSUMPTIONS											
41												
51		6000										
61		.08										
71		.07										
81		.1										
91		600										
101												
111		400										
121		1000										
131		1600										
141		1800										
151		1200										
161		135										
171		35										
181		.01										
191												
201												
211	*****											
221												
231	YEARS	1	2	3	4	5	6	7	8	9	10	
241	-----											
251												
261	TOTAL PORTFOLIO	900	2000	5000	9612	12271	13770	13410	14107	14860	15694	
271	NO. OF LOANS IN PORTFOLIO	200	700	1500	2300	2700	2900	3000	3000	3000	3000	
281	AVERAGE LOAN AMOUNT	4000	4000	4000	4369	4545	4404	4470	4702	4955	5231	
291	-----											
301												
311	TOTAL E.A. PORTFOLIO	400	1400	3000	4800	6136	6385	6705	7053	7433	7847	
321	OP FUNDS	400	1400	3000	4800	6000	6000	6000	6000	6000	6000	
331	PREVIOUS YRS PROFIT	0	0	0	6	136	385	705	1053	1433	1847	
341												
351	INCOME	16	72	176	313	446	519	550	585	623	665	
361												
371	EXEC. AGENCY EXPENSE	170	170	170	183	196	199	202	206	209	213	
381	OPERATIONAL EXPENSE	135	135	135	133	135	135	135	135	135	135	
391	FEE	35	35	35	48	61	64	67	71	74	78	
401												
411	PROFIT (LOSS)	-154	-98	6	130	250	320	348	380	414	451	
421												
431	CUMULATIVE PROFIT	0	0	6	136	385	705	1053	1433	1847	2298	
441												
451	*****											
461	DATE:4/11/84											
471	DOCUMENT: DISK 4, LOAN1											

1 FINANCIAL PROJECTION OF THE LOAN FUND

2 *****

3
4
5
6
7
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9
10
11
12
13
14
15
16
17
18
19
20

21 *****

22
23 YEARS 11 12 13 14 15 16 17 18 19 20

24 -----

25

26 TOTAL PORTFOLIO 15397 14988 14579 14169 13759 13347 12934 12520 12105 11689

27 INC. OF LOANS IN PORTFOLIO 3000 3000 3000 3000 3000 3000 3000 3000 3000 3000

28 AVERAGE LOAN AMOUNT 5152 4996 4660 4723 4586 4449 4311 4173 4035 3896

29 -----

30

31 TOTAL E.A. PORTFOLIO 7698 7494 7290 7085 6879 6674 6467 6260 6053 5844

32 GDF FUNDS 5400 4800 4200 3600 3000 2400 1800 1200 600 0

33 PREVIOUS YRS PROFIT 2290 2694 3090 3485 3879 4274 4667 5060 5453 5844

34

35 INCOME 608 605 603 600 598 595 593 590 587 584

36

37 EXEC. AGENCY EXPENSE 212 210 208 206 204 202 200 198 196 193

38 OPERATIONAL EXPENSE 135 135 135 135 135 135 135 135 135 135

39 FEE 77 75 73 71 69 67 65 63 61 58

40

41 PROFIT (LOSS) 396 395 395 395 394 394 393 392 392 391

42

43 CUMULATIVE PROFIT 2694 3090 3485 3879 4274 4667 5060 5453 5844 6235

44

45 *****

46 DATE: 4/11/84

47 DOCUMENT: DISK 4. LOAN1

1) *****
 2) PROJECTIONS OF THE GUARANTEE FUND OPERATION (\$000s)
 3) *****

4) ASSUMPTIONS

5)			
6)	.70	LOAN PORTFOLIO GUARANTEED	
7)	.05	GUARANTEE PREMIUM, UPFRONT ON TOTAL INITIAL AMOUNT OF THE LOAN GUARANTEE	
8)	.045	BAD DEBT	
9)	.10	RETURN ON CAPITAL AND ACCRUED INCOME	
10)	3	YEARS AVERAGE TERM OF LOAN	
11)	1000	GUARANTEE FUND (AID GRANT)	
12)	500	GUARANTEE FUND (LIQUIDATED LOAN PORTFOLIO -URBE/IIPUP-C-)	
13)			

14) *****

15) YEARS	1	2	3	4	5	6	7	8	9	10
16) LOAN PORTFOLIO GUARANTEE	560	1960	4200	6728	8590	8901	9387	9874	10406	10986
17) PORTFOLIO INCREASE/DECREASE	0	1400	2240	2528	1862	311	486	487	532	580
18) REPLACEMENT (1)										
19) 1	0	187	529	985	1410	1595	1434	1641	1719	1775
20) 2	0		187	529	985	1410	1595	1434	1641	1719
21) 3	0			187	529	985	1410	1595	1434	1641
22) TOTAL OF NEW GUARANTEES	560	1587	2956	4229	4786	4301	4924	5158	5326	5716
23) CAPITAL POSITION (EOY)	1000	1353	1729	1861	1956	2004	2019	2045	2063	2067
24) TOTAL INCOME	128	215	321	398	435	415	448	462	473	492
25) PREMIUM	28	79	140	211	239	215	246	258	266	286
26) INTEREST ON CAPITAL AND PROFITS	100	135	173	186	196	200	202	204	206	207
27) TOTAL EXPENSE (2)										
28) BAD DEBT	25	88	189	303	387	401	422	444	468	494
29) NET CASH POSITION (EOY)	103	125	132	95	48	15	26	18	4	-2
30) NET CAPITAL POSITION	1103	1479	1861	1956	2004	2019	2045	2063	2067	2065

43) *****

44) (1) This is replacement of guaranteed portion of previous years repaid loans
 45) (2) Operating expenses are sub-sumed in Loan Fund operating cost estimates.
 46) (3) These projections assume that MICI will provide additional capital of \$250 in the beginning of year
 47) 2 and 1050 in year 3 from the liquidated MICI Small Business Loan Program.
 48) Note: Figures have been rounded and in some instances will not total.
 49) DATE PREPARED: 8/20/84
 50) PREPARED BY: WFA. DISK 5

	I	M	II	N	II	O	II	P	II	Q	II	R	II	S	II	T	II	U	II	V	II	W	I
11	*****																						
21	PROJECTIONS OF THE GUARANTEE FUND OPERATION (\$000s)																						
31	*****																						
41																							
51																							
61																							
71																							
81																							
91																							
101																							
111																							
121																							
131																							
141	*****																						
151																							
161	YEARS		11	12	13	14	15	16	17	18	19	20											
171																							
181	LOAN PORTFOLIO GUARANTEE		10766	10492	10206	9919	9631	9344	9054	8764	8474	8162											
191																							
201	PORTFOLIO INCREASE/DECREASE		-220	-274	-286	-287	-268	-287	-290	-290	-290	-293											
211																							
221	REPLACEMENT (1)																						
231		1	1905	1727	1711	1686	1612	1574	1528	1475	1429	1381											
241		2	1775	1905	1727	1711	1686	1612	1574	1528	1475	1429											
251		3	1719	1775	1905	1727	1711	1686	1612	1574	1528	1475											
261	TOTAL OF NEW GUARANTEES		5180	5133	5057	4836	4721	4584	4424	4287	4142	3992											
271																							
281	CAPITAL POSITION (EOY)		2065	2046	2035	2032	2031	2037	2049	2068	2094	2130											
291																							
301	TOTAL INCOME		465	461	456	445	439	433	426	421	417	413											
311	PREMIUM		259	257	253	242	236	229	221	214	207	200											
321	INTEREST ON CAPITAL		206	205	204	203	203	204	205	207	209	213											
331	AND PROFITS																						
341																							
351	TOTAL EXPENSE (2)																						
361	BAD DEBT		484	472	459	446	433	420	407	394	381	368											
371																							
381	NET CASH POSITION (EOY)		-19	-11	-3	-1	6	12	19	27	35	44											
391																							
401	NET CAPITAL POSITION		2046	2035	2032	2031	2037	2049	2068	2094	2130	2174											
411																							
421																							
431	*****																						

441 (1) This is replacement of guaranteed portion of previous years repaid loans
451 (2) Operating expenses are sub-summed in Loan Fund operating cost estimates.
461 (3) These projections assume that MICI will provide additional capital of \$250 in the beginning of year
471 2 and \$250 in year 3 from the liquidated MICI Small Business Loan Program.
481 Note: Figures have been rounded and in some instances will not total.
491 DATE PREPARED: 8/30/84
501 DOCUMENT: GFC. DISK 5

(DOC. 4068P

ANNEX B

TECHNICAL ANALYSIS

SECTION 2

INSTITUTIONAL ANALYSIS,
STRUCTURE OF THE FINANCIAL SYSTEM

31

I N S T I T U T I O N A L A N A L Y S I S

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INSTITUTIONAL ANALYSIS

The Republic of Panama has expanded in a period of 12 years into an international finance center, with 121 banks representing 30 nations throughout the world. This section provides a general overview of the financial system in Panama, describing the banking environment, roles and relationship of the various financial institutions.

A. Structure of the Financial System

The financial system in Panama is comprised of commercial banks, mortgage banks, development financial institutions, savings and credit cooperative unions, and financieras.

Panama does not have a central bank. The National Banking Commission created in 1970 as an agency of the Ministry of Planning and Economic Policy, has two objectives: insure that the soundness and efficiency of the system is maintained, and to strengthen and promote the proper conditions for the development of Panama as an international financial center.

The Banco Nacional de Panama, a wholly owned autonomous agency of the government, is the largest domestic bank in Panama. It operates as a commercial bank and serves as the principle depository of the government. BNP operates the clearing operations for the banking system and acts as the supplier of paper money (U.S. dollars) to the banks operating in Panama.

1. The Commercial Banking System

a. General

Because of its central geographic location and favorable banking laws Panama has developed rapidly into a major banking center of the world. There are 111 commercial banks in Panama, most of which are branches of major international banks, 2 are publicly owned, 67 are general licensed banks that can engage in offshore as well as domestic banking, and 42 are international banks allowed to engage in business only outside of Panama. There are an additional 12 representative offices. Almost all the major banks of the world have a presence in Panama. The unit of exchange in Panama is the U.S. dollar. Panama imposes no restrictions on the inflow and outflow of money. The growth of the banking system in Panama has been very rapid both in number of banks and in assets. Between 1978 and 1983 the total assets of the banking system increased from \$22.7 billion to \$41 billion. Obviously, the bulk of the activity of the banks is outside Panama. In December 1981 out of a total loan portfolio of \$25 billion, \$3.5 billion, 14 percent was in local loans.

b. The Role of the Major Banks

The bulk of domestic bank loans is extended by 8 banks which in 1980 through 1983 had about 63% of the market against the other 60 banks providing 37%.

TABLE 1

SHARE OF THE COMMERCIAL BANKS WITH OUTSTANDING LOAN BALANCES OF MORE THAN
\$100 MILLION IN TOTAL DOMESTIC LOAN PORTFOLIO OF THE BANKING SYSTEM
(Millions of dollars)

	<u>1980</u>	<u>1981</u>	<u>1983</u>
1) BNP	408	648	877
2) Chase Manhattan	344	350	372
3) Bank of America	215	248	214
4) Citibank	213	243	224
5) Banco de Santander	120	123	95
6) Banco Exterior	111	153	186
7) Banco Fiduciario	102	107	152
8) Banco de Colombia	<u>93</u>	<u>101</u>	<u>104</u>
TOTAL	1,606	1,973	2,224
TOTAL BANKING SYSTEM	2,500	3,130	3,529

Source: Peat, Marwick, Mitchell & Co. Balance Sheet of Banks Operating in Panama.

With the exception of the BNP which is owned by the Government of Panama and carries the largest loan portfolio (16%, 21% and 24% in 1980, 1981 and 1983 respectively), all the other major banks are foreign owned.

c. Recourse to Foreign Savings

Because of the absence of restrictions in the movement of capital, the U.S. dollar being the currency of the country and foreign deposits being substantially more than foreign loans, Panama is in the enviable position of easy access to foreign savings for domestic loans. In the five years of 1979 to 1983 foreign deposits were about 40% to 80% higher than foreign credits. (Appendix 4) Conversely, in the eleven year period of 1970 to 1980 domestic credit was in every year in excess of domestic deposits. (Appendix 5)

In 1975 the relationship was \$1,525 million of credit against \$850 million of deposits or credit being 79 percent in excess of deposits. In 1981 and 1982 for the first time the outstanding balance of domestic credit was slightly less than domestic deposits. Preliminary figures for 1983 indicate the reversal to domestic credit exceeding domestic deposits by 5 percent.

The public sector has availed itself to a much larger extent of foreign deposits particularly from 1974 onwards. However the utilization of foreign funds by the private sector has also been very significant following the pattern of the relationship of total credit to total deposits. In the 1973 to 1975 period, domestic private credit was over 60 percent more than domestic private deposits (in 1974, credit \$1232 million, deposit \$728 million). Only in 1980 the situation was reversed and in 1982 domestic credit was only 4/5 of domestic deposits. This development reflects the recession in the economy of Panama and weak demand. While deposits continued to increase there was not a corresponding increase in credit. In December 1982 private deposit was 45% higher than December 1980, but domestic credit registered an increase of only 24 percent.

The annual growth of domestic credit in Panama was over 32 percent from 1970 to 1974. It dropped to 13 percent in 1975 and declined to 4 percent in 1978 when it started increasing again gradually to 24 percent in 1981. The increase in 1982 and 1983 was 6.5 and 5.4 percent. (Table 2)

TABLE 2
BALANCE OF OUTSTANDING CREDIT TO THE PRIVATE SECTOR BY THE COMMERCIAL BANKS
ACCORDING TO ECONOMIC ACTIVITIES 1970-1982
(Millions of dollars)

<u>Year</u>	<u>1970</u>	<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>1974</u>	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>
Total	420	563	766	1,026	1,352	1,525	1,628	1,766	1,843	2,133	2,531	3,146	3,351	3,533
Agriculture	37	.	65	80	97	119	111	120	133	145	162	206	217	216
Industry	32	.	45	46	89	126	133	137	185	214	265	283	263	264
Housing	40	56	99	143	232	288	292	336	353	421	466	513	552	617
Construction	16	33	21	42	56	83	78	73	64	67	97	147	151	164
Commerce	239	295	410	572	599	513	551	570	612	752	953	1197	1225	1146
Public Entities	12	30	52	55	120	236	340	401	365	351	391	572	700	882
Others	44	61	74	88	159	160	123	129	131	183	197	228	243	244

Source: National Banking Commission

d. Sectorial Distribution of Credit

The major portion of domestic credit in Panama is allocated to Commerce. However, its share which from 1970 to 1973 was about 55 percent has declined significantly and has been about 38 percent in the last few years. Housing and construction assumed greater importance with a rise from 13 percent of total credit in 1970 to 24 percent in 1975. In the last few years it has remained steady at about 22 percent. All through the period of 1970 to 1982 the share for agriculture has remained constant at about 7 percent. Domestic credit for industry declined from 7 percent to 4 percent between 1970 and 1973. It rose to 10 percent in 1980 and has been on the decline again to 9, and 8 and 7 percent in 1981, 1982 and 1983. Eight commercial banks provided almost all credit for agriculture and the bulk of credit to industry (4 banks predominate, reference to 8 banks is made because available information is consolidated in the 8 largest banks). In 1982 while their share of the total outstanding credit was 63 percent, they provided over 90 percent of the credit to agriculture and 77 percent of the credit to industry. Their share in housing, construction and commercial credit over the period of 1977 to 1982 has declined significantly.

This development can be explained by the fact that new banks shy away from credit to industry and agriculture and concentrate on housing, construction and loans for commerce. Unfortunately, information is not available on the extent commercial banks engage in development finance be it a new venture or expansion or replacement of an ongoing enterprise. Estimates provided by the very important banks suggest that in the case of one in 1982 loans with maturity of more than one year was about \$140 million and in the case of the other about \$155 million. In the case of the latter, it is reported that loans of maturity of more than five years was \$13 million, \$33 million and \$28 million in 1980, 1981 and 1982 respectively. A third bank reports loans with maturity of more than one year of \$65 million and of more than 3 years of \$40 million.

TABLE 3

PARTICIPATION OF 8 PRINCIPLE BANKS IN THE BALANCE OF OUTSTANDING CREDIT OF THE COMMERCIAL BANKS
ACCORDING TO MAJOR ECONOMIC ACTIVITIES, 1977 - 1982
 (Millions of Dollars)

	1977		1989		1979		1980		1981		Sept. 1982	
	<u>B.S.</u>	<u>8 Banks</u>										
Total	1,766	1,188	1,843	1,245	2,133	1,413	2,531	1,609	3,146	1,980	3,328	2,092
Agriculture	120	119	133	122	145	133	162	152	206	188	213	193
Industry	137	102	185	139	214	164	265	193	283	224	272	209
Housing	336	161	353	158	421	198	466	210	513	220	591	220
Construction	73	55	64	47	67	46	97	50	147	79	157	85
Commerce	570	384	612	418	752	466	953	555	1,197	634	1,221	684
Others	530	367	496	361	534	406	588	449	800	635	875	701

Source: National Banking Commission
 B.S.= Banking System

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2. Specialized Financial Institutions For Development Credit

Outside the commercial banking system, there are in Panama four institutions, three public and one private, which are engaged in medium and long term lending to manufacturing industries and agriculture. These are Corporacion Financiera Nacional (COFINA), Desarrollo Industrial, S.A. (DISA), Banca Industrial the industrial lending department of Banco Nacional de Panama, and the Agricultural Development Bank (Banco de Desarrollo Agropecuario-BDA).

a. COFINA

Wholly Government owned, was established in 1975 to perform the normal functions of a development bank. However, unfortunately, it has fallen on bad days, has a bad reputation in the banking and business community, and seeks its salvation in writing off its bad loans and restructuring the bank so that the private sector would be the major shareholders.

COFINA has suffered from change of management; 4 in 7 years, excessive turnover of its senior staff (of the 26 senior technical staff, 6 with the longest service have been with COFINA for 23 months and 9 with shortest service for 12 months), poor project evaluation, inadequate project supervision, and most serious of all extension of credit based on political considerations.

COFINA is not immune to accusations of outright favoritism and corruption. The constitution of COFINA allows for 8 Board members appointed by the President of the Republic. The majority of Board members have come from the private sector. The public sector has been represented by the Minister of Commerce and Industry and the General Manager of BNP.

The operating policy approved by the Board allowed for maximum exposure of \$4 million or 20% of capital and reserves to one client inclusive of guarantees and equity; up to 70% financing of total project cost and in no case more than 80%; equity participation in an enterprise up to 20% and in all not to exceed 75% of capital and reserves; furthermore equity participation in an enterprise not to exceed 25% of that companies capital stocks and finally COFINA's debts, inclusive of guarantees, would not exceed 5 times its capital and reserves.

COFINA was to concentrate on financing the needs of medium and large manufacturing industries. It would in the first instance provide finance for fixed capital and invite the commercial banks for the provision of working capital. The rate of interest charged by COFINA has been 13% plus 1% management fee.

The major sources of funds for COFINA have been the Government, through annual budgetary allocations, and the World Bank. USAID and commercial banks have also participated to a lesser extent. By December 1983 the capital and reserves of COFINA had dropped from \$27 million in June 1982 to \$14.7 million. In the same period loans outstanding \$69 million to \$34 million. Total amount borrowed from the World Bank was \$35 million.

As is evident from the figures there has been a sharp decline in COFINA's activity and equity since 1982. Compared to 1981 in which 69 loans for a total amount of \$36 million were approved, in the first half of 1982 only 22 loans for \$7 were approved. While at the end of 1980 COFINA's equity participation was \$5.2 million, it only increased by \$468,000 in the following two years (excluding a very large equity participation in Petroterminal de Panama, S.A.).

The average size of COFINA loans dropped sharply from over \$400,000 in 1978 to about \$150,000 in 1980. COFINA's net profit which in 1980 was \$1.9 million declined to \$58,000 in 1981. For 1983 COFINA reports a profit of \$42,000.

At present COFINA is out of funds. Of the second World Bank loan of \$20 million, \$13 million has already been disbursed and the rest is committed. The Government which provided COFINA with \$2 million last year, has not allocated anything for this year. COFINA did not make any loans in 1983 except for very small loans in the range of \$125,000 funded from a USAID loan.

In these circumstances the GOP is seeking the solution to COFINA's problems in the establishment of a new entity, BINSAs. Initially BINSAs would have a capital of \$30 million, \$10 million of which would be in common stocks with voting rights. The majority of the shares of BINSAs would be owned by private Panamanian banking and insurance companies (30%) and international financial institutions such as IFC, DEG, the Industrial Bank of Japan (30%). COFINA's participation would be 40%. At present COFINA is carrying on with minimal activity. It is reported that so far the reception to BINSAs has not been very enthusiastic. As for its contribution to development in Panama any judgement at this time would be premature.

b. Industrial Bank

This bank finances small and medium size industries. Out of 384 loans made to date 275 (72 percent) and out of \$32 million lent \$28 million (88 percent) are with maturities of over three years. Generally repayment extends to 7 or 8 years and contrary to the practice of the commercial banks which apply a fluctuating rate of interest based on LIBOR, Industrial Bank charges a fixed rate of interest.

Technical, economic and financial reviews of projects is carried out internally by the technical staff of the bank. However, the approach of the bank is far removed from the development financing approach. All loans are highly secured against other assets of the borrower.

It was reported that at present the bank has in the pipeline about 20 applications representing \$2 million in loan requests. Average size of loan is about \$350,000 and the maximum \$800,000.

Inter American Development Bank (IDB) has been the major source of funds for the Industrial Bank. The relationship started in 1964 with a loan of \$1 million, three subsequent loans of \$ 5 million, \$3 million, and \$12 million were granted in 1973, 1976 and 1980. The fifth IDB loan for \$15 million was signed in 1983. IDB funds would represent about 60 percent of the loans to be made by the Industrial Bank.

c. DISA

DISA is a private industrial credit institution founded in 1964 by a group of prominent Panamanian businessmen with an initial paid in capital of \$1 million. The source of funds for DISA was USAID and US Export-Import Bank. An initial USAID loan of \$5.1 million to be repaid in 20 years bearing an interest rate of 2 percent was supplemented with a second loan of \$4 million with the same maturity and 3 percent interest. The ExIm credit was for \$2.5 million. Two striking features of DISA operations are: a) a disproportionately large portion of DISA's credit was made to its major shareholders, b) because of a 9 percent ceiling imposed by the Government on the rate of interest chargeable by DISA, with the increase of interest rates on deposits, DISA instead of making industrial loans reduced its loan portfolio and maintained larger deposits.

Between June 1980 and 1983, the loan portfolio declined from \$3.4 million to \$1.9 million. Cash went up from \$3.1 million to \$4.0 million. Loans repayable were reduced from \$3.6 million to \$1.8 million. In the meantime stockholders' equity increased from \$4 million to \$4.6 million.

DISA wishes to become active in industrial lending again. The decline in interest rates and the circumventions of the 9% ceiling by various charges (such as management fee, etc.), or alternatively the removal of the 9 percent ceiling on interest chargeable by DISA could make industrial lending as profitable as maintaining deposits.

d. BDA

The Banco de Desarrollo Agropecuario was established in 1973 by the Government of Panama to centralize all of their agricultural credit activities in one autonomous institution under the policy guidance of the Minister of Agriculture. The Bank was formed to provide crop finance, development credit and technical assistance to small and medium size farmers and organized farmer groups (asentamientos, cooperativas).

BDA has 30 branch offices in the rural areas and a staff of 900 made up of 50 professionals, 350 field technicians and 500 administrative and support personnel. This group serves the 22,000 loans which the Bank has outstanding, 7,000 of which were made during 1982 for a total of \$ 49 million. About 90 percent of BDA loans are to very small farmers ranging from a few hundred to a few thousand dollars for one year. Larger loans, (\$30,000) are made only for livestock with maturity of up to 12 years. Interest varies between 11 to 13 percent. Taken in terms of the whole agricultural credit market the number of loans made by BDA is greater than all of the private banks together. In dollar terms BDA's share of agricultural credit was 23 percent in 1982. In crop finance, BDA's participation represents over 50 percent of the funds lent when sugar cane and bananas are excluded.

During the middle and late seventies the Bank was used extensively by the Ministry of Agriculture to attain program objectives by directing financial resources into priority sectors. A substantial portion of its credit facilities were utilized in support of newly organized farmer groups (cooperatives and asentamientos), and in providing working capital advances to other state enterprises (state seed company /ENASEM, the state agricultural machinery/INDEMA, COAGRO etc.) which supply goods and services to the banks' clients.

By 1982 the Bank had received over 31 million dollars in capital contributions (5.6 million in 1982) from the GOP bringing total equity in June 1983 to \$69 million. The other major source of funds of BDA has been IDB which has lent BDA a total of \$75.7 million, \$45 million of which was provided in 1981.

In the 1983, BDA disbursed \$38 million dollars in loans (down 23% from 1982), and no capital contribution from the GOP. Efforts will continue to increase the individual farmer client base and to strengthen basic field services.

3. Participating Banks

The Project assumes that the lenders to SSEs will be the commercial banks and the savings and credit cooperatives. In the section dealing with financial institutions in Panama the role of commercial banks, the savings and credit cooperative members of FEDPA and the financieras is described. This section deals briefly with the commercial banks which have expressed a strong interest in participating in this Project.

Including Banco Nacional de Panama (BNP), initially six banks would participate in the extension of credit to SSEs. These are, Chase Manhattan Bank, Banco Exterior, Banco del Comercio, Banco Comercial de Panama (BANCOMER) and Banco Internacional de Panama (BIPAN).

It is a reasonable assumption that in the initial stage of the implementation of the Project the participation of two well established banks with a network of branches in the major centers of population and activity would have been sufficient for the launching of the Project. It is encouraging to have had expression of interest by a much larger number, 5 of which have formally notified USAID of their agreement to the terms and conditions stipulated for participation in the operation.

With the exception of BNP which is a public institution, the other 5 banks are privately owned. Two of the 5, Bancomer and BIPAN are Panamanian, Chase is a U.S. bank, Exterior is Spanish and Banco del Comercio is Columbian.

These banks have altogether a total of 71 branches (BNP 47, Chase 11, Exterior 8, others 5) in every province and major urban center of the country. BNP and Chase are, according to their 1983 balance sheets, the first and second largest banks in terms of both domestic loans and deposits leading the other banks by a very large margin, and Banco Exterior is among the ten largest in terms of domestic deposits. BNP's domestic loan portfolio represents 25 % of the total domestic loan portfolio. The domestic loan portfolio of the other 5 banks equals \$ 655M and represents 18.6 % of the total domestic loan portfolio. Of the 5 banks, 4 have been already involved in loans to SSEs on a fairly large scale for an extended period. BIPAN has more recently experimented with this type of lending operation on a very selective basis.

TABLE 4

Description Assets	Consolidated Balance Sheet of Banks Operating in Panama December 1983	Banco Nacional de Panama 1	The Chase Manhattan Bank 2	Banco Exterior 3	Banco del Comercio 4	Banco Comercial de Panama (BANCOMER) 5	Banco Internacional de Panama (BIPAN) 6	Total Columns 2 to 6
Cash and Cash items	147,532	58,233	12,123	3,581	322	2,386	1,878	
Due from Banks and Financial Entities:								
Demand Deposits: Local	168,824	900	18,879	3,992	493	2,669	1,275	
Foreign	663,598	15,040	583	-	1,683	640	430	
Time Deposits: Local	1,260,218	90,440	14,500	3,390	30	12,525	13,850	
Foreign	9,662,306	156,195	151,500	8,920	6,838	14,044	-	
Certificate of Deposit	210,355	-	-	-	-	-	-	
	<u>11,965,301</u>	<u>262,575</u>	<u>185,462</u>	<u>16,302</u>	<u>9,044</u>	<u>29,878</u>	<u>15,555</u>	
LOANS: Local	3,529,293	876,739	371,920	186,032	8,371	48,437	40,257	655,017
Foreign	<u>21,936,373</u>	<u>6,123</u>	<u>18,164</u>	<u>103,087</u>	<u>115,778</u>	<u>29</u>	<u>2,736</u>	
	<u>25,465,666</u>	<u>882,862</u>	<u>390,084</u>	<u>289,119</u>	<u>124,149</u>	<u>48,466</u>	<u>42,993</u>	
LESS: Undisbursed Portion	150	-	-	-	-	-	-	
Provision for Unco- llectible Loans	237,560	-	2,296	-	1,700	25	436	
Unearned Interest	<u>29,755</u>	-	<u>3,495</u>	<u>632</u>	<u>31</u>	<u>195</u>	<u>28</u>	
	<u>25,198,201</u>	<u>882,862</u>	<u>384,293</u>	<u>288,487</u>	<u>122,418</u>	<u>48,246</u>	<u>42,459</u>	
Securities:								
Panama Government Notes	88,378	32,681	2,000	2,068	174	-	877	
Bonds and Other	<u>1,401,780</u>	-	-	<u>988</u>	-	<u>1,295</u>	<u>155</u>	
	<u>1,490,158</u>	<u>32,681</u>	<u>2,000</u>	<u>3,056</u>	<u>174</u>	<u>1,295</u>	<u>1,032</u>	
Securities Purchased Under Agreement to Resell	-	-	-	-	-	-	-	
Other Assets: International Monetary Funds	136,442	21,450	-	-	-	-	-	

TABLE 5

Description Assets	Consolidated Balance Sheet of Banks Operating in Panama December 1983	Banco Nacional de Panama 1	The Chase Manhattan Bank 2	Banco Exterior 3	Banco del Comercio 4	Banco Comercial de Panama (BANCOMER) 5	Banco Internacional de Panama (BIPAN) 6	Total Columns 2 to 6
Premises and Equipment	145,313	30,526	9,553	2,606	4,822	604	1,988	
Various Debtors	1,192,643	-	23,432	10,426	6,648	1,100	882	
Other	429,050	43,927	4,709	2,816	160	120	370	
	<u>1,903,448</u>	<u>95,903</u>	<u>37,694</u>	<u>15,848</u>	<u>11,630</u>	<u>1,824</u>	<u>3,240</u>	
Total Assets	<u>40,704,640</u>	<u>1,332,254</u>	<u>621,572</u>	<u>327,274</u>	<u>143,588</u>	<u>83,629</u>	<u>64,164</u>	<u>1,240,227</u>
Liabilities and Capital Due to Depositors:								
Demand Deposits: Local	700,472	339,305	65,492	20,396	535	9,252	6,648	102,323
Foreign	1,585,026	21,728	28,887	5,315	4,554	1,784	590	
Saving Deposits	283,051	-	55,080	6,518	143	1,299	344	
Time Deposits: Local	2,350,952	319,826	148,957	105,536	20,548	51,800	30,449	357,290
Foreign	29,321,938	-	271,429	169,126	96,963	10,674	18,900	
Certificate of Deposits	81,356	-	-	-	-	-	-	
Restrictive Deposits	167,141	-	1,434	-	-	-	-	
	<u>34,489,936</u>	<u>680,859</u>	<u>571,279</u>	<u>306,891</u>	<u>122,743</u>	<u>74,809</u>	<u>56,763</u>	
Obligations	3,182,304	514,744	-	-	-	-	-	
Other Liabilities and Reserves:								
Various Creditors	1,120,748	12,313	23,976	5,895	3,026	1,805	2,429	
Reserves	42,963	39,900	-	-	-	-	-	
Other Liabilities	317,857	9,294	10,958	2,655	254	813	-	
	<u>1,481,568</u>	<u>61,507</u>	<u>34,934</u>	<u>8,550</u>	<u>3,280</u>	<u>2,618</u>	<u>2,429</u>	
Capital and Capital Reserves:								
Capital	818,627	60,000	1,000	4,000	14,000	2,805	3,750	
Subordinated Notes	1,416	-	-	-	-	-	-	
Capital Reserves	246,301	15,144	14,359	5,330	-	-	250	
Retained Earnings	484,488	-	-	2,503	3,565	3,397	972	
	<u>1,550,832</u>	<u>75,144</u>	<u>15,359</u>	<u>11,833</u>	<u>17,565</u>	<u>6,202</u>	<u>4,972</u>	
Total Liabilities & Capital	<u>40,704,640</u>	<u>1,332,254</u>	<u>621,572</u>	<u>327,274</u>	<u>143,588</u>	<u>83,629</u>	<u>64,164</u>	<u>1,240,227</u>

4. Savings and Credit Cooperative Unions

Federacion de Cooperativas de Ahorros de Panama

There are in Panama 124 savings and credit cooperatives unions, 107 of which are affiliated with Federación de Cooperativas de Ahorros y Credito de Panama (FEDPA). Of these 107, 24 with a membership of 11,000 are open unions, and 83 with a membership of 31,000 are closed unions.

TABLE 6

DISTRIBUTION OF THE FEDERATED COOPERATIVAS AND NUMBER OF ASSOCIATES:
BY PROVINCE, TO DECEMBER 31, 1983

<u>Province</u>	<u>Open</u>		<u>Coops</u>	<u>Assoc.</u>	<u>Coops.</u>		<u>Assoc.</u>
Panama	6	810	60	20,768	66		21,578
Colon	-	-	3	352	3		352
Los Santos	8	3,782	1	830	9		4,612
Herrera	3	895	2	310	5		1,205
Cocle	1	241	3	1,660	4		1,901
Veraguas	1	330	2	2,550	3		2,880
Chiriquí	3	4,409	12	4,342	15		8,751
Bocas del Toro	2	402	-	-	2		402
TOTAL	24	10,869	83	30,812	107		41,681

Of all the unions, 66 are in Panama City with another 15 in the province of Chiriqui. Open unions are geographic in nature and accept for membership people in diverse activities. They are primarily located in rural areas. Membership in a closed union is usually restricted to employees of a particular organization. They are primarily located in urban areas.

Money borrowed from credit unions is ostensibly used for consumption and purchase of durable goods as well as medical care, upgrading of houses and construction of new houses. However, all unions, closed as well as open engage to some small extent in providing loans for acquisition of fixed assets and working capital requirements of small scale enterprises.

In December 1983 the outstanding loan portfolio of the credit unions stood at \$36M. Their share of capital was \$23M, loans received \$7.5M and reserves \$1M. Obviously, the major part of loans were financed from share capital. However, as the above figures indicate credit unions financed a significant portion (21%) of their lending operation from loans from FEDPA and a small amount from commercial banks.

There is a wide variation in the financial strength and level of operation of credit unions with total assets of \$43M in December 1983, 12 unions with assets of over \$1M accounted for \$28M in assets or over 60 percent of the total. 39 unions with assets of less than \$100,000 accounted for \$1.7M or 4 percent of the total assets.

Each credit union has its own constitution and rules and regulations for its lending operations i.e. the amount loaned to a member, the ceiling for loans, maturity, rate of interest, distribution of profits etc. The differences are significant. For example the interest charged can vary between 1% and 2% per month on outstanding balances. However, by and large the amount of the loan does not exceed 5 times the value of shares held by the borrower, maturity is 24 to 30 months, interest charged is 13.5% and 10% of the loan received should be invested in new shares.

It would seem that in the last few years the Credit Unions have had an upsurge of activities as indicated in the following figures. Between 1982 and 1983 membership in FEDPA increased by 9 from 98 to 107, shareholding in FEDPA increased by \$538,000 from \$2.8M to \$3.3M; number of members increased by 2,464 from 39,217 to 41,681; and accumulated loans increased by \$32.5M from \$189.6 to \$222.1.

TABLE 7

FEDERACION DE COOPERATIVAS DE AHORROS Y CREDITO DE PANAMA, R.L.
XXIII ASAMBLEA ANUAL
DESARROLLO DE LA FEDERACION

<u>Detail</u>	<u>1982</u>	<u>1983</u>	<u>Increase</u>	<u>%</u>
Affiliated Coops.	98	107	9	9.2
Membership fee (shares) of Coops. in the Federation	2,789,856.92	3,328,197.36	538,340.44	19.
Accumulated loans from Federation to Coops.	54,614,421.89	60,840,565.49	6,226,143.60	11.4
Number of members of affiliated Coops.	39,217	41,681	2,464	6.3
Shares & Savings of Affiliated Coops.	27,594,967.32	32,312,854.94	4,717,887.62	17.1
Accumulated loans of Affiliated Coops.	189,584,370.00	222,116,727.59	32,532,357.59	17.2

In 1983 about 70 percent of the loans made were for 7 major activities. In order of their importance these were: rent and housing improvements 32%, installment purchase 10%, personal car-9%, travel, wedding, and vacation-7%, medical services 5.6%, educational-4% and working capital-3.2%.

Supervision of the cooperatives is the responsibility of El Instituto Panameño Autonomo Cooperativo (IPACCOOP) a state agency created in July 1980. IPACCOOP has a Board of Directors of 4 ministers and 3 representatives from cooperative federations with the Minister of Planning as the Chairman. IPACCOOPs primary responsibility is the regulation of individual cooperatives, but it also is charged with the provision of technical assistance and training in the areas of legal assistance, auditing, accounting, budget, program development and other institution building activities.

FEDPA is the federation of 107 credit unions. It is governed by a Board of 9 members, one elected by the credit unions of each province. The Board appoints the General Manager of FEDPA. FEDPA was established 23 years ago (1961).

FEDPA maximum loan to a credit worthy member is 3 times its net work (capital and reserves). These funds are also used by credit unions for agricultural loans, fixed assets in small business and working capital. FEDPA loans for agriculture and small business have a maturity of 54 months, and for working capital 42 months. The rate of interest charged is 10.5 percent. FEDPA's reserves equal 3% of the total balance of its loans. The law provides that of FEDPA's profits 35% should be allocated to reserves and 65% can be distributed. The largest amount of a loan made by FEDPA was \$1.5M and the smallest \$750,000

FEDPA's resources consist of 5% of the shares of the member credit unions, additional 5% in shares of the amount credit unions borrow from FEDPA as well as long terms loans from AID, COLAC and Banco de Desarrollo Agropecuario (BDA). FEDPA loans from these organizations were \$1.9M, \$3M and \$2.1M respectively. FEDPA has also borrowed a few hundred thousand dollars on a short term basis from commercial banks. In December 1983 the outstanding balance of loans payable was \$4.3M.

FEDPA had 19 applications for loans in 1983 from 15 members Cooperatives for the total amount of \$3.56 M. With the exception of one application that was pending at the end of the year, the rest adding up to \$3.51, were approved. FEDPA's disbursements of loans in 1983 was \$6.2M.

The following table gives the number amount and annual change in approved loans from 1965 to 1983.

TABLE 8

NUMBER, AMOUNT AND ANNUAL PERCENTAGE CHANGE OF LOANS
APPROVED BY THE CREDIT COMMITTEE
FROM 1965 - 1983

<u>Year</u>	<u>Number of Loans</u>	<u>Amount</u>	<u>Annual</u>
1965	2	1,500.00	-
1966	6	27,400.00	1,726.7
1967	8	28,500.00	4.0
1968	12	56,100.00	96.8
1969	17	95,295.00	69.9
1970	14	101,809.00	6.8
1971	29	1,197,750.00	1,076.5
1972	19	745,430.00	(37.8)
1973	14	773,871.00	3.8
1974	24	1,282,550.00	65.7
1975	21	2,958,210.56	130.7
1976	14	2,346,407.20	(20.70)
1977	21	2,288,260.13	(2.5)
1978	19	3,632,305.00	58.7
1979	29	5,642,914.00	55.4
1980	24	3,658,454.00	(35.2)
1981	16	4,853,350.00	32.7
1982	14	3,119,157.00	(35.7)
1983	15	3,510,317.00	12.5

Source: FEDPA Annual Report 1983.

In December 1983 the total assets of FEDPA was \$9.45M of which \$7.46M was loans to credit unions. FEDPA's capital and undistributed profits in December 1983 was \$3.7M.

5. Financieras

Financieras are financial institutions that specialize primarily in small consumer loans to salaried individuals, mostly government employees. At present there are 94 financieras in Panama; 76 in Panama City and 18 in the interior. Of these 6 financieras belong to banks and are primarily engaged in the financing of the purchase of cars. Some financieras belong to a group of manufacturing establishments and make loans to the staff of those companies.

MICI issues the licence for the establishment of financieras and supervises their activities. Licence is issued to any applicant of good character able to mobilize a minimum capital of \$50,000. Except for one financiera with capital of \$1M the majority of them have a capital of \$100,000 to \$300,000. Besides the capital and undistributed profits the major source of funds for financieras is money borrowed from the banks. The cost of money from banks varies between 13 1/2% to 16%. Financieras are not allowed to take deposits.

The law regulates the maximum amount permissible for lending to an individual and the maximum interest and commission that can be charged. Amortization should not exceed 35% of monthly salary, interest no more than 1 1/2% per month and commission 5%. Since the interest and commission are charged up front, the cost of money to the borrower is exorbitant. Following examples are typical of lending transactions of financieras.

a.	Total obligation of Client	<u>\$2,692.44</u>
	Interest	807.82
	Commission 5%	134.62
	Amount received by Client	1,750.00
	Payments: 74.79 every two weeks in 18 months	
	Effective rate of interest: 35%	
b.	Total obligation of Client	<u>270.24</u>
	Interest	56.73
	Commission: 5%	13.51
	Amount received by Client	200.00
	Payments: \$11.26 every two weeks in 12 months	
	Effective rate of interest: 26%.	

The following two tables present the balance sheets and profit and loss statements of 3 representative financieras, large, medium and small as presented to MICI.

TABLE 9

BALANCE SHEET OF 3 FINANCIERAS

<u>Enterprise</u>	<u>Large (B/.)</u>	<u>Medium (B/.)</u>	<u>Small (B/.)</u>
<u>Assets</u>			
Cash	24,473	4,127	77,607
Loans and Accounts Receivable	5,797,632	792,335	344,623
<u>Less:</u>			
Interest	2,465,530	282,100	39,389
Loans receivable, net	3,332,102	510,235	305,234
Interest and Accounts receivable, others	402,801	11,446	---
Loans and Accounts receivable, net	3,734,903	521,681	305,234
Expenses paid in advance	26,952	382	25,269
Investments	56,936	--	--
Building, furniture, equipment and improvements	174,398	19,088	20,443
<u>Less:</u>			
Accumulated Depreciation	88,884	4,577	8,753
Building, furniture, equipment and improvements, net	85,514	14,511	11,690
Other assets	11,229	2,4071	2,423
<u>TOTAL ASSETS</u>	<u>3,943,007</u>	<u>543,108</u>	<u>422,313</u>
<u>Liabilities and Net Work of Stockholders Equity</u>			
<u>Liabilities</u>			
Obligations to banks	47,551	286,974	--
Accumulated Accounts and expenses payable	3,218,820	51,649	101,617
Income Tax payable	---	19,860	---
<u>TOTAL LIABILITIES</u>	<u>3,266,371</u>	<u>358,483</u>	<u>101,617</u>
<u>Stockholders Equity</u>			
Paid in Capital	500,000	120,000	50,000
Loan to Stockholder	--	(25,000)	---
Retained Earnings	176,636	89,625	270,696
<u>TOTAL OF STOCKHOLDERS' EQUITY</u>	<u>676,636</u>	<u>184,625</u>	<u>320,696</u>
<u>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</u>	<u>3,943,007</u>	<u>543,108</u>	<u>422,313</u>

- Notes: 1) The size of the enterprise is related to paid in capital.
2) In each column information related to one (1) enterprise is presented.
3) There are errors in the original balance sheets submitted by MICI.
- Source: Dirección de Empresas Financieras, Dirección Nacional de Finanzas, Ministerio de Comercio e Industrias.

Table 10

PROFIT AND LOSS STATEMENT OF 3 FINANCIERAS

	1982		
	<u>Enterprise Large</u>	<u>Enterprise Medium</u>	<u>Enterprise Small</u>
INCOME			
Interest Income, loans	1,640,989	209,082	130,620
Fees and Commissions-loans	251,730	26,464	35,046
Other Income	<u>5,595</u>	<u>20,074</u>	<u>1,046</u>
TOTAL INCOME	1,894,314	255,620	166,712
Cost of Operation:			
Interest	545,526	41,178	2,101
Bad Debts	83,894	5,379	1,656
Operational Administrative Expenses	1,097,440	98,353	121,682
Depreciation and Amortization	<u>16,205</u>	<u>1,632</u>	<u>2,333</u>
TOTAL OPERATIONAL EXPENSES	1,743,065	146,542	127,772
Profits before Taxes	155,249	109,078	38,940
Less:			
Income Tax	<u>51,862</u>	<u>31,151</u>	<u>8,683</u>
Net Profit	103,387	77,927	30,257
Profits undistributed at the beginning of year	73,249	56,144	260,439
Less:			
Dividends	<u>--</u>	<u>44,446</u>	<u>20,000</u>
Profits undistributed at the end of the year	176,636	89,625	270,696

Notes: 1) The size of the enterprise is related to paid capital.
2) In each column information related to one (1) enterprise is presented.
3) There are errors in the original balance sheets submitted by MICI.

Source: Dirección de Empresas Financieras, Dirección Nacional de Finanzas, Ministerio de Comercio e Industrias.

The following tables are the balance sheet and profit and loss statement of all financieras in Panama

TABLE 11

MINISTERIO DE COMERCIO E INDUSTRIAS
DIRECCION NACIONAL DE FINANZAS

CONSOLIDATED BALANCE SHEET OF FINANCIERAS
(In Balboas)

<u>Assets</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>
Cash	6,478,380	6,713,114	7,044,913	3,796,420
Loans &				
Accounts Receivable	51,602,225	66,897,110	70,547,508	78,219,342
Investments	7,496,747	6,478,040	6,161,017	5,182,776
Building, Furniture				
& Equipment	1,907,019	3,955,587	3,271,154	6,350,497
Other Assets	5,107,092	6,710,553	4,150,308	4,572,174
TOTAL ASSETS	72,591,463	90,754,404	91,624,900	98,121,199
 <u>Liabilities and Stockholder's</u>				
<u>Equity</u>				
Loan payable	43,328,524	51,209,378	49,911,007	46,442,957
Account Payable and				
Accumulated Expenses	8,667,889	12,713,217	9,792,708	21,548,402
Other Liabilities	<u>5,191,205</u>	<u>8,445,791</u>	<u>9,934,359</u>	<u>5,300,329</u>
TOTAL LIABILITIES	57,187,618	72,368,386	69,638,074	73,291,688
Paid in Capital	10,530,521	13,110,521	14,245,160	15,959,481
Retained Earning	<u>4,873,324</u>	<u>5,275,497</u>	<u>7,741,666</u>	<u>8,870,030</u>
TOTAL STOCKHOLDERS'				
 EQUITY	15,403,845	18,386,018	21,986,826	24,829,511
TOTAL LIABILITIES AND				
 STOCKHOLDERS' EQUITY	<u>72,591,463</u>	<u>90,754,404</u>	<u>91,624,900</u>	<u>98,121,199</u>

Note: Number of Companies in operation per year.

1979	60
1980	65
1981	78
1982	88

Note: 1) There are errors in the original balance sheets submitted by MICI.
Source: Statement of Financieras presented to the Dirección de Empresas Financieras.

TABLE 12

MINISTERIO DE COMERCIO E INDUSTRIAS
DIRECCION NACIONAL DE FINANZAS
DIRECCION DE EMPRESAS FINANCIERAS

CONSOLIDATED PROFIT AND LOSS STATEMENT OF FINANCIERAS
YEARS: 1980 - 1981- 1982
(In Balboas)

	<u>1980</u>	<u>1981</u>	<u>1982</u>
Income			
Interest on Loans	12,249,425	15,193,943	17,363,494
Fees and Commissions	1,228,731	1,639,649	1,845,631
Other Income	3,583,153	3,083,319	5,656,072
Interest on Time Deposit	697,803	475,885	305,208
Dividends	<u>311,444</u>	<u>331,721</u>	<u>379,943</u>
TOTAL INCOME	<u>18,070,556</u>	<u>20,679,517</u>	<u>25,550,348</u>
Operating Expenses:			
Interest	6,793,562	7,807,031	8,278,542
Bad Accounts	593,094	577,646	662,450
Administration and General Expenses	7,101,592	7,405,755	10,000,357
Depreciation and Amortization	186,926	373,317	535,575
Others	<u>861,478</u>	<u>744,605</u>	<u>2,129,705</u>
TOTAL OPERATING EXPENSES	15,482,652	16,908,354	21,606,629
Profits before Income Tax	2,587,904	3,771,163	3,943,719
Less: Income Tax	726,104	1,138,957	1,083,830
Extraordinary Items	<u>(25,303)</u>	<u>71,842</u>	<u>(7,045)</u>
Net Profit	1,836,497	2,704,048	2,852,844
Retained Earnings at the beginning of year	4,366,862	5,578,098	7,418,555
Less: Dividends	903,956	623,035	1,438,014
Adjustment from previous years	<u>93,739</u>	<u>16,457</u>	<u>10,995</u>
Retained Earnings year end	5,205,664	7,642,654	8,822,390

Note: Number of Companies in operation by year.

1980	65
1981	78
1982	88

Note: 1) There are errors in the original balance sheets submitted by MICI.
Source: Statements of Financieras presented to the Dirección de Empresas Financieras.

It will be observed that the aggregate assets of financieras, \$98.M in 1983, was equal to 0.25 percent of the assets of the commercial banks.

The outstanding loan portfolio of the financieras, \$78M, was equal to 2.2 percent of the total domestic loan portfolio of the commercial banks.

(DOC. 4546P)

ANNEX B

TECHNICAL ANALYSIS

SECTION 3

BUSINESS ASSISTANCE COMPONENT

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B U S I N E S S A S S I S T A N C E C O M P O N E N T

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BUSINESS ASSISTANCE COMPONENT (BAC)

Section 3 of Annex B provides the supporting documentation of the Business Assistance Component described in the Project Paper.

A. Problems

Two of the major constraints for effective Small Scale Enterprise (SSE) lending, lack of collateral and high loan transaction costs are addressed through the Guarantee Fund and Loan Fund elements of this Project. The third, limited business skills of the SSE sector, is addressed in this Project component.

Private Financial Institutions (PFI) hold that SSE entrepreneurs are devoid of basic business management skills and therefore are reluctant to have them as clients. These perceptions have been confirmed by USAID contractors after having made a series of group interviews throughout Panama. Their findings indicate that micro and small businesses recognize their present managerial limitations and place high priority on receiving business assistance in loan applications, financial and business planning, management and control. The PFIs indicated that SSEs so assisted would be more credible loan applicants.

B. Purpose

The purpose of this component is to establish an institutional mechanism within five (5) years which will be able to provide direct business and financial management technical assistance to 2,000 Small Business Entrepreneurs per year to enable them to:

- improve their business and financial management skills,
- apply for a loan under this Project, and
- manage their loan payments.

C. Function

The Business Assistance Component of the Project will:

- be an intermediary between participating Private Financial Institutions and SSEs.
- advocate for SSEs.
- provide data to the GOP/MICI and USAID on Project activities.
- be the Technical Secretariate to the small Business Council
- conduct an Outreach Program that will inform the SSE community about the Project and its services.

- identify the business development skills the SSE community needs to both manage and increase the market potential of their businesses.
- develop a business assistance mechanism which will avail of the resources of business organizations such as APEDE and UNPYME to provide training and technical assistance to the SSEs.
- develop a Panamanian Inventory of Small Scale Enterprises to document the support that small enterprises provide for the total economy - Union Nacional de Pequeña y Mediana Empresas (UNPYME).
- identify ways the SSE community can expand its economic base through procurement opportunities, joint ventures, and business expansion.
- identify SSE business and financial management problems to the Consejo Nacional de la Pequeña Empresa which will assist them in their intermediary capacity with the participating Private Financial Institutions and the GOP.

D. Beneficiaries

All micro and small business entrepreneurs who:

1. Approach the Business Development Resource Centers for business and financial assistance on their own behalf.
2. Approach Private Financial Institutions for financial assistance, but for various reasons need prior business technical assistance, to qualify for a loan and are referred to a Center.
3. Are referred by third party agencies, i.e.: UNPYME, APEDE for assistance.

E. Organization

The mission has reviewed various organization alternatives and selected the Ministry of Commerce and Industry (MICI) to coordinate the BAC. The major reasons that support the decision are the following:

1. The enabling legislation of May 10, 1979 reflected in MICI's charter assigns primal responsibility to this agency for the provision of credit and technical assistance to SETs.
2. The Project will ensure a major policy reform within the GOP. MICI will phase out its credit program and concentrate its efforts in business and technical assistance, thus encouraging the Private Financial Institution to provide capital and credit expertise for the development of small businesses.

3. MICI presides over the Consejo Nacional de la Pequeña Empresa and acts as its Technical Secretariate. This Project will provide the necessary information needed so that the Council may recommend program and policy modifications to the GOP to create a climate conducive to the growth and development of small business.

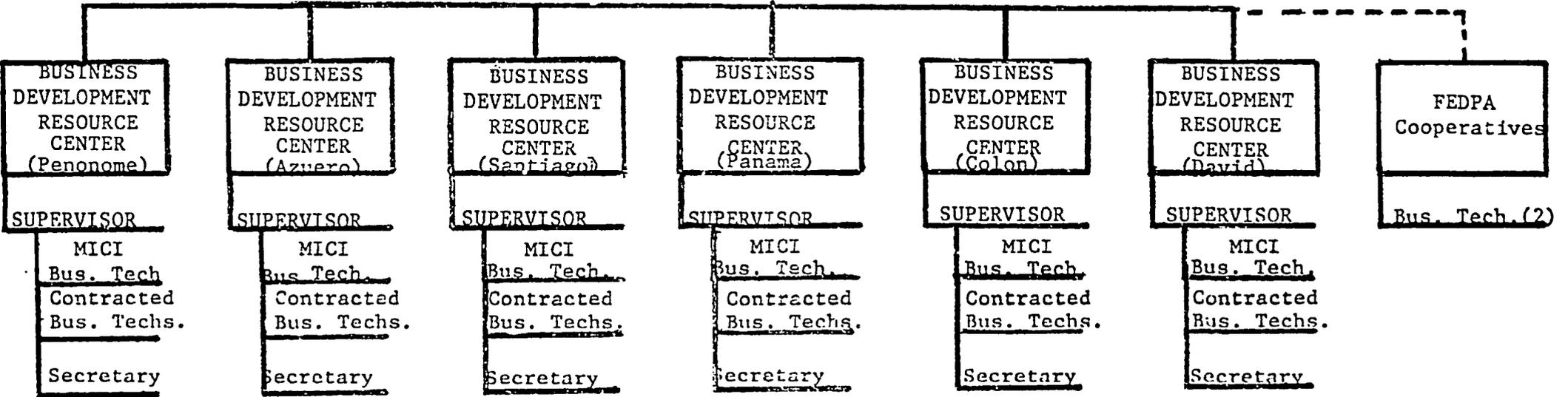
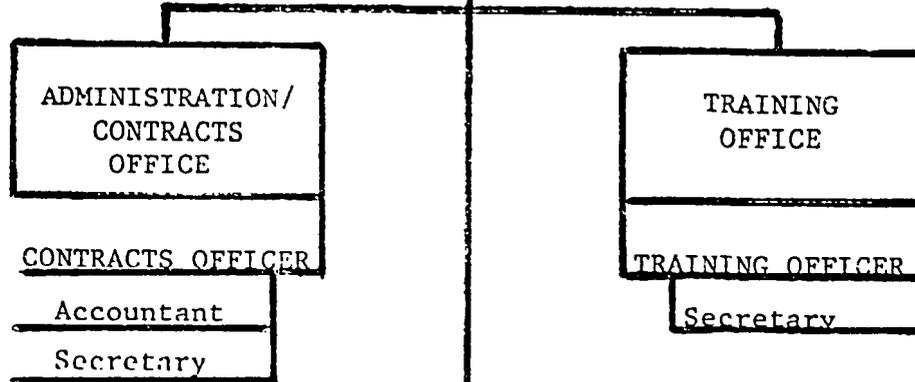
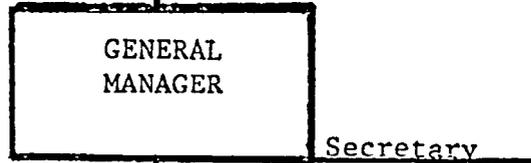
4. The Business Assistance Component is not financially self sufficient and its operating expenses will be absorbed by the GOP, but it can become self-supporting if the technical services provided to SSEs are of a calibre that merit fees for service from SSEs in the future.

5. It is the GOP responsibility to provide training and education for its people and this is the major thrust of the business assistance component.

6. MICI has physical office infrastructure throughout the country.

The organizational structure of the Business Assistance Component is reflected in the following diagram.

BUSINESS ASSISTANCE COMPONENT ORGANIZATION



1. Small Business Council

Major Function:

An advisory group to the GOP/MICI which provides counsel on Project policies and activities consistent with the GOP/USAID Project Participation Agreement.

Major Duties:

Review and recommend improvement of Project policies, procedures, systems, methods, and organizational relationships.

Prepare recommendations, propose plans and programs, and provide advice in their implementation.

Counsel Project management in its analysis, planning, organizing and controlling functions.

Introduce new ideas, concepts and methods to Project management.

Monitor Project activities of participating agencies and organizations.

Maintain interagency cooperation between the GOP/MICI, USAID, Participating Financial Institutions, and private small business groups and organizations.

Advocate for the concerns of the private small business sector.

Identify ways the private small business sector can expand its economic base and create more employment.

Members: Asociación Panameña de Ejecutivos de Empresa (APEDE)
Sindicato Industrial de Panama (SIP)
Cámara de Comercio
Comisión Bancaria Nacional
Ministerio de Trabajo y Bienestar Social (MITRAB)
Unión Nacional de Pequeña y Mediana Empresa (UNPYME)
Dirección General de la Pequeña Empresa (DGPE)

Chairperson: Minister of the Ministerio de Comercio e Industrias (MICI) or MICI designate.

Secretariate: The General Manager of the Business Assistance Component of the Project.

2. Central Office/General Manager

Major Function:

Direct, supervise, and monitor the activities of the three operating units of the Business Assistance Component of the Project.

Major Duties:

Implement Project policies and procedures.

Provide overall management and supervision of Project personnel and activities.

Technical secretariate to the Consejo Nacional de la Pequeña Empresa.

Coordinate with UNPYME and APEDE in BAC outreach and training activities.

Monitor and report on progress of the long and short range plans of the Project.

3. Training Office

Major Function:

Coordinate and provide the training required to support the implementation of the BAC for both Project staff and SSEs.

Major Duties:

Identify training needs and institutions that can provide the service.

Arrange periodic training programs together with other institutions e.g. UNPYME, APEDE.

Report, evaluate and adjust the business assistance training program.

Select technicians to develop the content and materials for the training courses.

Maintain records of personnel that have been trained.

4. Administrative/Contract Office

Major Function:

Provide full administrative Financial contract and procurement support to the BAC.

Major Duties:

Preparation of the Annual Budget.

Maintain accounts of the BAC funds.

Prepare checks and pay expenditures in accordance with the budget.

Prepare the payroll and distribute the payroll and contract reimbursement checks.

Maintain Project personnel records.

Process requests for advance funds, or request for reimbursements.

Provide financial information to the manager.

Prepare reimbursement request for AID.

Prepare contracts for the technicians and institutions to be utilized in the Project.

5. Field Offices - six (6) regional Business Development Resource Centers throughout the country.

Major Function:

Provide consultation and business assistance directly to SSEs.

Major Duties:

Perform SSE business assessments

Assess feasibility of SSE business plans.

Assist in preparation of credit applications.

Establish elementary accounting books in the SSEs.

Provide general consultation on administrative, accounting and financial aspects of small business.

Collect statistical information for overall Project monitoring and evaluation.

6. FEDPA (Federación de Cooperativas de Ahorro y Crédito de Panamá)

FEDPA will have two major responsibilities in the implementation of the Project; a) to channel funds to the credit unions (cooperatives) which participate in the project (these functions are described Section V of the Project Paper) and, b) to provide technical assistance to the credit union and affiliated members.

Major Function:

Establish a project referral system within its members and promote the project and increase FEDPA's membership.

Major Duties:

Provide information and assistance to the affiliated cooperatives on the advantages of the project for its members.

Assists the cooperatives and affiliated members in performing business assessments.

Assess feasibility of the business plan and, if the project is profitable, assist in the preparation of the credit application.

Establish elementary accounting books in the SSEs.

Provide general consultation on administrative, accounting and financial aspects of small business.

The Project will finance for a period of 3 years two field technicians from the federation of cooperatives in Panama, (FEDPA) for the purpose of assisting the individual cooperatives in the financial analysis of the loan applications they receive. During the first year of operation this technician will be contracted with project funds. At the beginning of the 2nd year two additional technicians will be contracted for a total of 4 technicians up to and during the third year of project implementation. FEDPA will assume the cost of the technicians at the beginning of the 4th year.

F. Staffing

1. Central Office

The Central Office of the Project will be managed and maintained by the General Manager who will be responsible for directing and supervising the three operating units of the Business Assistance Component. A full description of the position and its specifications is as follows:

Job Title: General Manager

Statement of the Job:

Provide the overall management and direction for the Business Assistance Component (BAC) and the Business Development Resource Centers (BDRC) according to policies and contract agreement of the joint-sponsored GOP/USAID Small Business Development Project of the Ministerio de Comercio e Industrias (MICI).

Major Duties and Responsibilities:

1. Implement the policies and procedures established by the Ministerio de Comercio e Industrias and the Consejo Nacional de la Pequeña Empresa for the Business Assistance Component of the Small Business Development Project.
2. Ensure that the BAC goals and objectives are accomplished within the predetermined personnel and performance requirements, budget limitations, and time schedules of the Business Assistance Component.
3. Provide the overall management and supervision for the administrative personnel of the BAC central office and the personnel and contractual technicians of the Business Development Resource Centers.
4. Represent the MICI and the BAC administration to the business, financial, and social sectors of the national, provincial, and local communities.
5. Monitor the long and short range plans of BAC and its BDRC's and report progress, deviations, problems, and contemplated changes in plans to MICI and the SBC.
6. Ensure that the administration and management of BAC central office and the BDRC's are in compliance with the contractual agreement between the GOP/MICI and USAID/.
7. Assist UNPYME in their nationwide small business outreach and advocacy program which both identifies and speaks for the small business entrepreneurs.
8. Implement and monitor a small business client referral system between PFIs, FEDPA, MICI field offices, APEDE, UNPYME, and other business and social groups.
9. Sits on the Consejo Nacional de la Pequeña Empresa as the technical secretariat, a non-voting member, representing the Business Assistance Component and the Small Business Development Resource Centers.

Reporting and Supervisory Responsibilities

1. Reports directly to the National Business Development Directorate of the Ministerio de Comercio e Industrias.
2. Reports to the Consejo Nacional de la Pequeña Empresa.
3. Supervises all activities and personnel of the Business Assistance Component of MICI.
4. Retains complete responsibility for the performance and personnel of the BAC. However, may delegate authority, but can never delegate responsibility to other administrators of the BAC.

Educational Requirements:

Masters Degree in Business Administration (MBA) or in any business related field.

Experience Requirements:

- 5 years experience in administration and management of similar government development projects, and/or
- 5 years management, supervision, and public relations experience in the business field.

(Additional 5 years of experience in the above areas will be considered in lieu of a Master Degree).

Knowledge/Skills Requirements:

Must know how to:

- Work within the national government structure.
- Relate with boards of directors, councils or committees, business and social organizations, etc.
- Control budgets, monitor personnel performance, and work within time frames.
- Manage and supervise hired personnel and contractuals,
- Develop long and short-range plans
- Comply with contract agreements
- Develop public relations programs
- Design training programs.

Personal Requirements:

- Ability to work long hours, at times on Saturdays and Sundays.
- Ability to work under time pressure of deadline with flexibility and accuracy.
- Must have a pleasant, but firm personality
- Belief in team management and leadership
- Able to meet both job requirements and family responsibilities without detriment to job or family.

Salary Range:

Up to \$2,000 per month, gross take home pay.

2. Training Office

This office is managed and supervised by a Training Officer who will be responsible for ensuring that all training needs of the Project personnel and the SSEs are fulfilled through the Business Assistance Component. A full description of the position and its specifications is as follows:

Job Title: Training Officer

Statement of the Job:

Coordinate all training requirements of the direct hire and contracted personell of the Business Assistance Component and the conferences and training seminars for the small business owners served under this project.

Major Duties and Responsibilities:

1. Establish and operate a Training Office which will address the training and technical assistance needs of the Business Assistance Component (BAC).
2. Identify the training needs of the direct hire and contracted personnel of the BAC which will enable them to provide quality business and financial management services to the small business owners served by the BAC.
3. Develop a detailed training plan with objectives, content, and methodology based on the training needs identified in the Business Assistance Component.
4. Identify business and financial management training and technical assistance resource groups and individuals who can provide the quality training needed by BAC personnel and clients.
5. Design and manage a training delivery system which meets the identified training needs of the BAC and leads to the accomplishment of the BAC goals and objectives.
6. Design and implement a training evaluation plan which will enable the training office to determine the effects of the training program and provide the information necessary to make progressive adjustments.
7. Develop a public relations program which will maintain the active utilization and involvement of the training and technical assistance resource groups and individuals in the BAC training program..
8. Develop and maintain a directory of all training and technical assistance resource groups and individuals which can assist the BAC meet its goals and objectives.

9. Develop a list of facilities (training sites) in the areas served by the Business Development Resource Centers which are available and provide an environment conducive for group training.
10. Provide the Project's management information system with the information needed to monitor the efforts of the BAC training office on a regular basis and to conduct an evaluation of the BAC in the third and fifth year of the Project.

Reporting and Supervisory Responsibilities:

1. Reports directly to the BAC General Manager.
2. Supervises and directs the activities of training office personnel.
3. Supervises the training activities of training and technical assistance resource groups and individuals with the assistance of the supervisors of the BDRCs.

Educational Requirements:

Masters Degree in Business Administration or in any business related field, and/or

Membership with Certificate from a Management Development Institute or Society for Training and Development.

Experience Requirements:

- 5 years of experience in business management and finances, marketing and sales management.
- 5 years of experience as a trainer in Human Resource Development, Business and Financial Management
- Additional 3 years of experience in these areas will be considered in lieu of a Master's Degree.

Knowledge/Skills Requirements:

Must know how to:

- Relate sensitively to the small business owner.
- Develop rapport with training and technical assistance resource groups and individuals.
- Develop a viable working relationship with supervisors, peers, and personnel.
- Organize Organizational Development Training, Sensitivity Training, Human Resource Development Training, and Management, Business, and Sales education programs.

- Conduct training needs assessment.
- Monitor personnel performance, control budgets, and work within time frames.

Personal Requirements:

- Able to work long hours, and on occasion Saturdays and Sundays.
- Function comfortably under time constraints.
- Pleasant but firm personality.
- Leadership abilities for team training.
- Capable of working with all types of people.
- Able to travel without advance notice.

Salary Range:

Up to \$1100 per month, gross take home pay.

3. Administrative/Contracts Office

This office and its functions will be managed and supervised by the Administrative and Contracts Officer who will be responsible for providing the administrative, contract, and procurement support of the Business Assistance Component. A full description of the position and its specifications is as follows:

Job Title: Administration/Contracts Officer (Controller)

Statement of the Job:

Provide the day-to-day financial management and planning of the budget and procurement support required by the BAC to attain its purpose, goals, and objectives and meet its contractual obligations.

Major Duties and Responsibilities:

1. Prepare all financial data useful to the BAC management at all levels for long and short range strategic planning and periodically for evaluating alternatives in financial terms.
2. Prepare the BAC annual budget for submission to the General Manager as a coordinated financial plan of operations in statements of income and expenses.
3. Establish a management accounting system that will promptly provide the BAC management with information to report to the Consejo Nacional de la Pequeña Empresa, the National Business Development Directorate and USAID, and to know when current results deviate significantly from planned results.

4. Develop a financial accounting system that will record revenues, expenses, assets, liabilities, and net worth and produce summary financial reports.
5. Design a cost accounting system for current, standard, and prospective BAC costs that provides a cost analysis for all levels of management within the organization.
6. Install a financial data processing system that will record accounting data, prepare payrolls, and produce reports from the recorded financial data, and administer business technician contracts and other BAC payments.
7. Organize an internal auditing system which will review and appraise the accounting procedures and records to ascertain their reliability, conformance with prescribed practices, and adequacy to protect against loss of funds by fraud, waste, and other causes.
8. Assemble and consolidate budgets to assist BAC management to translate operating plans into financial budgets, and analyze and report budget variances.
9. Institute financial analysis procedure that will help BAC management to interpret and evaluate all types of BAC financial data, and assess proposed projects, plans and procedures in financial terms.
10. Supervise and direct the personnel of administration and contracts office to ensure that their BAC activities are performed according to BAC policies and procedures, planned performance requirements, budget limitations, and time schedules.

Reporting and Supervisory Responsibilities:

1. Report directly to the BAC General Manager.
2. Supervise and direct the administration and contracts office personnel.
3. Monitor the expenses and reports of business technicians contracted by the Business Development Resource Centers

Educational Requirements:

Certified Public Account

Experience Requirements:

- 5 years of experience in government finances, contracts management, and financial data processing.
- 3 years of experience in business finances, accounting, and auditing.

Knowledge/Skills Requirements:

Must know how to:

- Develop a viable working relationship with superiors, peers, and personnel.
- Administer management accounting.
- Conduct financial analysis, cost accounting and analysis, and statistical accounting.
- Develop budgets.
- Establish internal audit procedures.

Personal Requirements:

- Willing to work long hours, and on occasion Saturdays and Sundays.
- Able to function under time constraints.
- Honest, person of principle.
- Pleasant, but firm personality.
- Able to travel without advance notice.
- Able to meet both job and family obligations without harm to either.

Salary Range:

Up to \$1000 per month, gross take home pay.

4. Business Development Resource Centers

The Business Assistance Component will have six (6) Business Development Resource Centers (see Organizational Diagram on Page. 5) which will provide the following services to the SSEs in their respective areas:

a. Business assessments: assess the status of micro and small scale enterprises' market, operations, and financial status; determine the feasibility of its on-going and/or proposed venture; and develop a business plan.

b. Business assistance after loan approval: a Business Technician will provide guidance on the implementation of the business plan and technical assistance in developing an elementary bookkeeping system to record transactions and keep track of business income and expenses in order to repay the loan.

c. Continue to provide business assistance during the second and third year of the loan to ensure that the loan is being paid, and assist the entrepreneur to strengthen his business management skills and possibly increase employment.

d. If loan is not approved, the Business Development Resource Center and FEDPA will refer the SSE to UNPYME or APEDE for further technical assistance.

Each Center will be managed and supervised by a Supervisor who will be responsible for ensuring that all SSEs receive quality business assistance from the Business Technicians. A full description of the position and its specifications is as follows:

Job Title: Business Development Resource Center Supervisor

Statement of the Job:

Provide the day-to-day management, supervision, and direction of the Business Development Resource Center personnel and activities according to the goals and objectives, and policies and procedures of the Business Assistance Component of the joint-sponsored GOP/USAID Small Business Development Project of the Ministerio de Comercio e Industrias.

Major Duties and Responsibilities:

1. Establish and operate the assigned Business Development Resource Center.
2. Supervise and direct the BRDC operations and all direct hire and contracted personnel to ensure that they execute their functions and activities according to the policies and procedures, and planned performance requirements, budget limitations, and time schedules of the Business Assistance Component.
3. Establish small business outreach and advocacy programs which will both identify and speak out for the small business owners in the area.
4. Develop and implement a local public relations and advertising program directed at the business, financial, and social sectors of the community which both provides information about the Center's services and identifies the potential local small business clients who can use the services.
5. Identify and list the local business and financial people who have the skills, expertise, and experience needed to conduct business assessments, provide business and financial management technical assistance, and prepare loan applications to Private Financial Institutions, and who are willing to be contracted by BAC as Business Technicians on a case-to-case basis.

6. Identify the types of training needed by the hired and contracted business technicians of the BDRC which will enable them to provide business assessments, sales projections, business plans, loan applications, basic business accounting systems, and consultation services on basic business and financial management and accounting to small business owners.
7. Gather and record in the BAC management information system the data needed to monitor the performance of the BDRC on a regular basis and conduct a third year evaluation of BAC and the BDRC's.
8. Conduct business assessments and provide technical assistance for small business owners whenever time permits.
9. Develop and maintain a directory of the profiles of all small businesses in the area.
10. Contract business technicians on an as needs basis according to the technician contract procedures of BAC.

Reporting and Supervisory Responsibilities:

1. Reports directly to the Deputy Manager of the BAC.
2. Supervises and directs all BDRC personnel and contracted business technicians.

Educational Requirements:

Masters Degree in Business Administration (MBA) or in any business related field.

Experience Requirements:

- 3 years of experience in administration and management of similar government development projects at the local levels, and/or
- 3 years of experience in business management, business finances, marketing and sales management.
- Additional 2 years of experience in these areas will be considered in lieu of a Master's Degree.

Knowledge/Skills Requirements:

Must know how to:

- Work with the local government structure.
- Manage and supervise direct hire and contracted personnel.
- Control budgets, monitor personnel performance, and work within time frames.

- Develop public relations programs with business and social organizations and financial institutions.
- Develop a personal sensitivity to the problems and needs of small business owners.
- Negotiate and manage personal service contracts.
- Access training needs of personnel.
- Conduct a business assessments provide business and financial management assistance; establish basic business accounting procedures; develop a business plan; prepare the requisites of a loan application.

Personal Requirements:

- Capable of working long hours, and on occasion Saturdays and Sundays.
- Able to function under time constraints.
- Pleasant, but firm personality.
- Leadership abilities for team management.
- Able to meet both job and family responsibilities without harm to either.
- Capable of working for all types of people in a community.

Salary Range:

Up to \$850 per month, gross take home pay.

Each Business Development Resource Center will employ the services of direct hire or contract Business Technicians who will provide the services listed on page 10. The Business Technicians will also be gathering local information on major constraints which will affect production, productivity and investment among SSEs which can be used by the Consejo Nacional de la Pequeña Empresa to recommend appropriate Project adjustments and GOP policy reforms.

A full description of the Business Technician position and its specifications is as follows:

Job Title: Business Technician (Direct Hire or Contracted)

Statement of the Job:

Provide consultation, and business and financial management technical assistance services to small business owners to improve their management and financial procedures through the institution of sound business practices, meet qualifications for financial loans, or expand their current operations successfully.

Major Duties and Responsibilities:

1. Conduct business assessments for small business owners to help them identify their current financial status as well as possibilities for growth.
2. Assess the feasibility of small business owners by working with them to prepare profit and loss statements, interpret existing financial data, analyze cash flow problems, etc.
3. If small business is financially sound, but lacks capital to expand, prepare business plan with the small business owner to determine amount of capital needed.
4. Assist small business owner to submit business plan with loan application to a participating Private Financial Institution.
5. Upon loan approval, design an accounting procedure that will improve internal financial management practices and improve gross revenues and profit margins.
6. Provide general consultation on the management, financial accounting, and marketing and sales aspects of business enterprise for all small businesses requesting the services of the Business Development Resource Center.
7. Construct a profile of every small business contacted.
8. If business does not qualify for a loan at the time, refer the business owner to APEDE, UNIDO, UNPYME for business and financial management assistance depending on the needs of the firm.
9. Monitor loan payments of all small business clients periodically and collect statistical information for project evaluation.
10. Submit weekly reports of all BDRC activities on a log sheet to Supervisor.

Reporting and Supervisory Responsibilities:

- Report directly to the Supervisor of the Business Development Resource Center.
- Submit all logged activities to Supervisor

Educational Requirements:

- Business or Accounting Graduate.
- 4th Year College - Business or Accounting Major whose family owns their own business.

Experience Requirements:

- Member of a Professional or Business Association.
- 2 years of experience as a business accountant.
- Owner of a successful business, or
- 2 years of financial experience in a banking institution.

Knowledge/Skills Requirements:

Must know how to:

- Relate sensitively to small business owners.
- Develop a viable working relationship with supervisors, peers, fellow staff, and clients.
- Assess the strengths and weaknesses of small business management and financial operations.
- Request assistance from others when problems identified are beyond one's knowledge and skills.
- Interview clients and put them at ease.

Personal Requirements:

- Willing to work long hours, and on occasion Saturdays and Sundays.
- Able to function under time constraints.
- Pleasant, but firm personality.
- Able to accept an assignment with little advance notice.
- Able to meet both job and family obligations without harm to either.

Salary Range:

Up to \$568 a month, gross take home pay.

5. Administrative Support

The General manager, Training Office, Administration/Contracts Office, and the six regional Business Development Resource Centers will employ the full-time services of a Secretary/Receptionist. A full description and the specifications of this position are as follows:

Job Title: Secretary/Receptionist

Statement of the Job:

Provide and coordinate the administrative support services required to execute the day-to-day office functions and activities.

Major Duties and Responsibilities:

1. Perform the regular day-to-day administrative support activities of the office: greet and direct visitors; answer telephone; receive and record messages; set up appointments; type from written copy; pick up, open, stamp, and distribute mail; maintain office supplies; file documents and records.
2. Record and forward to administrator requests for services from small business clients using a client intake form.
3. Develop and maintain a client file.
4. Record and maintain records on a micro-computer.

Reporting and Supervisory Responsibilities:

1. Reports directly to the Manager or Supervisor.

Educational Requirements:

- Secretarial School Graduate with office management background.

Experience Requirements:

- 3 years of experience in a government or private business office as an administrative assistant or executive secretary.

Knowledge/Skills Requirements:

Must know how to:

- Type 65 w.p.m.
- Use basic office machines - copier, calculator/adding machine.
- Use a multi-line telephone.
- Use or learn to use a micro-computer.
- Interview clients on the telephone, or at the office.
- Maintain confidentiality.

Personal Requirements:

- Should be personable since the job requires public contact.
- Needs initiative to assume more responsibility as project progresses.
- Willing to work long hours, and on occasion Saturdays and Sundays.
- Able to function under time constraints
- Able to accept an assignment with little advance notice.
- Able to meet both job and family responsibilities without harm to either

Salary Range:

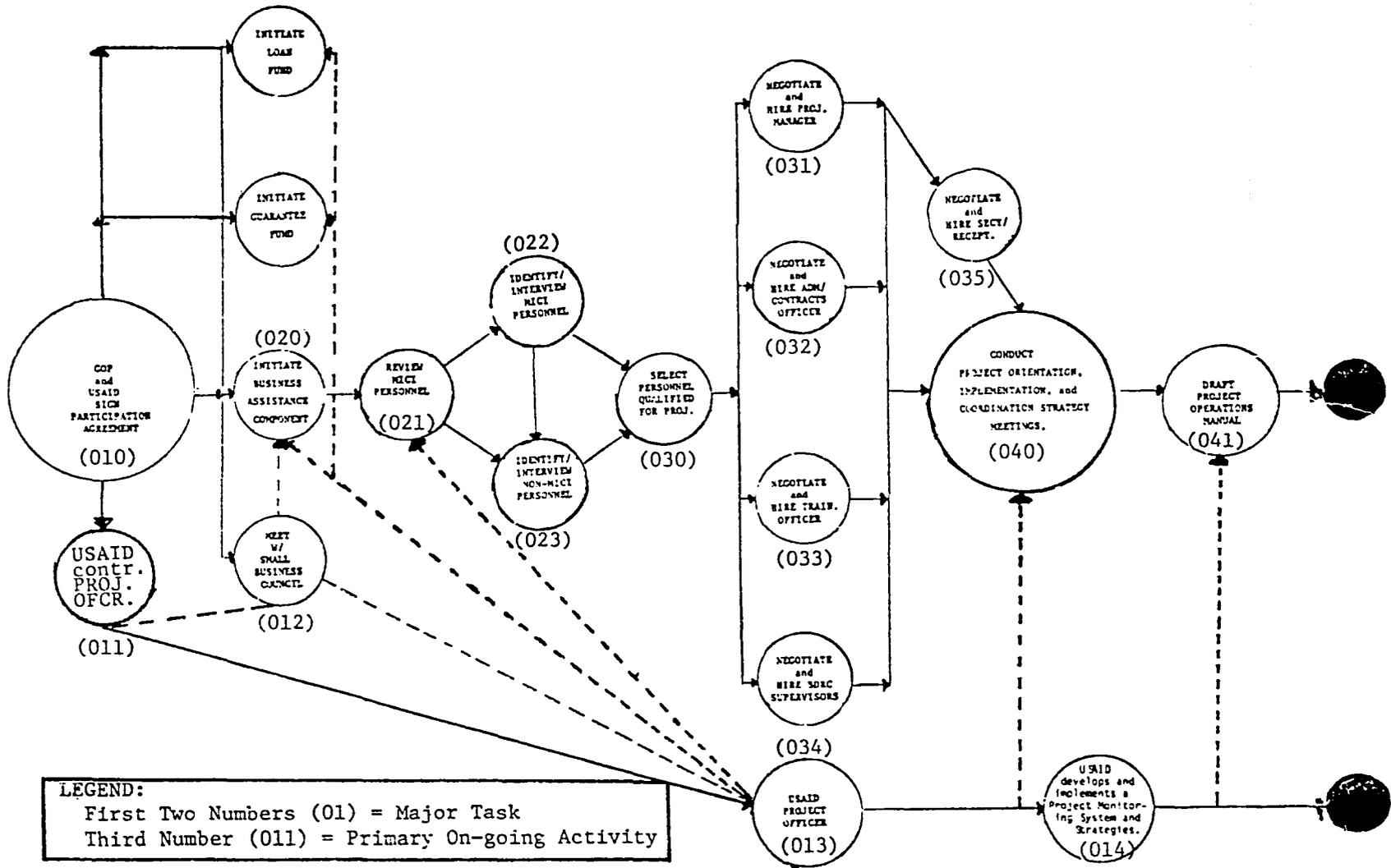
Up to \$450 per month, gross take home pay.

G. PROJECT ACTIVITIES

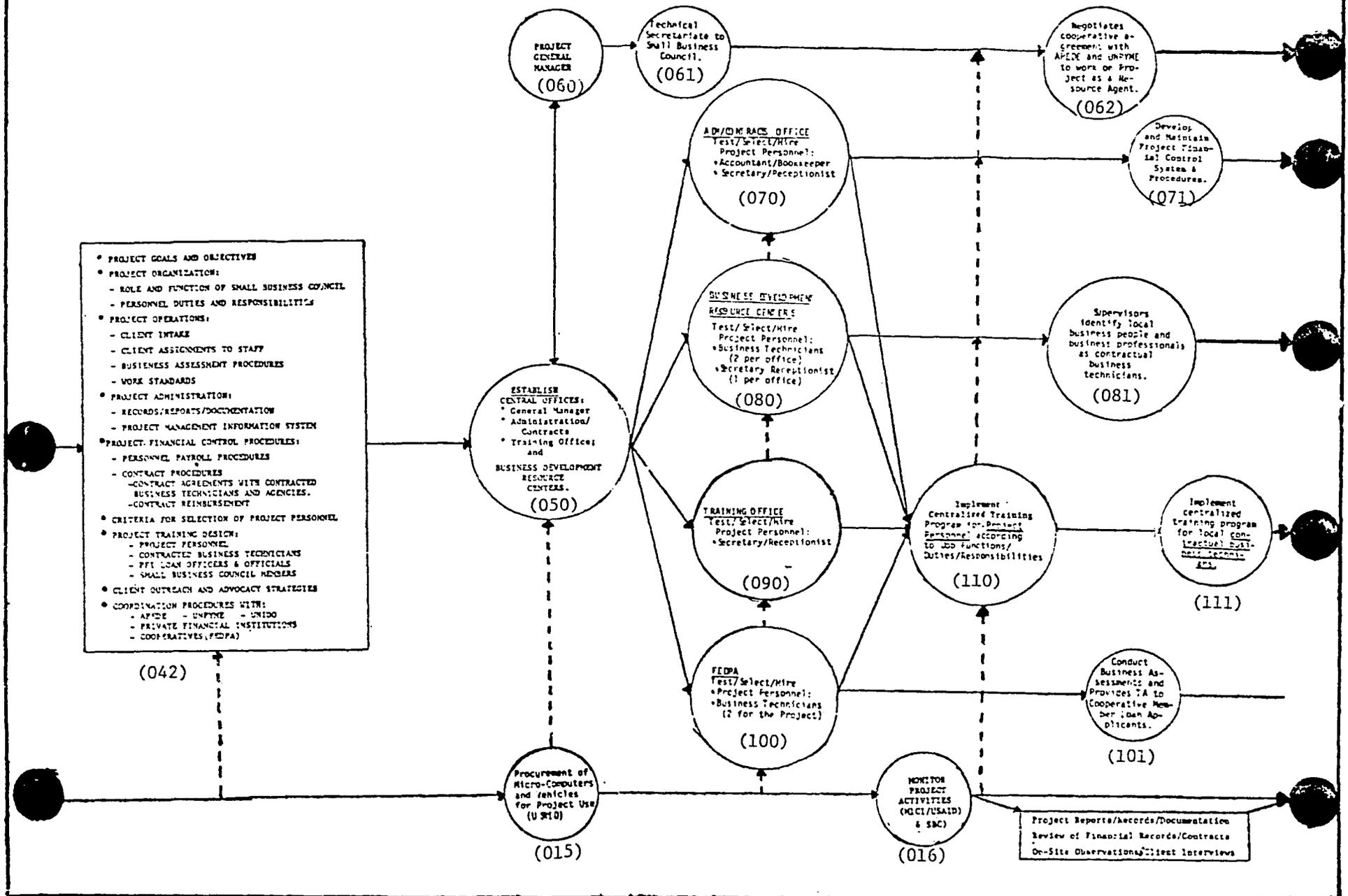
1. Project Process Flow-Chart and Time Estimates

The following chart depicts the major tasks and activities with the corresponding time-estimates required to carry the Project through its first year.

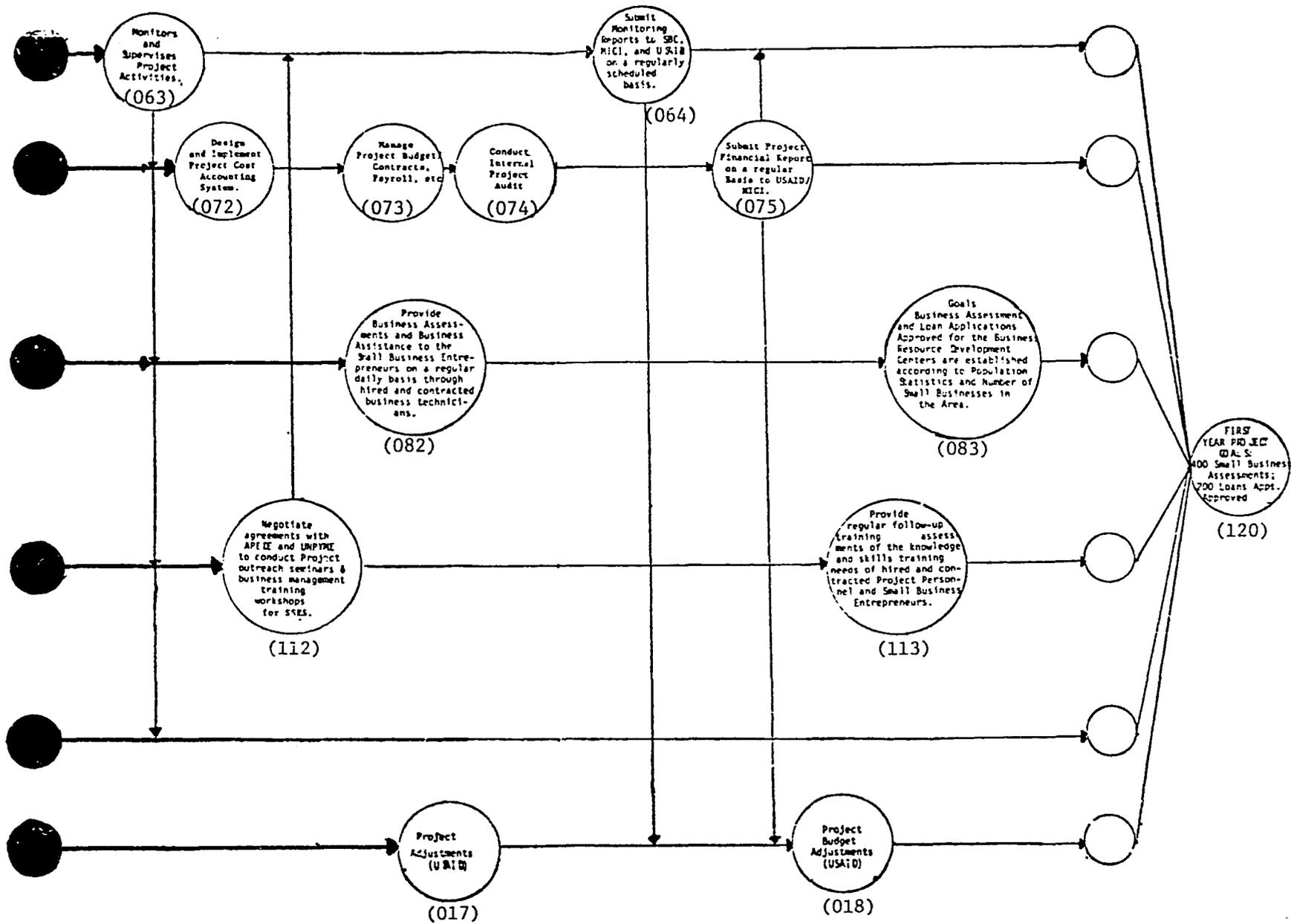
PROJECT PROCESS FLOW-CHART (a)



PROJECT PROCESS FLOW-CHART (b)



PROJECT PROCESS FLOW-CHART (c)



TIMING
of
PROJECT PROCESS FLOW-CHART

Task Code #	Task Code #	Activity Code #	Task/Activity Description	Optimistic Time (Wks.)	Weighted Time (Wks.)
010		011	AID contracts Project Officer	1	2
010	020		Initiate Business Assistance Component	2	3
020		021	MICI Prepares & Publishes Advertisement for BAC General Manager, Administration/Contracts Officer, Training Officer, 1 Secretary Receptionist, 6 Regional Office Supervisors (10 positions). MICI identifies/assigns Project Liaison. MICI creates Personnel Review Committee. Candidate Response to Advertisement.	1 2	2 3
		022	Interview Candidates for 10 Positions Select Personnel (Ministerial Decree)	4 2	6 4
		031	Negotiate and Hire Personnel for all 10 Positions.	1	2
040		050	Project Orientation/Implementation/ Coordination Strategy Meeting Prepare Central & Regional Office Space and equipment.	2	3
050	070		Advertise for Business Technicians and Secretary/Receptionists. Candidate Response to Advertisement. Select and Hire Personnel (Ministerial Decree)	4	6
110			Train Business Technicians on Business Assessment and Assistance. Train Secretary/Receptionists on Micro-Computers.	2	3
TOTALS :				21 Wks. = 5 Mos.	34 Wks. = 8 Mos.

2. Small Scale Entrepreneurs Business Assessment Process

During the first 5 years of operations 6,8000 firms will be assessed by the Business Technicians, while 3,400 SSEs will receive direct assistance for loan applications. The maximum capacity level of operation will be reached the fifth year of the project e.g. 2,000 business assessments per year and 1,000 loan application assistance clients per year.

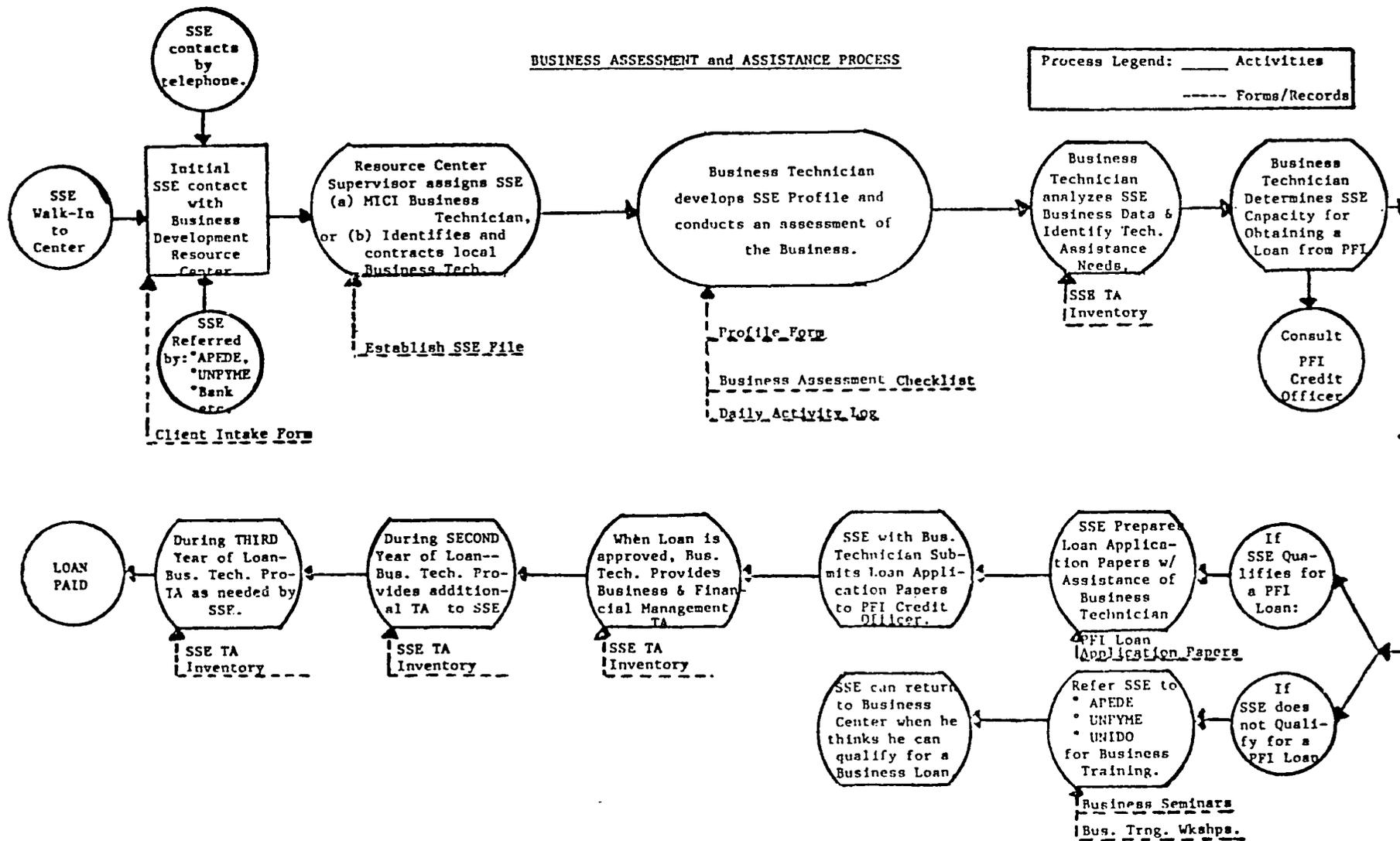
The process that will be followed is outlined as follows:

- a. Business Assessment
 - Discuss the overview of the Business Assistance Project with the SSE.
 - Discuss the SSE's business problems - list them on the SSE Intake Form.
 - Complete the SSE Profile.
 - Initiate the Business Assessment - Use Business Assessment Check list.
 - If a loan is requested - Develop Business Plan, Business and Personal Financial Statements.
- b. Determine SSE's Capacity for a Loan
 - Consult the Credit Officer of the local PFI using the information gathered during the business assessment.
 - If the SSE can qualify for a loan-acquire a credit application from the PFI.
 - If the SSE cannot qualify at the time for a loan-prepare a technical assistance plan for the SSE and refer him to APEDE, UNPYME, UNIDO for training.
- c. Prepare SSE Credit Application
 - Business Technician works together with the SSE to prepare the documents required by the PFI for a loan.
- d. Submit Credit Application to Bank
 - When loan is approved-assist the SSE with the business and financial management technical assistance needed by SSE to meet the requirements of the loan and improve his business.
- e. Technical Assistance Follow-up
 - During the second and third year of the SSE's loan, the Business Technician returns to the SSE for needed follow-up technical assistance and to monitor the payment of the loan.

The flow-chart and forms/records for the process are as follows:

BUSINESS ASSESSMENT and ASSISTANCE PROCESS

Process Legend: Activities
 ----- Forms/Records



SSE INTAKE FORM

DATE: _____ PERSON TAKING INFORMATION: _____

NAME OF FIRM'S OWNER: _____

NAME OF FIRM: _____

FIRM'S ADDRESS: _____ P.O. BOX: _____

CITY: _____ PROVINCE: _____

BARRIO: _____ POSTAL ZONE: _____ TELEPHONE (FIRM): _____

TYPE OF BUSINESS: _____ (HOME): _____

YEAR FIRM ESTABLISHED: 19__.

REFERRAL SOURCE: _____

BUSINESS ASSISTANCE REQUESTED: _____

ACTION TAKEN: _____

CLIENT ASSIGNED TO: _____ DATE: _____, 19__

SSE FILE NO.: _____ TASK ORDER NO.: _____

ADDITIONAL COMMENTS: _____

SSE PROFILE

1. Name of Firm: _____
2. Name of Firm's Owner: _____ 3. Contact Person: _____
4. Address of Firm: _____ 5. P.O. Box: _____
6. City: _____ 7. Province: _____ 8. Barrio: _____
9. Postal Zone: _____ 10. Telephone: _____ 11. New Business ()
13. Year Firm Established: _____ 12. On-Going Business: ()

TYPE OF BUSINESS:

- | | |
|--|--|
| 14. <input type="checkbox"/> Manufacturer | 15. Size of Factory/Total Sq.M : _____ |
| 16. <input type="checkbox"/> Wholesale Distributor | 17. Size of Warehouse/Total Sq.M : _____ |
| 18. <input type="checkbox"/> Retail (Commercial) | 19. Size of Store/Total Sq.M : _____ |
| 20. <input type="checkbox"/> Construction/Construction Related | 21. Type: _____ |
| 22. <input type="checkbox"/> Mining | 23. Type of Mining: _____ |
| 24. <input type="checkbox"/> Agriculture | 25. Type of Agriculture: _____ |
| 26. <input type="checkbox"/> Aquaculture | 27. Type: _____ |
| 28. <input type="checkbox"/> Transportation | 29. Type: _____ |
| 30. <input type="checkbox"/> Fishing | 31. Type: _____ |
| 32. <input type="checkbox"/> Food Service | 33. Type: _____ |
| 34. <input type="checkbox"/> Other Services | 35. Type: _____ |

36. List principal products and services and special capabilities:

37. Number of Employees: Full-Time: () Part-Time: ()

39. Gross Receipts-Last Business Year: B/ _____ (Rounded to Nearest B/)

Name of Interviewer: _____ Date of Interview: _____, 19__

Business Development Resource Center: _____

Reviewed by: _____
(Signature of Supervisor)

BUSINESS ASSESSMENT CHECKLIST

All of the information listed below must be gathered by the Business Technician from the SSE, or if the SSE does not have it prepared, the Business Technician will have to prepare it with the SSE. An analysis of this information will assist the Business Technician and the PFI Credit Officer to determine the capacity of the SSE to qualify for a guaranteed loan under the Project.

1. BUSINESS SUMMARY

- Business Description and Goals
- Financial Needs and Application of Funds
- Earning Projections and Potential Returns

2. MARKET ANALYSIS

- Industry/Sales Trends
- Total Market
- Target Market
- Competition

3. PRODUCTS/SERVICES

- Product/Merchandise Description

4. MANUFACTURING/RETAIL PROCESS

- Materials/Merchandise (Type(s))
- Supply Sources
- Production/Sales Methods

5. MARKETING STRATEGY

- Pricing
- Terms
- Merchandising/Service Program

6. MANAGEMENT PLAN

- Form of Organization
- Organization Chart & Responsibilities
- Operating Procedures
- Start-up Plan (if new business)

7. FINANCIAL DATA

- Profit & Loss Statement
- Business Financial Statement
- Cash Flow
- Cash Expenditures
- Key Ratios (leverage, debt service)
- Potential R.O.I.

8. LICENSES and PERMITS

- Obtain, if available.

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PERSONAL FINANCIAL STATEMENT

As Of _____, 19__

ASSETS

LIABILITIES

Cash (Checking Account)....B/ _____	Loan Balance.....B/ _____
Cash (Savings Account) _____	B/ _____
Business Investment..... _____	House Mortgage (1st)..... _____
House..... _____	House Mortgage (2nd)..... _____
Other Real Estate (Equity). _____	Other Debts..... _____
Personal Property..... _____	
Other..... _____	
Total Assets: B/ _____	Total Liabilities: B/ _____
	&
	Total Assets B/ _____
	=
	Net Worth B/ _____

MONTHLY INCOME STATEMENT

INCOME

EXPENSES

Wages/Salaries..... B/ _____	Housing (Mortgage/Rent)... B/ _____
Business Income..... _____	Insurance (Monthly)..... _____
Interest/Dividends..... _____	Loan Payments..... _____
Other..... B/ _____	Other..... B/ _____

CURRENT BUSINESS BALANCE SHEET

ASSETS

Current Assets:

Cash:

Cash in Bank.....	B/	_____	
Petty Cash.....		_____	B/ _____
Accounts Receivable.....	B/	_____	
Less Allowance for Doubtful			
Accounts.....	B/	_____	
Merchandise Inventories.....		_____	
Total Current Assets.....			B/ _____

Fixed Assets:

Land.....	B/	_____	
Buildings.....		_____	
Delivery Equipment.....		_____	
Furniture & Fixtures.....		_____	B/ _____
Less Allowance for Depreciation..			B/ _____
Leasehold Improvements, less			
amortization.....		_____	
Total Fixed Assets.....			B/ _____

LIABILITIES and CAPITAL

Current Liabilities:

Accounts Payable.....	B/	_____	
Notes Payable, due in 1 year.....		_____	
Payroll Taxes & Withheld Taxes.....		_____	
Sales Taxes.....		_____	
Total Current Liabilities.....			B/ _____

Long-term Liabilities:

Notes Payable, due after 1 year....		_____	
-------------------------------------	--	-------	--

Total Liabilities.....			B/ _____
------------------------	--	--	----------

Capital:

Owner's Capital, beginning of			
period.....			B/ _____
Net Profit for the Period.....	B/	_____	
Less Owner's Drawings.....		_____	
Increase in Capital.....		_____	

Capital, end of period.....			B/ _____
-----------------------------	--	--	----------

Total Liabilities and Capital.....			B/ _____
------------------------------------	--	--	----------

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BUSINESS PLAN OUTLINE

HISTORY & BACKGROUND OF BUSINESS

- When and How Established
- Significant Developments e.g. change of ownership, products, or management.

OPERATIONS PLAN

- Type of Business e.g. retail, wholesale, service, manufacturing etc.
- Product (line) Description
- Timing/Scheduling of Products: From order to delivery to payment.
- Supplier Sources & Relationship : How long, average size of order, payment schedule.

FACILITIES/LOCATION

- Lease Arrangement: Duration, options.
- Square Meters & Type/Use of Space: Storage, office, etc.
- Utilization/Capacity of Space: Room to grow?
- Location: advantages and disadvantages.

COMPETITIVE FRAMEWORK

- Industry Profile
- Major Competitors and Market Shares: How differ?

MARKETING STRATEGY

- Identify Targeted Market: Potential and customer profiles.
- Pricing Structure: How set?
- Selling Methods
- Expected Sales Goals: 1984, 1985, 1986 etc.

MANAGEMENT TEAM

- Resume(s) of Entrepreneur(s)
- Organizational Chart: Who does what regardless of the size of enterprise.

SSE TECHNICAL ASSISTANCE INVENTORY

(Prepared by the Business Technician in consultation with the SSE after the Business Assessment has been completed.)

<u>TASK CODE #</u>	<u>TYPE OF TECHNICAL ASSISTANCE</u>
<u>Finance</u>	
001 ---	Organize financial record keeping system (receipts/invoices, journals, ledgers, income statements, balance sheet, cash flow management).
002 ---	Set-up a cash management/budgeting system.
003 ---	Organize a credit/collection program for receivables.
004 ---	Draw-up projections for P&L, BS, and Cash Flow.
005 ---	Conduct a break-even analysis.
006 ---	Conduct a cost/volume/profit analysis.
<u>Marketing</u>	
011 ---	Analyze type, size, and scope of market demand.
012 ---	Perform a sales forecast.
013 ---	Design an advertising/sales program.
014 ---	Draw-up an appropriate pricing policy.
015 ---	Design a merchandising program.
016 ---	Conduct a plant location and site selection analysis.
<u>Management</u>	
021 ---	Draw-up statement of objectives for total business.
022 ---	Organize business operations by line and function.
023 ---	Draw-up operating procedures for the business.
024 ---	Establish an inventory control system.
025 ---	Set-up appropriate system of reports and controls.
026 ---	Organize a system for maintaining personnel records.
027 ---	Establish procedures for office management.
028 ---	Adapt or design necessary forms.
029 ---	Draw-up job descriptions and specifications to fulfill line/ staff functions and employee evaluation and rating system.

(The Task Code #'s are used for reporting procedures, and can be used in lieu of writing out the whole task description on e.g. the Weekly Activity Log which is submitted each week by the Supervisors and Business Technicians.)

H. TRAINING

1. The training needs of the Business Assistance Component will be identified, and training programs designed and coordinated by the Training Office. Following the project process flow-chart on page 33 the first training event will be:

INITIAL TRAINING AND STRATEGY WORKSHOP FOR PROJECT ORIENTATION, IMPLEMENTATION, AND COORDINATION

Participants: MICI Project Personnel:
Project General Manager, Administrative/Contracts Officer,
Training Officer, Supervisors of the Business Development
Resource Centers, and Secretary/Receptionist in the General
Manager's Office.

Goal: To provide the Project line-managers and AID Project personnel with the opportunity to organize themselves, clarify their duties and responsibilities, and identify strategies which will ensure a unity of effort for achieving the goals and objectives of the Small Business Development Project through the development of the Project Operations Manual.

Content:

- Presentation and discussion of Project purpose, goals and objectives, process, and target beneficiaries.
- Definition of the roles, functions, and responsibilities of the Project line-organization: General Manager, Administrative/Contracts Officer, Training Officer, and Supervisors (Analysis of Organization Tasks).
- Analysis and clarification of the Project organization and its line-staff relationships, authority, and responsibilities (Span of Control).
- Analysis and clarification of Project coordination system and strategies to ensure unity of effort.
- Identify strategies for implementing and maintaining the Project's accounting and communications networks.
- Review and clarify the supervisory responsibilities of Project line managers as to hiring, discharging, disciplining, rewarding, and other actions of a similar nature with respect to Project staff.
- Identify ways to handle Project organizational variables and relationships relative to:
- the effects of incentives on line-staff motivation and behavior.

Goal: To provide the Project Secretary/Receptionists with the opportunity to develop and improve their skills in Data Processing and DP Management Information Systems using a micro-computer to support the Project management decision-making and evaluation process.

Content:

- Skills development in the use and maintenance of a micro-computer.
- Development of a Project information system which will record and store the data needed to monitor Project operations and finances.
- Skills development in:
 - Data Recording.
 - Data Communication,
 - Data Storage or Filing,
 - Data Retrieval or Access,
 - Data Processing, and
 - Data Reporting.

Duration: 2 weeks.

Site: Panama City

Methodology: Lecture/Discussions Use of Handbooks
Skills Development (Individual)

Trainer: Local EDP Specialist with experience in developing and using DP Management Information Systems.

Date: As soon as the Secretary/Receptionists are hired by the Project.

4. Based on the results of the training needs assessment of the BAC Supervisors, Business Technicians, and the two Business Technicians from FEDPA, an on-going training program will be designed, implemented, and coordinated by the BAC Training Office.

Goal: To provide Project professional staff who furnish technical assistance to Small Scale Entrepreneurs with the opportunity to develop and improve their skills in small business assessment, business and financial management, and loan application procedures of Participating Financial Institutions which will enable them to provide quality business and financial technical assistance services.

Content:

- Overview of a successful, well organized and managed business.
- Skills development presentations and discussions of the following:

General Business Management tasks:

Establishment of Business
Objectives
Organization & Structure
Company Policies & Procedures
Reports and Controls
Job Descriptions & Specifications
Management Development
Employee Evaluation & Rating
Systems
Personnel Records

Business/Plant Location and Site
Selection
Materials Handling & Distribution
Production/Sales Management
Value Analysis
Purchasing Procedures
Inventory Control
Office Management
Procedures & Systems
Form Design

- Skills development presentations and discussions of the following:

Business Financial Management tasks:

Cash Management
Receivables Management
Inventory Control
Lease/Borrow Analysis of Equipment
Break-even Analysis
Cost/Volume/Profit Analysis

ROA/ROE Evaluation
Discount Cash Flow Investment
Evaluation
Evaluation of Business Capacity
Based on Cash Flow Sensitivity
Analysis

- Skills development presentations and discussions of the following:

Business Marketing tasks:

Market Research
Product & Customer Service
Sales Forecasting
Merchandising

Pricing Policies
Advertising & Sales Promotion
Bid Preparation

- Specialized Credit Financial Analysis

Duration: Two (2) weeks.

Site: Panama City

Methodology: Prepared Handouts on each topic area.
Lecture/discussion
Role Play
Work Groups

Trainers: AID Project Officer
APEDE
PFI Credit Officers
Association of Accountants
UNIDO

5. Familiarization Seminars

In order to divulge the benefits of the Project, 12 Regional Familiarization Seminars will be hosted by UNPYME in the first-two years of the Project. It is expected that at least 50-100 persons will attend each seminar. These seminars will serve two basic purposes: 1)attract SSEs to the Project, and 2)help UNPYME increase its membership . The scope of the seminars is as follows.

Participants: Small scale entrepreneurs in and around the locales of Panama, Colón, Penonomé, David, Santiago, and Azuero.

Goal: To provide the small scale entrepreneurs with the opportunity to acquire information about the resources of the Small Business Assistance Project, its business and financial management technical assistance services, and the small business loan and guarantee fund which will enable them to improve their business and financial management skills, prepare proper financial loan applications, expand their existing businesses with business loans, minimize business failures, and ultimately create more employment opportunities.

Content:

- Statement and discussion of the rationale for the Small Business Assistance Project.
- Overview of the Project purpose, goals and objectives, and target beneficiaries for small business assistance.
- Details of the small business assistance process and procedures, and the business and financial management assistance services.
- Identification of the purpose, functions, staffing, and locations and office hours of the Business Development Resource Centers.
- Explanation of the mechanics of the small business loan and guarantee fund.
- Identification of the Participating Financial Institutions.
- Explanation of the procedures for loan application at the Participating Financial Institutions.
- Description of the follow-up business and financial management technical assistance services provided by the Business Development Resource Centers to successful loan applicants.
- Open discussion of the problems and concerns of the private small scale entrepreneur in the present economy.
- Explanation of how to sign-up for the services of the Project.

- Sign-up small scale entrepreneurs at the seminar (Use SSE Intake Form).
- Conduct assessment of SSE business skills development needs assessment as a preparation for the Specialized Business and Financial Management Workshops for SSEs.

Duration: One (1) day.

Site: A conference facility near the Business Development Resource Centers which can seat about 50-100 people comfortably.

Methodology: Project Brochures to Participants.
Lecture/Discussion
Open Forum
Prepared Business Skills Development Needs Assessment
Questionnaire.

Trainer: Project General Manager, Supervisors, and Business Technicians of the Business Development Resources Centers in their respective locales.

UNPYME Officials.

APEDE Representatives.

Date: As soon as the Business Development Resource Centers are ready to handle clients. Six (6) seminars per year for Project familiarization and outreach purposes.

6. Specialized Business and Financial Management Workshops

UNPYME will host specialized workshops to cover the various areas of training that are needed by SSE members and non-members of UNPYME. UNPYME will utilize the resources of APEDE to provide the specialized Business Training Seminars throughout the country. It is expected that at least 500-1000 SSEs will attend these seminars.

Participants: Small scale entrepreneurs in and around the locales of Panama, Colón, Penonomé, David, Santiago, and Azuero.

Goal: To provide the small scale entrepreneurs with the opportunity to 1) acquire information on basic business development and operations, 2) to develop their business and financial management skills which will enable them to improve and expand the financial and market potential of their businesses; 3) to upgrade the planning, organizing, directing, coordinating, and controlling functions of their business, and 4) to develop a positive attitude for the acceptance of the need for change in their present business management, financial, and marketing procedures.

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Content:

- Overview of a successful well organized and managed business.
- Skills development presentations and discussions of the following:

General Business Management tasks:

Establishment of Business Objectives	Business/Plant Location and Site Selection
Organization & Structure	Materials Handling & Distribution
Company Policies & Procedures	Production/Sales Management
Reports and Controls	Value Analysis
Job Descriptions & Specifications	Purchasing Procedures
Management Development.	Inventory Control
Employee Evaluation & Rating Systems	Office Management
Personnel Records	Procedures & Systems
	Form Design

- Skills development presentations and discussions of the following

Business Financial Management tasks:

Cash Management	ROA/ROE Evaluation
Receivables Management	Discount Cash Flow Investment Evaluation
Inventory Control	Evaluation of Business Capacity
Lease/Borrow Analysis of Equipment	Based on Cash Flow
Break-even Analysis	Sensitivity Analysis
Cost/Volume/Profit Analysis	

Business Marketing tasks:

Market Research	Pricing Policies
Product & Customer Service	Advertising & Sales Promotion
Sales Forecasting	Bid Preparation

Duration: Three (3) weeks, three (3) nights per week for three (3) hours/night from 6:00 PM to 9:00 PM.

Site: A conference facility near the Business Development Resource Centers which can seat about 50-100 people.

Methodology: Prepared Handouts on each topic area.
Lecture/Discussion
Work Groups
Role Play

Trainer(s): Business Assistance Training Officer-Workshop Designer.
Business Assistance Supervisors-Local Workshop Coordinators.
Business Assistance Technicians.
Training Resources of APEDE.
Local well-informed and successful small scale entrepreneurs
of (UNPYME).
Specialists from the Association of Accounts.
UNIDO Production Specialists.
AID Project Officer

Date: Six (6) months after the establishment of the Business Development
Resource Center operations. One workshop for each Resource Center.

MICI Technical Assistance

MICI will receive 30 months of specialized technical
assistance during the 5-year life of the Project to:

- a. initiate the implementation of the Project,
- b. design training programs and curricula for MICI personnel
and SSEs,
- c) prepare formats to monitor business assistance to SSEs.
- d) collect data for two (2) major Project evaluations.
- e) address unforeseen Project problems.

I. PROJECT EVALUATION

As part of AID's evaluation mandate, there will be two (2)
evaluations conducted during the 5-year span of AID direct involvement in the
Project. The first will be a mid-term evaluation (goal attainment) conducted
during the first quarter of the 3rd year of the Project, the second will be an
impact evaluation at the beginning of the 5th year. The evaluations will be
based on the Sector Goal, Project Purpose, and Outputs as listed in the
Logical Framework.

1. The first evaluation will determine the degree of progress
toward the achievement of planned Project goal, purpose, and outputs. It will
focus the following:

- a. effectiveness of the Financial and Business Assistance
Components,
- b. effectiveness of the institutional structure
administering the Project,
- c. the obstacles and weaknesses within the Project, and
- d. the corrective actions or adjustments necessary to
improve Project operations.

The evaluation will examine and measure the timely provision and adequacy of Project inputs on the part of GOP/MICI, GOP/INBP, PFIs and AID and their respective performance in providing financial and business assistance to SSEs as compared to the planned and actual outputs of the Project.

The evaluation will examine the extent to which the following are progressing:

-SSE awareness of the Project (Outreach),

-effectiveness of the Financial Component:

- (1) adequacy of the spread to PFIs and the BNP.
- (2) adequacy of the premium and coverage of the guarantee mechanism.
- (3) terms and conditions of the sub-loans.
- (4) progress toward self-sufficiency of the Financial Component.
- (5) ratio of loan applications submitted and loans approved.
- (6) coordination between the BNP, PFIs, and MICI.
- (7) jobs generated due to loans approved.
- (8) effectiveness in reaching micro-enterprises.

-effectiveness of the Business Assistance Component:

- (1) SSE reception and participation in the Project.
- (2) adequacy of the business technical assistance services.
- (3) effectiveness of the business seminars and training workshops for SSEs.
- (4) effectiveness of the Project staff training.
- (5) the extent to which SSEs execute business technical assistance recommendations.
- (6) the extent to which business assistance has contributed to employment increase among SSEs.
- (7) coordination between MICI, SBC, APEDE, UNPYME, FEDPA.
- (8) progress towards the institutionalization of technical assistance to small business.

The data required for the first evaluation will be gathered at the Project's Central Office and Business Development Resource Centers, the offices of the Participating Financial Institutions, the offices of Small Business Component members, UNPYME, and APEDE, and the business sites of the small scale entrepreneurs. The data will be obtained in the following manner:

- (1) Interview with AID Project Officer.
- (2) Interviews with SSEs using a prepared questionnaire.
- (3) Interviews with Resource Center Supervisors, Business Technicians, and Secretary/Receptionists using a prepared questionnaire.
- (4) Interviews with the Project General Manager, Administrative/ Contracts Officer and Training Specialists.
- (5) Interviews with PFI Credit Officers and Bank Officials.
- (6) Review of SSE Credit applications and loan records at the PFIs.
- (7) Review of Project/Records/Documentation at Project Central Office, Business Development Resource Centers, and AID Project Office.
- (8) Interviews with BNP and PFI officials responsible for coordinating the Loan Guarantee Funds at the national level.
- (9) Review of the Minutes of the Consejo Nacional de la Pequeña Empresa meetings.
- (10) Interviews with officials and participating staff of UNPYME, APEDE, and other business organizations.
- (11) Interviews with the members of the Consejo Nacional de la Pequeña Empresa.

The first evaluation design and process will be carried out by a recognized private management and governmental consulting firm which maintains a staff with varied and cross-disciplinary expertise in the development, implementation and evaluation of small business programs, has Spanish-speaking capabilities coupled with knowledge of the local customs and conditions in Panama, and experience working with AID-assisted Projects. The consulting firm will be required to conduct the evaluation field work, prepare the analysis, present their findings and recommendations to the Mission, and submit a draft evaluation report to the Mission prior to departure from the Mission. The final evaluation report will be submitted to the Mission within 15 working days after departure of evaluation team from the Mission.

The estimated cost of the first evaluation for personnel salaries, international travel, in-country travel, per-diem materials, and overhead will be \$50,000.00. The costs for the evaluation are built into the Project budget of AID/Panama.

This first evaluation will occur midway into the third year of the Project.

2. The second or final evaluation of the Project will determine the results/effects of the Project after 5 years of operations (Impact Evaluation). This evaluation will, again, undertake an input/output performance assessment at each level of the Logical Framework towards the achievement of their respective targets. It will have the same focus as the first evaluation, however it will contain an indepth study of the:

- impact of Project on employment generation,
- self-sufficiency of the Loan and Guarantee Funds,
- institutionalization of small business assistance,
- formulation of small scale enterprise development policy by the GOP, and
- cost/benefit ratio of the Project costs and number of loans approved, \$ amount of loans, number of jobs generated, and number of businesses assisted.

The data gathering process of the second and final evaluation will be similar to the first. However, additional SSEs will be identified to respond to survey questionnaires and interviews. The SSEs interviewed during the first evaluation will also be interviewed to determine the long-term effects of the Project on their businesses.

3. The evaluation design and process will be carried out by a recognized private management and governmental consulting firm with the same qualifications as those specified in the first evaluation. However, the final evaluation report will be required by the Mission within 20 working days from the evaluation team's departure from the Mission.

4. The estimated cost of the impact evaluation is \$50,000.00 for personnel salaries, international travel, in-country travel, per-diem, materials, and overhead costs. This cost is built into the Project budget of AID/Panama.

5. The evaluation will take place at the end of the fifth (5th) year of the Project as joint effort of the GOP and AID.

J. RESOURCE REQUIREMENTS

1. Business Assistance

a. To provide the business assistance MICI will utilize its own business technicians and contract part-time business technicians as needed and paid according to issued task orders. By the fifth year of the Project, MICI will have a total of 29 trained business technicians, 12 of whom will be from their own staff.

b. MICI will station one supervisor in each of their six (6) regional offices who will supervise, coordinate and review the work of the business technicians, and also conduct business assessments and provide business assistance.

c. MICI will have one (1) vehicle assigned to each field office and one (1) vehicle to the Project Administration Office = 7 vehicles. It is expected that each vehicle will consume 710 gallons per year for a total of 4,970 gallons per year for 7 vehicles.

d. MICI will also assign one (1) micro-computer to each regional office and one (1) to the Central Office of the Project to record and monitor the Project finances, business assistance activities, and store information for Project evaluation.

e. FEDPA will contract 2 technicians to provide business assessments its members to assist them in the review, approval or disapproved loan applications.

2. Staff Training and Development

a. In order to train their personnel in the program, MICI will contract out the development of 4 types of training material as follows:

Business Technicians, FEDPA Credit Officers and Supervisors	3 courses
---	-----------

Administrative Support	1 course
------------------------	----------

b. To provide the assistance to SSEs it is necessary to train in five years 121 persons as follows:

MICI Business Technicians	53
Contracted Business Tech.	40
MICI Supervisors	12
Adm. Personnel	12
FEDPA Business Tech.	<u>4</u>
Total	121

3. Administrative Personnel

The BAC will eventually be administered by 31 MICI staff consisting of the following:

General Manager	1
Training Officer	1
Administration/Contracts Officer	1
Accountant	1
Supervisors	6
Business Technicians (Direct Hire)	12
Secretary/Receptionists	<u>9</u>
Total	<u>31</u>

4. The Project will also finance 30 person months of technical assistance to MICI to upgrade the managerial function of the BAC and develop a coordinated mechanism within the three components of the Project. The technical assistance will also develop the data base line to be used for Project evaluation, and assist the BAC in the development and implementation of their procedural manual.

5. Project Liaison

AID will contract a Project liaison during the life of the Project to coordinate all administrative support and monitorship requirements, relating to Project implementation.

K. COST PROJECTIONS

I A II B II C II D II E II F II G II H I
 11 PROJECTION OF EXPENDITURES BY YEAR, COMPONENT, ACTIVITY AND SOURCE

21 (\$000s)

31

41 PROJECT U S A I D COUNTERPART TOTAL GRAND
 51 COMPONENTS GRANT LOAN GOP PFIs AID COUNTER TOTAL

61 -----

71

81 LOAN FUND

91 CREDIT 0 400 0 400 400 400 800

101 OPERATIONS 155 0 0 0 155 0 155

111 SUB-TOTAL 155 400 0 400 555 400 955

121

131 GUARANTEE FUND 750 0 0 0 750 0 750

141

151 BUSINESS ASSIT. COMP.

161 BUS. TECH. 44 0 0 0 44 0 44

171 SUPERVISORS 84 0 0 0 84 0 84

181 OFFICES 0 0 39 0 0 39 39

191 MICRO-COMPUTERS 30 0 0 2 30 0 30

201 VEHICLES 70 0 0 0 70 0 70

211 FUEL & MAINT. 0 0 10 0 0 10 10

221 BUS. TECH. TRAVEL 0 0 3 0 0 3 3

231 FEDPA TECH. 25 0 0 0 25 0 25

241 BUS. TECH. COURSES 3 0 0 0 3 0 3

251 SUPERV. COURSES 1 0 0 0 1 0 1

261 ADM. COURSES 1 0 0 0 1 0 1

271 T.A. UNPYME 17 0 0 0 17 0 17

281 OFFICE SPACE UNPYME 6 0 0 0 6 0 6

291 SECRETARY 5 0 0 0 5 0 5

301 FAMILIARIZATION SEM. 2 0 0 0 2 0 2

311 TRAINING SEM. 10 0 0 0 10 0 10

321 ADM. PERSONNEL 147 0 20 0 147 20 167

331 BUSINESS ASSIT. SUB-TOTAL 445 0 72 0 445 72 517

341

351 PROJECT EVALUATION 0 0 0 0 0 0 0

361 PROJECT LIASON 50 0 0 0 50 0 50

371 EVALUATION SUB-TOTAL 50 0 0 0 50 0 50

381

391 T.A. TO MICI 100 0 0 0 100 0 100

401

411 YEAR 1 PROJECT TOTAL 1500 400 72 400 1900 472 2372

421

431 ACCUMMULATED COST 1500 400 72 400 1900 472 2372

441

451 JULY 23, 1984 DISK 5, SBD1

I	J	K	L	M	N	O	P	Q
PROJECTION OF EXPENDITURES BY YEAR, COMPONENT, ACTIVITY AND SOURCE								
(\$000s)								
PROJECT COMPONENTS	U S A GRANT	I D LOAN	COUNTERPART GOP	PFI's	TOTAL AID	COUNTER	GRAND TOTAL	
81 LOAN FUND								
91 CREDIT	0	1000	0	1000	1000	1000	2000	
101 OPERATIONS	145	0	0	0	145	0	145	
111 SUB-TOTAL	145	1000	0	1000	1145	1000	2145	
121								
131 GUARANTEE FUND	250	0	250	0	250	250	500	
141								
151 BUSINESS ASSIT. COMP.								
161 BUS. TECH.	113	0	0	0	113	0	113	
171 SUPERVISORS	84	0	0	0	84	0	84	
181 OFFICES	0	0	39	0	0	39	39	
191 MICRO-COMPUTERS	0	0	0	0	0	0	0	
201 VEHICLES	0	0	0	0	0	0	0	
211 FUEL & MAINT.	0	0	10	0	0	10	10	
221 BUS. TECH. TRAVEL	0	0	9	0	0	9	9	
231 FEDPA TECH.	56	0	0	0	56	0	56	
241 BUS. TECH. COURSES	3	0	0	0	3	0	3	
251 SUPERV. COURSES	1	0	0	0	1	0	1	
261 ADM. COURSES	0	0	0	0	0	0	0	
271 T.A. UNPYME	17	0	0	0	17	0	17	
281 OFFICE SPACE UNPYME	6	0	0	0	6	0	6	
291 SECRETARY	5	0	0	0	5	0	5	
301 FAMILIARIZATION SEM.	2	0	0	0	2	0	2	
311 TRAINING SEM.	10	0	0	0	10	0	10	
321 ADM. PERSONNEL	125	0	42	0	125	42	167	
331 BUSINESS ASSIT. SUB-TOTAL	422	0	100	0	422	100	522	
341								
351 PROJECT EVALUATION	0	0	0	0	0	0	0	
361 PROJECT LIASON	50	0	0	0	50	0	50	
371 EVALUATION SUB-TOTAL	50	0	0	0	50	0	50	
381								
391 T.A. TO MICI	100	0	0	0	100	0	100	
401								
411 YEAR 2 PROJECT TOTAL	967	1000	350	1000	1967	1350	3317	
421								
431 ACCUMULATED COST	2467	1400	422	1400	3867	1822	5689	
441								
451								

I S T U V W X Y Z
 11 PROJECTION OF EXPENDITURES BY YEAR, COMPONENT, ACTIVITY AND SOURCE
 21 (\$000s)

31	U	S	A	I	D	COUNTERPART		TOTAL		GRAND
41 PROJECT		GRANT		LOAN	GOP	PFI _s	AID	COUNTER	TOTAL	TOTAL
51 COMPONENTS										
61	-----									
71										
81 LOAN FUND										
91 CREDIT		0		1600	0	1600	1600	1600		3200
101 OPERATIONS		0		0	0	0	0	0	0	0
111 SUB-TOTAL		0		1600	0	1600	1600	1600		3200
121										
131 GUARANTEE FUND		0		0	250	0	0	250		250
141										
151 BUSINESS ASSIT. COMP.										
161 BUS. TECH.		105		0	68	0	105	68		173
171 SUPERVISORS		84		0	0	0	84	0		84
181 OFFICES		0		0	39	0	0	39		39
191 MICRO-COMPUTERS		0		0	0	0	0	0		0
201 VEHICLES		0		0	0	0	0	0		0
211 FUEL & MAINT.		0		0	10	0	0	10		10
221 BUS. TECH. TRAVEL		0		0	16	0	0	16		16
231 FEDPA TECH.		62		0	0	0	62	0		62
241 BUS. TECH. COURSES		4		0	0	0	4	0		4
251 SUPERV. COURSES		3		0	0	0	3	0		3
261 ADM. COURSES		1		0	0	0	1	0		1
271 T.A. UNPYME		0		0	0	0	0	0		0
281 OFFICE SPACE UNPYME		0		0	0	0	0	0		0
291 SECRETARY		0		0	0	0	0	0		0
301 FAMILIARIZATION SEM.		0		0	0	0	0	0		0
311 TRAINING SEM.		10		0	0	0	10	0		10
321 ADM. PERSONNEL		0		0	167	0	0	167		167
331 BUSINESS ASSIT. SUB-TOTAL		269		0	300	0	269	300		569
341										
351 PROJECT EVALUATION		50		0	0	0	50	0		50
361 PROJECT LIASON		50		0	0	0	50	0		50
371 EVALUATION SUB-TOTAL		100		0	0	0	100	0		100
381										
391 T.A TO MICI		0		0	0	0	0	0		0
401										
411 YEAR 3 PROJECT TOTAL		369		1600	550	1600	1969	2150		4119
421										
431 ACCUMULATED COST		2836		3000	972	3000	5836	3972		9808
441										
451										

I	AB	AC	AD	AE	AF	AG	AH	AI			
11	PROJFECTION OF EXPENDITURES BY YEAR, COMPONENT, ACTIVITY AND SOURCE										
21	(\$000s)										
31											
41	PROJECT	U	S	A	I	D	COUNTERPART	TOTAL	GRAND		
51	COMPONENTS		GRANT		LOAN		GOP	PFI's	AID	COUNTER	TOTAL
61	-----										
71											
81	LOAN FUND										
91	CREDIT			0	1800		0	1800	1800	1800	3600
101	OPERATIONS			0	0		0	0	0	0	0
111	SUB-TOTAL			0	1800		0	1800	1800	1800	3600
121											
131	GUARANTEE FUND										
141											
151	BUSINESS ASSIT. COMP.										
161	BUS. TECH.			0	0		204	0	0	204	204
171	SUPERVISORS			0	0		84	0	0	84	84
181	OFFICES			0	0		39	0	0	39	39
191	MICRO-COMPUTERS			0	0		0	0	0	0	0
201	VEHICLES			0	0		0	0	0	0	0
211	FUEL & MAINT.			0	0		10	0	0	10	10
221	BUS. TECH. TRAVEL			0	0		21	0	0	21	21
231	FEDPA TECH.			0	0		0	0	0	0	0
241	BUS. TECH. COURSES			3	0		0	0	3	0	3
251	SUPERV. COURSES			1	0		0	0	1	0	1
261	ADM. COURSES			1	0		0	0	1	0	1
271	T.A. UNPYME			0	0		0	0	0	0	0
281	OFFICE SPACE UNPYME			0	0		0	0	0	0	0
291	SECRETARY			0	0		0	0	0	0	0
301	FAMILIARIZATION SEM.			0	0		0	0	0	0	0
311	TRAINING SEM.			10	0		0	0	10	0	10
321	ADM. PERSONNEL			0	0		167	0	0	167	167
331	BUSINESS ASSIT. SUB-TOTAL			15	0		525	0	15	525	540
341											
351	PROJECT EVALUATION			0	0		0	0	0	0	0
361	PROJECT LIASON			50	0		0	0	50	0	50
371	EVALUATION SUB-TOTAL			50	0		0	0	50	0	50
381											
391	T.A. TO MICI			0	0		0	0	0	0	0
401											
411	YEAR 4 PROJECT TOTAL			65	1800		525	1800	1865	2325	4190
421											
431	ACCUMULATED COST			2901	4800		1497	4800	7701	6297	13998
441											
451											

I	AK	II	AL	II	AM	II	AN	II	AO	II	AP	II	AQ	II	AR	I
11 PROJECTION OF EXPENDITURES BY YEAR, COMPONENT, ACTIVITY AND SOURCE																
21 (\$000s)																
31																
41 PROJECT	U	S	A	I	D	COUNTERPART		TOTAL		GRAND						
51 COMPONENTS	GRANT			LOAN		GOP	PFI _s	AID	COUNTER	TOTAL		TOTAL				
61	-----															
71																
81 LOAN FUND																
91 CREDIT			0		1200		0		1200		1200		1200			2400
101 OPERATIONS			0		0		0		0		0		0			0
111 SUB-TOTAL			0		1200		0		1200		1200		1200			2400
121																
131 GUARANTEE FUND			0		0		0		0		0		0			0
141																
151 BUSINESS ASSIT. COMP.																
161 BUS. TECH.			0				229		0		0		229			229
171 SUPERVISORS			0		0		84		0		0		84			84
181 OFFICES			0		0		39		0		0		39			39
191 MICRO-COMPUTERS			0		0		0		0		0		0			0
201 VEHICLES			0		0		0		0		0		0			0
211 FUEL & MAINT.			0		0		10		0		0		10			10
221 BUS. TECH. TRAVEL			0		0		25		0		0		25			25
231 FEDPA TECH.			0		0		0		0		0		0			0
241 BUS. TECH. COURSES			0		0		3		0		0		3			3
251 SUPERV. COURSES			0		0		1		0		0		1			1
261 ADM. COURSES			0		0		0		0		0		0			0
271 T.A. UNPYME			0		0		0		0		0		0			0
281 OFFICE SPACE UNPYME			0		0		0		0		0		0			0
291 SECRETARY			0		0				0							
301 FAMILIARIZATION SEM.			0		0		0		0		0		0			0
311 TRAINING SEM.			0		0		10		0		0		10			10
321 ADM. PERSONNEL			0		0		167		0		0		167			167
331 BUSINESS ASSIT. SUB-TOTAL			0		0		568		0		0		568			568
341																
351 PROJECT EVALUATION			50		0		0		0		50		0			50
361 PROJECT LIASON			50		0		0		0		50		0			50
371 EVALUATION SUB-TOTAL			100		0		0		0		100		0			100
381																
391 T.A. TO MICI			0		0		0		0		0		0			0
401																
411 YEAR 5 PROJECT TOTAL			100		1200		568		1200		1300		1768			3068
421																
431 ACCUMULATED COST			3001		6000		2065		6000		9001		8065			17066
441																
451																

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I	A	B	C	D	E	F	G
11	PROJECTION OF EXPENDITURES BY YEAR, COMPONENT AND ACTIVITY						
21							
31							
41	PROJECT	YEAR	YEAR	YEAR	YEAR	YEAR	TOTAL
51	COMPONENTS	1	2	3	4	5	COST
61	-----						
71							
81	LOAN FUND						
91	CREDIT	800	2000	3200	3600	2400	12000
101	OPERATIONS	155	145	0	0	0	300
111	SUB-TOTAL	955	2145	3200	3600	2400	12300
121							
131	GUARANTEE FUND	750	500	250	0	0	1500
141							
151	BUSINESS ASSIT. COMP.						
161	BUS. TECH.	44	113	173	204	229	763
171	SUPERVISORS	84	84	84	84	84	420
181	OFFICES	39	39	39	39	39	195
191	MICRO-COMPUTERS	30	0	0	0	0	30
201	VEHICLES	70	0	0	0	0	70
211	FUEL & MAINT.	10	10	10	10	10	50
221	BUS. TECH. TRAVEL	3	9	16	21	25	74
231	FEDPA TECH.	25	56	62	0	0	143
241	BUS. TECH. COURSES	3	3	4	3	3	16
251	SUPERV. COURSES	1	1	3	1	1	7
261	ADM. COURSES	1	0	1	1	0	3
271	T.A. UNPYME	17	17	0	0	0	34
281	OFFICE SPACE UNPYME	6	6	0	0	0	12
291	SECRETARY	5	5	0	0	0	10
301	FAMILIARIZATION SEM.	2	2	0	0	0	4
311	TRAINING SEM.	10	10	10	10	10	50
321	ADM. PERSONNEL	167	167	167	167	167	835
331	BUSINESS ASSIT. SUB-TOTA	517	522	569	540	568	2716
341							
351	PROJECT EVALUATION	0	0	50	0	50	100
361	PROJECT LIASON	50	50	50	50	50	250
371	EVALUATION SUB-TOTAL	50	50	100	50	100	350
381							
391	T.A. TO MICI	100	100	0	0	0	200
401							
411	PROJECT COST BY YR.	2372	3317	4119	4190	3068	17066
421							
431	ACUMMULATED COST	2372	5689	9808	13998	17066	
441							
451							
461	DATE: JULY 26, 1984, DISK:5, SUMCOST1						

WORKING TABLES FOR THE BAC

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TABLE 1

NUMBER OF SSEs RECEIVING BUSINESS ASSISTANCE
PERSONS YEAR REQUIREMENTS AND COSTS

	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>Yrs. 1-5</u>	<u>6</u>	<u>7</u>	<u>8</u>	<u>9</u>	<u>10</u>
SSEs Receiving Bus. Assist.											
Bus. Assessment <u>1/</u>	400	1,000	1,600	1,600	2,000	6,800	2,000	2,000	2,000	2,000	2,000
Bus. Assistance <u>2/</u>	200	500	800	800	1,000	3,400	1,000	1,000	1,000	1,000	1,000
Bus. Follow-up <u>3/</u>	0	200	700	1,300	1,700	3,900	1,900	2,000	2,000	2,000	2,000
Yr. 2	-	-	500	800	900	2,400	1,000	1,000	1,000	1,000	1,000
Yr. 3	-	-	200	500	600	1,500	900	1,000	1,000	1,000	1,000
Business Tech. Per/Year	5	12	21	26	29		30	31	31	31	31
Bus. Assessment <u>4/</u>	4	9	15	17	19		19	19	19	19	19
Bus. Assistance <u>5/</u>	1	2	4	4	5		5	5	5	5	5
Bus. Follow-up <u>6/</u>	0	1	2	5	6		7	7	7	7	7
No. MICI Bus. Tech. <u>7/</u>	5	12	12	12	12		12	12	12	12	12
No. Contractors	0	0	9	14	17		18	19	19	19	19
Bus. Tech. Cost	32,000	84,800	144,800	175,200	200,800	637,600	205,600	208,000	208,000	208,000	208,000
Fringe Benefits 35% <u>8/</u>	11,928	28,627	28,627	28,627	28,627	126,437	28,627	28,627	28,627	28,627	28,627
TOTAL COST	43,928	113,427	173,427	203,827	229,427	764,037	234,227	236,627	236,627	236,627	236,627

(1) Number of SSEs requesting business assessments.

(2) 50% of SSE loan applicants receive loans.

(3) Number of SSEs that require follow-up business assistance during the second and third year of their loan.

(4) Business assessments require 2 visits per SSE for a total of 16 hours.

(5) SSEs receiving loans-business assistance required during the 1st year of a loan is 12 hrs.

(6) Follow-up business assistance during the 2nd and 3rd year of a loan requires 2 visits at 3 hours each = Total of 6 hours.

(7) Number of MICI and Contract Business Technicians required per year.

(8) Fringe Benefits (35.46%): Seguro Social - 10.75%, Seguro Educativo - 1.25%, Riesgo Profesional - 1.50%, Décimo Tercer - 8.33%.

TABLE 2

ADMINISTRATIVE PERSONNEL

<u>Position</u>	<u>Number</u>	<u>Monthly Wage</u>	<u>Yearly Wage</u>
General Manager	1	2,000	24,000
Training Officer	1	1,250	15,000
Administration/ Contract Officer	1	1,100	13,200
Accountant	1	1,000	12,000
Secretary/Typist	9	550	59,400
Sub-Total		5,900	123,600
Fringe Benefits at 35%			43,260
TOTAL COST:			166,860

TABLE 3

NUMBER OF FEDPA BUSINESS TECHNICIANS

	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>
Cost of FEDPA	24,934	55,644	61,800
Salary	11,000 <u>1/</u>	24,200 <u>2/</u>	26,600 <u>2/</u>
Fringe Benefits	4,938	10,862	11,948
Per Diem	2,200	5,500	6,600
Transportation	2,640	5,808	6,380
Overhead	4,156	9,274	10,872

1/ Two technicians.

2/ Four technicians.

TABLE 4

LOCATION, NUMBER AND COST OF REGIONAL OFFICES PER YEAR

<u>Location</u>	<u>Number</u>	<u>Cost</u>
Panama	1	18,000
Penonomé	1	4,200
Azuero	1	4,200
Santiago	1	4,200
David	1	4,200
Colón	1	<u>4,200</u>
Total	6	<u>39,000</u>

TABLE 5

NUMBER AND COST OF EQUIPMENT
(In dollars)

<u>Description</u>	<u>Years</u>									
	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>	<u>7</u>	<u>8</u>	<u>9</u>	<u>10</u>
1. Purchase of										
Micro-Computer										
Number <u>1/</u>		7	-	-	7	-	-	-	-	-
Cost <u>2/</u>	30,000	-	-	-	-	30,000	-	-	-	-
2. Purchase of Vehicles										
Number	7	-	-	-	-	-	-	-	7	-
Cost <u>3/</u>	70,000	-	-	-	-	-	-	-	70,000	-
3. Total Equipment										
Cost	<u>100,000</u>	=	=	=	=	30,000	=	=	<u>70,000</u>	-

1/ Estimated life per micro-computer is 5 years.

2/ Estimated cost of micro-computer and software \$4285 each.

3/ Cost per vehicle is \$10,000.

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TABLE 6

FUEL AND MAINTENANCE

<u>Vehicles</u>	<u>KM</u>	<u>Work Days</u>	<u>Total Kms</u>
7	40 per day	213	59,640
15 Km per gallon=			3975 gallons per year
\$2.25 per gallon			\$8,946.00
		Maintenance 15% of fuel=	1,342.00
Total Cost =	10,288.00	(Per year)	

TABLE 7

NUMBER OF VISITS AND TRAVEL COST FOR BUSINESS TECHNICIANS

<u>Description</u>	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>Yrs.1-5</u>	<u>6</u>	<u>7</u>	<u>8</u>	<u>9</u>	<u>10</u>	<u>Yrs.6-10</u>
Bus. Assessment	400	1,000	1,600	1,800	2,000	6,800	2,000	2,000	2,000	2,000	2,000	10,000
Bus. Assistance	200	500	800	900	1,000	3,400	1,000	1,000	1,000	1,000	1,000	5,000
Bus. Follow-up	0	200	700	1,300	1,700	3,900	1,900	2,000	2,000	2,000	2,000	9,900
<u>Number of Visits</u>	<u>1,200</u>	<u>3,400</u>	<u>6,200</u>	<u>8,000</u>	<u>9,400</u>	<u>28,200</u>	<u>9,800</u>	<u>10,000</u>	<u>10,000</u>	<u>10,000</u>	<u>10,000</u>	<u>49,800</u>
Bus. Assessment	800	2,000	3,200	3,600	4,000	13,600	4,000	4,000	4,000	4,000	4,000	20,000
Bus. Assistance	400	1,000	1,600	1,800	2,000	6,800	2,000	2,000	2,000	2,000	2,000	10,000
Bus. Follow-up	0	400	1,000	2,600	3,400	7,800	3,800	4,000	4,000	4,000	4,000	19,800
<u>Cost of Visits</u>	<u>\$ 3,000</u>	<u>\$ 8,700</u>	<u>\$16,200</u>	<u>\$21,300</u>	<u>\$25,200</u>	<u>\$74,400</u>	<u>\$26,400</u>	<u>\$27,000</u>	<u>\$27,000</u>	<u>\$27,000</u>	<u>\$27,000</u>	<u>\$134,400</u>
Bus. Assessment	2,400	6,000	9,600	10,800	12,000	40,800	12,000	12,000	12,000	12,000	12,000	60,000
Bus. Assistance	600	1,500	2,400	2,700	3,000	10,200	3,000	3,000	3,000	3,000	3,000	15,000
Bus. Follow-up	0	1,200	4,200	7,800	10,200	23,400	11,400	12,000	12,000	12,000	12,000	59,400

TABLE 8

REGIONAL SEMINAR

<u>Year</u>	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>
<u>Number of Activities</u>					
Familiarization					
Seminars	6	6			
Training Seminars	6	6	6	6	6
<u>Number of Persons</u>					
<u>Attending</u>					
Familiarization					
Seminars	200	200	-	-	-
Training Seminars	<u>200</u>	<u>200</u>	<u>200</u>	<u>200</u>	<u>200</u>
Total Persons Attending	400	400	200	200	200
<u>Seminar Cost 1/</u>					
(includes Per Diem/Travel)					
Familiarization					
Seminars	1,650	1,650	-	-	-
Training Seminars	<u>10,230</u>	<u>10,230</u>	<u>10,230</u>	<u>10,230</u>	<u>10,230</u>
Total Cost	<u>11,880</u>	<u>11,880</u>	<u>10,230</u>	<u>10,230</u>	<u>10,230</u>

1/ Refer to Tables A and B for cost breakdowns.

TABLE A

FAMILIARIZATION SEMINARS

Training Facilities: \$ 50 per seminar

Per Diem & Travel:

General Manager	\$ 75
Training Officer	75
UNPYME Official	<u>75</u>

\$225

Cost Per Seminar: \$275

Six (6) Seminars per year \$1,650

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TABLE B

BUSINESS & FINANCIAL MANAGEMENT WORKSHOP

Business and Financial Management Workshops run for three (3) weeks, three (3) nights per week for a total of 27 hours.

Per Diem for 9 nights x \$45 x 6 workshops:	
Travel per workshop: \$50 x 6 workshops:	<u>300</u>
Totals for 6 workshops	\$2,730
Seminar Contract at \$1,250 per workshop x 6:	<u>7,500</u>
Total Cost:	<u><u>\$10,230</u></u>

(DOC. 4374P)

ANNEX B

TECHNICAL ANALYSIS

SECTION 4

EMPLOYMENT / UNEMPLOYMENT

EMPLOYMENT/UNEMPLOYMENT

The most recent official figures of unemployment are based on the August, 1982 household survey. Unemployment in that year reached 9.1% and visible underemployment (those who work less than 40 hours per week but would be willing to work more) reached the equivalent of 2.1% of the labor force. The data from the 1983 household survey has not been processed completely, but available data indicates that the unemployment rate has increased to about 11.3% and that unemployment and visible underemployment has reached about 14%. Fully 73% of the unemployed are concentrated in the Metropolitan region which comprises Panama and its adjacent cities, and Colón. In certain areas adjacent to Panama City, such as San Miguelito, unemployment is close to 20%, and is said to exceed 25% in the city of Colón. The concentration of unemployment in a few urban areas contributes significantly to the explosiveness of the unemployment issue, which is viewed by many as the most important problem facing Panama today. The unemployment situation probably will deteriorate in the immediate future as a consequence of the low rates of economic growth forecasted for Panama for the next five years.

In order to understand the nature of the unemployment problem in Panama today, and the prospects for the future, it is necessary to analyze what occurred in the labor market in the 1970s. Although the rate of growth of jobs created in the 1970s was only one half of the rate which prevailed in the 1960s, the unemployment rate remained stable because of a reduction in the rate of growth of the labor force, a consequence of a sharp decline in the participation rate from 61.3% in 1970 to 57.6% in 1979. This decline in the participation rate was due entirely to a decline in the participation rate of 15-19 year olds, and of those older than 50 years, as is demonstrated by the following:

Participation Rates

	<u>1970</u>	<u>1979</u>
Total	61.3	57.6
15-19	48.3	31.7
20-29	69.9	70.8
30-39	69.3	72.6
40-49	67.6	68.0
50-59	65.0	58.0
More than 60	37.7	30.5

The decline in the participation rate is a consequence of increased levels of high school and university enrollment, as well as a reduction in the retirement age. The participation rate, which declined steadily in the 1970s, has now stabilized. In the future, it is expected to increase slightly and has a consequence, the labor force will increase at about 3% per annum.

The need to provide employment to the new entrants into the labor force is the most important economic issue facing Panama in the immediate future, particularly now that further declines in the participation rate are not likely. Two other factors increase the magnitude of the problem. First, during the period 1970-79, more than three fourths of new jobs created were in the public sector. As public sector spending will be severely constrained in the future, the private sector will have to absorb the majority of new entrants to the labor force. Second, the incremental capital labor ratio in the 1970s was four times greater in real terms than in the 1960s and has reached US\$65,000 at 1984 prices. Even under the most optimistic assumptions about growth and investment the unemployment rate is expected to increase in the future.

(DOC. 4416P)

ANNEX B

TECHNICAL ANALYSIS

SECTION 5

DEMAND ANALYSIS

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Peat, Marwick, Mitchell & Co.
Avenida 4ta Sur
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Apartado 5307, Panamá 5, R. P.
Teléfono: 63-5677
Telex: 2052 Veritatem

August 30, 1984

Mr. Bernaf Velarde
Project Manager
U.S. AID Mission to Panama
Panama, R. of Panama

Dear Mr. Velarde:

In connection with our contract for a demand study of credit to small scale enterprises, we are rendering our final report which includes:

1. Summary and findings on the survey conducted to fourteen (14) financial institutions that were selected in the manner explained to you in our letter dated August 15, 1984. Also, the present report includes comments to each of the attached Schedules 1 to 17 that represent a compilation of all the information gathered from the survey to financial institutions and certain statistics thereto.
2. Summary and findings on the survey conducted to one hundred and seven (107) small scale enterprises. In our letter to you dated August 3, 1984 we reported on such survey. However, the present report includes additionally comments to each of the attached Schedules 1 to 14 that had been previously presented to you. Schedules 1 to 14 represent a compilation of information and statistics resulting from the survey to small scale enterprises.

OBJECTIVES OF THE SURVEYS

With regard to the survey conducted to small scale enterprises, the general objectives were to determine the existence of demand for credit on their part and to know about their experience with previous credits received, if any. On the other hand, the general objectives of the survey conducted to financial institutions were to know about their willingness to participate in a program funded by AID to make available credits to small scale enterprises and also to know about their experience with credits granted to said enterprises.



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SUMMARY AND FINDINGS FROM SMALL SCALE ENTERPRISES

The summaries and statistics of information gathered in the survey to small scale enterprises have been compiled in attached Schedules 1 to 14. The following is a brief summary and comments on the findings.

General Characteristic of Enterprises Surveyed

As reported in our letter dated August 3, 1984, our staff assigned to this survey personally interviewed the owner or principal officer of the 107 enterprises using a standard questionnaire for this purpose. The study was directed to interview enterprises involved in one (1) of at least nineteen (19) different business activities, and it was substantially accomplished. Also, enterprises interviewed were located in six areas of the country having a large concentration of population, namely, Panama City and surroundings, David, Colon, Chitre/Las Tablas, and Santiago.

Of all enterprises surveyed, 54% declared having total assets of less than or equal to US\$25,000, 27% having total assets between US\$25,001 and US\$75,000, 7% between US\$75,001 and US\$100,000, 9% between US\$100,001 and US\$200,000, and 3% did not disclose their assets. Total assets excluded land and building. However, 75% of surveyed enterprises do not own land and building.

Another aspect of surveyed enterprises is that 57% declared having a number of employees in the range 1 to 5, 26% in the range of 6 to 10, 15% in the range of 11 to 25, and 2% declared having more than 25 employees.

A 36% of all surveyed enterprises reported annual gross sales of more than or equal to US\$25,000, 32% between US\$25,001 and US\$100,000, 19% between US\$100,001 and US\$200,000, 7% more than US\$200,000 and 6% did not indicate amount of sales.

From above summary we conclude that a large percentage of the enterprises surveyed were in effect very small scale enterprises, where there may be a potential for growth of their business and consequently for increasing of employment.

Acceptance or Rejection of AID Proposed Credit Terms

In order to test possible terms and conditions under which enterprises may be able to accept credit, the following were proposed to the surveyed enterprises:

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- . Without collateral
- . 3 to 5 years maturity and one (1) year of grace period
- . 18% annual interest rate
- . Credit to finance up to 90% of the investment to be made

As a result, 87% responded for a need of credit where collateral was not required of them. In fact, our impression is that a large percentage of these enterprises do not have collateral to support a credit. In addition, 95% expressed interest in medium term loans (3 to 5 years) and one (1) year of grace period. 72% responded that 18% interest rate was too high and 93% expressed interest for receiving financing of up to 90% of the investment.

The surveyed enterprises expressed a great need for credit. However, their lack of experience with credit caused them to be uncertain in regard to interest rate on the credit and to be frightened in general of high interest rates.

Amount and Purpose of Credit Need

Enterprises expressed their need of credit foremost for the following purposes, in order of relative importance (in several cases for a combination of purposes):

1. Working capital
2. Equipment acquisition
3. Construction of facilities

Having classified the purpose(s) of the credit, 55% of the amounts of credit needed ranged between US\$1,000 and US\$10,000, 33% between US\$10,001 and US\$30,000, and the rest of the answers were well spread out above US\$30,000.

Past Experience with Credit

Basically, 56% of enterprises surveyed have some past credit experience, and 69% of such credits were received from government institutions and the remaining 31% from private financial institutions. 44% of surveyed enterprises do not have past credit experience.

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Factors that Contribute to Lack of Credit Supply

Owners or principal officers of enterprises surveyed considered by far that the main reason for the lack of credit availability to small scale enterprises was that they did not have collateral to support the loan. High interest rate on this type of credit was ranked as the second most important reason, because high interest rate could impair liquidity of the enterprise to appropriate service the debt.

SUMMARY AND FINDINGS FROM FINANCIAL INSTITUTIONS

As explained to you in our letter dated August 15, 1984, we selected fourteen (14) local financial institutions for the survey, based on the degree of confidence we could place in the various institutions operating in Panama to participate in the AID Program to make credit available to small scale enterprises.

Of the fourteen (14) institutions selected, one (1) of them did not answer the questionnaire used for this purpose. This institution was Banco de Santander y Panama, S. A. For this reason we are not including this bank in the accompanying final statistics shown in Schedules 1 to 17.

Existence of Credit Demand

The survey disclosed that financial institutions have received demand for credit from small scale enterprises. The demand for credit has been primarily received from enterprises classified in the commercial activities of the economy; next, such demand was received from service and industrial activities.

The institutions surveyed indicated that credit applications were primarily received to finance needs of enterprises already established and secondly to initiate new enterprises. In addition, applications were received primarily for purpose of working capital, secondly for equipment acquisition and thirdly for other purposes such as construction of facilities and debt consolidation.



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Experience of Credits Granted to Small Scale Enterprises

Of the thirteen (13) institutions surveyed 85% expressed that they have granted in the past credits to small scale enterprises. However, only 38% of the institutions under survey expressed that they presently have a credit program for such enterprises. The reasons for having decreased their credit programs appear to be the negative credit risk elements surrounding small scale enterprises, such as, insufficiency or lack of initial investment by the owners/shareholders, inadequate cash flow for debt servicing, lack of adequate collateral to support the credit and, overall, the high risk involved in loans to small scale enterprises.

Financial Institutions which Expressed Interest in AID Credit Program

Eight (8) of the institutions surveyed expressed a definite interest in participating in the proposed credit program to small scale enterprises. Two (2) of the banks answered that they were not interested, but yet they expressed to us their willingness to maintain an open attitude towards the program, depending on the final terms under which this program was to be developed. For that purpose these two banks (Banco Cafetero (Panama), S. A. and Banco Fiduciario de Panama, S. A.) indicated to us that they wanted to meet with AID representatives to know the final details of the program and to make their final decision. On the other hand, the three (3) remaining banks (Banco Interoceanico de Panamá, S. A., Marine Midland Bank, and Banco de Bogota, S. A.) gave a definitive "No" answer. They were strong in their position of not being interested in participating in this program.

COMMENTS TO ATTACHED SCHEDULES 1 TO 14 REGARDING SMALL SCALE ENTERPRISES

Information gathered from the survey to small scale enterprises was summarized in attached Schedules 1 to 14. The following represent comments to each of the schedules that may enhance their understanding:



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Schedule 1 Enterprises Surveyed by Geographic Area and Economic Activity:

The decision to select an approximate amount of 100 small scale enterprises was based upon the known fact that this type of enterprises were already demanding credit to finance various aspects of their operations and that there was no need to make a scientific selection of enterprises (which could result in a costly study) in order to accomplish the objective. Therefore, we utilized listings of existing enterprises that were provided by government and private institutions in order to select 107 enterprises appropriately distributed in six cities where there is a high concentration of population and considering the economic activity in which the enterprises may be classified. The sample subjected to the survey has been summarized thereto in Schedule 1.

Schedule 2 Enterprises Surveyed by Specific Business Activity:

We planned and succeeded in interviewing enterprises involved in one of several types of business activity, to avoid concentration in one or few types of enterprises. The results of the types of small scale enterprises surveyed are summarized in Schedule 2.

Schedule 3 Total Assets of Surveyed Enterprises:

The enterprises surveyed were asked to indicate the total assets owned, excluding land and building, and their business classification by sector of the economy (industry, commerce, service, micro). We also requested information in regard to land and building owned, if any, and in regard to annual gross sales and number of employees presently working at the enterprise. All of this information which provided knowledge about the relative size of the enterprises surveyed, are summarized in Schedules 3, 4, 5, and 6.



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Schedule 4 Land and Building Cost of Surveyed Enterprises,

Refer to above comment on Schedule 3.

Schedule 5 Number of Employees of Surveyed Enterprises,

Refer to above comment on Schedule 3.

Schedule 6 Annual Gross Sales of Surveyed Enterprises,

Refer to above comment on Schedule 3.

Schedule 7 Answer Obtained Concerning AID Proposed Credit Terms and Conditions:

AID representatives provided us with certain credit terms and conditions that were submitted to the small scale enterprises to test their response, as follows:

- . Credits without collateral.
- . Three (3) to five (5) years maturity and one (1) year of grace period.
- . 18% annual interest rate.
- . To finance up to 90% of the investment to be made.

Schedule 8 Interest Rate Considered as Adequate by Enterprises,

Enterprises were requested to state the interest rate that they considered as adequate for a credit if they thought that proposed 18% rate was too high. This question was intended to ascertain their thinking in regard to interest rate, and the results were summarized in Schedule 8.

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Schedule 9 Purpose of Credit Requested by Enterprises:

Enterprises were requested to state whether they were interested in credit availability from financial institutions. The answer was positive in all cases.

In addition, they were requested to indicate the amount and the purpose of the credit required. The idea behind these questions was to single out specific enterprises that may become beneficiaries of the AJD Credit Program and their particular needs. The results of these questions have been summarized in Schedules 9 and 10.

Schedule 10 Credit Amount required by Enterprises (By Purpose of the Credit):

Refer to above comment on Schedule 9.

Schedule 11 Enterprises that have Credit Experience (By Institutions and Terms):

We requested the enterprises' past experience with credit, and such results showing the terms, conditions, and the name of the financial institution have been summarized in Schedule 11.

Schedule 12 Factors that Contribute to the Reduced Credit Supply:

We tested the opinion of these enterprises as to the reasons for the reduced credit availability to small scale enterprises. Their answers have been summarized in Schedule 12.

Schedule 13 External Assistance Required by Enterprises:

For the purpose of knowing the type of external assistance that this enterprises may require, they were asked to classify the following three aspects:

- . Financial assistance
- . Technical assistance
- . Administrative assistance

The results have been summarized in Schedule 13.

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Schedule 14 Concern Expressed by Enterprises Upon Lack of Credit Availability;

We requested the opinion of the enterprises in regard to the future of their business if the lack of credit availability continued in this country, and the results have been summarized in Schedule 14.

The most important findings of the survey to small scale enterprises have been summarized in the earlier part of this report.

COMMENTS ON ATTACHED SCHEDULES 1 TO 17
REGARDING FINANCIAL INSTITUTIONS

Schedules 1 through 17 summarize the information and statistics as a result of the answer provided by financial institutions regarding credits to small scale enterprises. Each of the schedules contains the name of the thirteen (13) financial institution that responded to our survey. Following are certain comments about each of the mentioned schedules:

Schedule 1 Characteristics of Small Scale Enterprises as Defined by the Financial Institutions;

Institutions were requested to provide their own criteria or definition of a small scale enterprise, and such results have been summarized in Schedule 1.

Schedule 2 Existence of Credit Demand from Small Scale Enterprises;

We tested the criteria of the financial institutions with regard to the existence or not of credit demand from small scale enterprises, and their answer was summarized in Schedule 2.

Schedule 3 Credit Application Received from Small Scale Enterprises;

We requested the experience of these financial institutions with regard to credit applications from small scale enterprises, as follows;

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- . By economic activity of the enterprise
- . By aging of business (from established enterprise or from a starting enterprise)
- . By purpose of the credit
- . By geographic location of the enterprise

All of these answers have been summarized in Schedule 3 to 7.

Schedule 4 Credit Application Received from Small Scale Enterprises by Economic Activity;

Refer to above comments on Schedule 3.

Schedule 5 Credit Application Received from Small Scale Enterprises by Aging of Business;

Refer to above comments on Schedule 3.

Schedule 6 Credit Application Received from Small Scale Enterprises by Purpose of Credit;

Refer to above comments on Schedule 3.

Schedule 7 Credit Application Received from Small Scale Enterprises by Geographic Area;

Refer to above comments on Schedule 3.

Schedule 8 Credits Granted to Small Scale Enterprises;

We requested to know the aggregate amount of actual credit granted by financial institutions to small scale enterprises during the last three (3) years, including the following;

- . By maturity
- . By geographic area of enterprises
- . By economic activity of enterprises

The institutions that have granted credits to small scale enterprises and the particulars of these credits have been summarized in Schedule 8 and 9.

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Schedule 9 Credits Granted to Small Scale Enterprises by Maturity, Geographic Area and Economic Activity:

Refer to above comments on Schedule 8.

Schedule 10 Outstanding Balance of Credits Granted by Credit Terms and Economic Activity of Small Scale Enterprises:

AID representatives were interested in knowing the outstanding balance of actual credit portfolio to small scale enterprises, including information by maturity, by type of activity, by collateral and by interest rate. Such information have been summarized in Schedule 10.

Schedule 11 Experiences on Credits Granted to Small Scale Enterprises:

Additionally, institutions were requested to provide detailed information in regard to credits granted to small scale enterprises, such as credit limits, maturity limits, interest rate limits, commission and general aspects of collection experience. This information have been summarized in Schedule 11.

Schedule 12 Reasons for Denying Credit Applications of Small Scale Enterprises:

In order to evaluate the reasons for the denying credit applications to small scale enterprises and/or not presently extending credits to such enterprises, institutions were requested to indicate (in order of relative importance) their reasoning for such occurrence, which have been summarized in Schedules 12 and 13.

Schedule 13 Reasons for Not Presently Extending Credit to Small Scale Enterprises:

Refer to above comments on Schedule 12.

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Schedule 14 Actual Credit Programs to Small Scale Enterprises:

Schedule 14 summarizes the statistics on these institutions which presently have a credit program to small scale enterprises and those which do not have credit programs.

Schedule 15 Financial Institutions which Expressed Interest in AID Credit Program for Small Scale Enterprises:

Were requested the institutions to express if they were interested in participating in the AID Credit Program for small scale enterprises and also, to indicate the estimated amount they were willing to commit in this program.

The results of their answers have been summarized in Schedule 15 and 16.

Schedule 16 Estimated Amount that Financial Institutions are Willing to Extend to Small Scale Enterprises under AID Program:

Refer to above comments on Schedule 15.

Schedule 17 Aggregate Amount of Credit Demand from Small Scale Enterprises for Next Two (2) to Five (5) Years, as Estimated by Financial Institutions:

We requested an estimation of the aggregate amount of credit demand from small scale enterprises for the next two (2) to five (5) years. We knew that it was rather a difficult question to answer because many elements would have to be considered to provide an appropriate answer. The results to this question have been summarized in Schedule 17.

The most important findings of the survey to the financial institutions have been summarized in an early section of this report.

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EXISTING BUSINESSES IN PANAMA

We also enclose an additional schedule entitled "Existing Businesses in Panama", which was provided by AID representatives for inclusion to the present report. It shows the estimated number of businesses in Panama and those which are registered with Caja de Seguro Social, stratified by business activities and number of employees.

* * * * *

Schedules 1 to 17 regarding the survey to the financial institutions include the name of each institution. We remind you that the information is of a confidential nature for AID and Peat Marwick and must not be disclosed with specific names to anyone outside AID and Peat Marwick.

We thank you for the opportunity to have developed this study which we consider important to the future of small scale enterprises, increasing of employment and to the country as a whole.

Very truly yours,

PEAT, MARWICK, MITCHELL & CO.

Jose M. Arauz
Jose M. Arauz, Partner

JMA:igc

- Enclosures.
- . Schedules 1 to 14, summary and statistics of the results of survey to small scale enterprises.
 - . Schedules 1 to 17, summary and statistics of the results of survey to financial institutions.
 - . Schedule of Existing Businesses in Panama.

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A.I.D. U. S. MISSION TO PANAMA

Summary of Information and Statistics
from Financial Institutions

August 30, 1984

 PEAT
MARWICK

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SURVEY ON CREDIT AVAILABILITY FROM FINANCIAL INSTITUTIONS TO
SMALL SCALE ENTERPRISES

Summary Concerning Characteristics of a Small Scale Enterprise,
As Defined by the Financial Institutions

		<u>Gross Sales</u>	<u>Capital</u>	<u>Total Assets</u>	<u>Number of employees</u>
1. Banco Interoceánico de Panamá, S. A.	US\$	500,000	N/D	200,000	25
2. Banco Continental de Panamá, S. A.		N/D	50,000	150,000	25
3. Banco Comercial de Panamá, S. A. (BANCOMER)		500,000	100,000	250,000	15
4. Banco del Comercio, S. A.		750,000	150,000	500,000	75
5. Marine Midland Bank (1)		-	-	-	-
6. Banco de Colombia		1,000,000	200,000	400,000	N/D
7. The Chase Manhattan Bank, N. A.		N/D	100,000	N/D	N/D
8. Banco Internacional de Panamá, S. A.		150,000	N/D	50,000	15
9. Banco Exterior, S. A.		1,000,000	N/D	250,000	30
10. Banco de Desarrollo Agropecuario		N/D	N/D	N/D	20
11. Banco de Bogotá, S. A.		N/D	N/D	N/D	N/D
12. Banco Cafetero (Panamá), S. A.		250,000	N/D	100,000	30
13. Banco Fiduciario de Panamá, S. A.		500,000	200,000	N/D	10

Note: N/D = Definition provided did not include this characteristic.

(1) This bank did not provide an appropriate answer to this question.

SURVEY ON CREDIT AVAILABILITY FROM FINANCIAL INSTITUTIONS TO
SMALL SCALE ENTERPRISES

Summary Concerning Existence of Credit Demand from
Small Scale Enterprises

	Financial institutions that considered there <u>is credit demand</u> from small scale <u>enterprises</u>	Financial institutions that considered there <u>is no credit demand</u> from small scale <u>enterprises</u>	
1. Banco Interoceánico de Panamá, S. A.		No	
2. Banco Continental de Panamá, S. A.	Yes		
3. Banco Comercial de Panamá, S. A. (BANCOMER)	Yes		
4. Banco del Comercio, S. A.	Yes		
5. Marine Midland Bank	Yes		
6. Banco de Colombia	Yes		
7. The Chase Manhattan Bank, N. A.	Yes		
8. Banco Internacional de Panamá, S. A.	Yes		
9. Banco Exterior, S. A.	Yes		
10. Banco de Desarrollo Agropecuario	Yes		
11. Banco de Bogotá, S. A.	Yes		
12. Banco Cafetero (Panamá), S.A.	Yes		
13. Banco Fiduciario de Panamá, S. A.	Yes		
	Total Yes = 12	Total No = 1	Total = 13
	92%	8%	<u>100%</u>

SURVEY ON CREDIT AVAILABILITY FROM FINANCIAL INSTITUTIONS TO
SMALL SCALE ENTERPRISES

Summary Concerning Credit Applications Received from
Small Scale Enterprises

	Financial institutions that have received credit applications from small scale <u>enterprises</u>	Financial institutions that have not received credit applications from small scale <u>enterprises</u>	
1. Banco Interoceánico de Panamá, S. A.		No	
2. Banco Continental de Panamá, S. A.	Yes		
3. Banco Comercial de Panamá, S. A. (BANCOMER)	Yes		
4. Banco del Comercio, S. A.	Yes		
5. Marine Midland Bank		No	
6. Banco de Colombia	Yes		
7. The Chase Manhattan Bank, N. A.	Yes		
8. Banco Internacional de Panamá, S. A.	Yes		
9. Banco Exterior, S. A.	Yes		
10. Banco de Desarrollo Agropecuario	Yes		
11. Banco de Bogotá, S. A.	Yes		
12. Banco Cafetero (Panamá), S.A.	Yes		
13. Banco Fiduciario de Panamá, S. A.	Yes		
	Total Yes = 11	Total No = 2	Total = 13
	85%	15%	<u>100%</u>

	<u>Commerce</u>	<u>Service</u>	<u>Industry</u>	<u>Agriculture</u>	<u>Fishing</u>	<u>Other</u>
1. Banco Interoceánico de Panamá, S. A.	N/A	N/A	N/A	N/A	N/A	N/A
2. Banco Continental de Panamá, S. A.	1	2	3	5	4	N/A
3. Banco Comercial de Panamá, S. A. (BANCOMER)	1	2	3	4	5	N/A
4. Banco del Comercio, S. A.	1	2	3	N/A	N/A	N/A
5. Marine Midland Bank	N/A	N/A	N/A	N/A	N/A	N/A
6. Banco de Colombia	1	2	4	3	5	N/A
7. The Chase Manhattan Bank, N. A.	1	2	3	4	5	N/A
8. Banco Internacional de Panamá, S. A.	1	2	3	N/A	N/A	N/A
9. Banco Exterior, S. A.	1	4	3	2	5	6
10. Banco de Desarrollo Agropecuario	N/A	3	2	1	N/A	N/A
11. Banco de Bogotá, S. A.	1	N/A	N/A	N/A	N/A	N/A
12. Banco Cafetero (Panamá), S. A.	1	3	2	5	4	6
13. Banco Fiduciario de Panamá, S. A.	1	2	4	3	6	5
Statistic of summary of relative importance assigned	1	2	3	4	5	6

Note: One (1) was assigned to the most important economic activity from which credit applications were received and six (6) to the least important economic activity.

N/A = Not applicable. No credit application was received under this classification.

SURVEY ON CREDIT AVAILABILITY FROM FINANCIAL INSTITUTIONS TO
SMALL SCALE ENTERPRISES

Summary of Credit Applications Received from Small Scale Enterprises
By Aging of Business
(In order of relative importance from 1 to 2)

	<u>For financing needs of established enterprise</u>	<u>To initiate new enterprise</u>
1. Banco Interoceánico de Panamá, S. A.	N/A	N/A
2. Banco Continental de Panamá, S. A.	2	1
3. Banco Comercial de Panamá, S. A. (BANCOMER)	1	2
4. Banco del Comercio, S. A.	1	2
5. Marine Midland Bank	N/A	N/A
6. Banco de Colombia	1	2
7. The Chase Manhattan Bank, N. A.	1	2
8. Banco Internacional de Panamá, S. A.	1	2
9. Banco Exterior, S. A.	1	2
10. Banco de Desarrollo Agropecuario	N/A	1
11. Banco de Bogotá, S. A.	2	1
12. Banco Cafetero (Panamá), S. A.	1	2
13. Banco Fiduciario de Panamá, S. A.	1	2
Statistic of summary of relative importance assigned	1	2

Note: One (1) was assigned to most important classification and two (2) to least important.

N/A = Not applicable. No credit application was received under this classification.

SURVEY ON CREDIT AVAILABILITY FROM FINANCIAL INSTITUTIONS TO
SMALL SCALE ENTERPRISES

Summary of Credit Applications Received from Small Scale Enterprises
By Purpose of Credit
(In order of relative importance from 1 to 5)

	<u>Working capital</u>	<u>Equipment acquisition</u>	<u>Debt consolidation</u>	<u>Construction of facilities</u>	<u>Other purposes</u>
1. Banco Interoceánico de Panamá, S. A.	N/A	N/A	N/A	N/A	N/A
2. Banco Continental de Panamá, S. A.	2	1	3	4	N/A
3. Banco Comercial de Panamá, S. A. (BANCOMER)	1	2	3	4	N/A
4. Banco del Comercio, S. A.	1	2	3	4	N/A
5. Marine Midland Bank	N/A	N/A	N/A	N/A	N/A
6. Banco de Colombia	1	2	3	4	5
7. The Chase Manhattan Bank, N. A.	1	3	2	4	5
8. Banco Internacional de Panamá, S. A.	1	2	3	4	N/A
9. Banco Exterior, S. A.	1	3	4	2	5
10. Banco de Desarrollo Agropecuario	3	2	N/A	1	N/A
11. Banco de Bogotá, S. A.	3	2	N/A	1	N/A
12. Banco Cafetero (Panamá), S. A.	1	2	3	4	5
13. Banco Fiduciario de Panamá, S. A.	1	2	4	3	5
Statistic of summary of relative importance assigned	1	2	3	4	5

Note: One (1) was assigned to most important classification and five (5) to least important.

SURVEY ON CREDIT AVAILABILITY FROM FINANCIAL INSTITUTIONS TO
SMALL SCALE ENTERPRISES

Summary of Credit Applications Received from Small Scale Enterprises
By Geographic Area
(In order of relative importance from 1 to 2)

	<u>Urban Area</u>	<u>Rural Area</u>
1. Banco Interoceánico de Panamá, S. A.	N/A	N/A
2. Banco Continental de Panamá, S. A.	2	N/A
3. Banco Comercial de Panamá, S. A. (BANCOMER)	1	2
4. Banco del Comercio, S. A.	1	2
5. Marine Midland Bank	N/A	N/A
6. Banco de Colombia	1	2
7. The Chase Manhattan Bank, N. A.	1	2
8. Banco Internacional de Panamá, S. A.	1	2
9. Banco Exterior, S. A.	1	2
10. Banco de Desarrollo Agropecuario	N/A	1
11. Banco de Bogotá, S. A.	1	N/A
12. Banco Cafetero (Panamá), S. A.	1	2
13. Banco Fiduciario de Panamá, S. A.	1	2
Statistic of summary of relative importance assigned	1	2

Note: One (1) was assigned to the most important classification and two (2) to least important.

SURVEY ON CREDIT AVAILABILITY FROM FINANCIAL INSTITUTIONS TO
SMALL SCALE ENTERPRISES

Summary Concerning Credits Granted to Small Scale Enterprises

	Financial institutions that <u>have granted</u> credit to small scale <u>enterprises</u>	Financial institutions that <u>have not granted</u> credit to small scale <u>enterprises</u>
1. Banco Interoceánico de Panamá, S. A.		No
2. Banco Continental de Panamá, S. A.	Yes	
3. Banco Comercial de Panamá, S. A. (BANCOMER)	Yes	
4. Banco del Comercio, S. A.	Yes	
5. Marine Midland Bank		No
6. Banco de Colombia	Yes	
7. The Chase Manhattan Bank, N. A.	Yes	
8. Banco Internacional de Panamá, S. A.	Yes	
9. Banco Exterior, S. A.	Yes	
10. Banco de Desarrollo Agropecuario	Yes	
11. Banco de Bogotá, S. A.	Yes	
12. Banco Cafetero (Panamá), S. A.	Yes	
13. Banco Fiduciario de Panamá, S. A.	Yes	
	Total Yes = 11	Total No = 2
	85%	15%

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SURVEY ON CREDIT AVAILABILITY FROM FINANCIAL INSTITUTIONS TO
SMALL SCALE ENTERPRISES

Summary Concerning Credits Granted to Small Scale Enterprises,
By Maturity, Geographic Area and Economic Activity 1/

Schedule 9

	MATURITY			GEOGRAPHIC AREA			ECONOMIC ACTIVITY						Total	
	1 to 2 years	3 to 5 years	Total	Urban Area	Rural Area	Total	Industry	Commerce	Service	Agriculture	Fishing	Other		
1. Banco Interoceánico de Panamá, S. A.	US\$	N/A	N/A	N/A	N/A		N/A	N/A	N/A	N/A	N/A	N/A		
2. Banco Continental de Panamá, S. A.		375,000	75,000	450,000	450,000	N/A	450,000	90,000	265,000	105,000	N/A	N/A	N/A	450,000
3. Banco Comercial de Panamá S. A. (BANCOMER)		N/D	N/D	N/D	N/D		N/D	N/D	N/D	N/D	N/D	N/D		
4. Banco del Comercio, S. A.		763,197	N/A	763,197	763,197	N/A	763,197	219,301	481,896	62,000	N/A	N/A	N/A	763,197
5. Marine Midland Bank		N/A	N/A	N/A	N/A		N/A	N/A	N/A	N/A	N/A	N/A		
6. Banco de Colombia		60,000,000	26,000,000	86,000,000	68,800,000	17,200,000	86,000,000	12,900,000	51,600,000	17,200,000	4,300,000	N/A	N/A	86,000,000
7. The Chase Manhattan Bank, N. A.		700,000	2,000,000	2,700,000	2,200,000	500,000	2,700,000	250,000	1,200,000	750,000	500,000	N/A	N/A	2,700,000
8. Banco Internacional de Panamá, S. A.		N/D	N/D	N/D	N/D		N/D	N/D	N/D	N/D	N/D	N/D		
9. Banco Exterior, S. A.		15,000,000	5,000,000	20,000,000	12,000,000	8,000,000	20,000,000	3,000,000	8,000,000	3,000,000	4,000,000	N/A	2,000,000	20,000,000
10. Banco de Desarrollo Agropecuario		N/D	N/D	N/D	N/D		N/D	N/D	N/D	N/D	N/D	N/D		
11. Banco de Bogotá, S. A.		N/D	N/D	N/D	N/D		N/D	N/D	N/D	N/D	N/D	N/D		
12. Banco Cafetero (Panamá), S. A.		N/D	N/D	N/D	N/D		N/D	N/D	N/D	N/D	N/D	N/D		
13. Banco Fiduciario de Panamá, S. A.		N/D	N/D	N/D	N/D		N/D	N/D	N/D	N/D	N/D	N/D		

Note: N/A = Not applicable. No credit was granted under this classification.

N/D = Information not available in this bank.

1/ = Most of this information was estimated by financial institutions.

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Summary of Outstanding Balance of Credits Granted
By Credit Terms and Economic Activity of Small Scale Enterprises 1/

	BY MATURITY				BY TYPE OF ACTIVITY							BY COLLATERAL		
	1 to 3 years	3 to 5 years	More than 5 years	Total	Industry	Commerce	Service	Agriculture	Fishing	Other	Total	With Collateral	Without Collateral	Total
1. Banco Interoceánico de Panamá, S. A.	US\$ N/A	N/A	N/A		N/A	N/A	N/A	N/A	N/A	N/A		N/A	N/A	
2. Banco Continental de Panamá, S. A.	302,000	45,000	N/A	347,000	24,000	236,000	87,000	N/A	N/A	N/A	347,000	145,000	202,000	347,000
3. Banco Comercial de Panamá, S. A. (BANCOMER)	N/D	N/D	N/D		N/D	N/D	N/D	N/D	N/D	N/D		N/D	N/D	
4. Banco del Comercio, S. A.	763,197	N/A	N/A	763,197	219,301	481,896	62,000	N/A	N/A	N/A	763,197	747,041	16,156	763,197
5. Marine Midland Bank	N/A	N/A	N/A		N/A	N/A	N/A	N/A	N/A	N/A		N/A	N/A	
6. Banco de Colombia	26,000,000	7,000,000	N/A	33,000,000	4,950,000	19,800,000	6,600,000	1,650,000	N/A	N/A	33,000,000	23,100,000	9,900,000	33,000,000
7. The Chase Manhattan Bank, N. A.	300,000	189,000	N/A	489,000	28,947	227,258	51,626	64,995	10,294	105,880	489,000	300,000	189,000	489,000
8. Banco Internacional de Panamá, S. A.	N/D	N/D	N/D		N/D	N/D	N/D	N/D	N/D			N/D	N/D	
9. Banco Exterior, S. A.	75,000,000	25,000,000	N/A	100,000,000	15,000,000	40,000,000	15,000,000	20,000,000	N/A	10,000,000	100,000,000	80,000,000	20,000,000	100,000,000
10. Banco de Desarrollo Agropecuario	N/A	N/A	N/A		N/A	N/A	N/A	N/A	N/A	N/A		N/A	N/A	
11. Banco de Bogotá, S. A.	N/A	N/A	7,000,000	7,000,000	300,000	6,500,000	200,000	N/A	N/A	N/A	7,000,000	7,000,000	N/A	7,000,000
12. Banco Cafetero (Panamá), S. A.	168,140	N/A	N/A	168,140*	71,162	96,978	N/A	N/A	N/A	N/A	168,140	80,162	87,978	168,140
13. Banco Fiduciario de Panamá, S. A.	N/D	N/D	N/D		N/D	N/D	N/D	N/D	N/D	N/D		N/D	N/D	

Note: N/A = Not applicable. No credit is outstanding under this classification.

N/D = Information not available in this bank.

*This amount was totally classified in the category of one to six months.

1/ = Most of this information was estimated by financial institutions.

(Continue)

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SURVEY ON CREDIT AVAILABILITY FROM FINANCIAL INSTITUTIONS TO
SMALL SCALE ENTERPRISES

Schedule 10, Cont.

Summary of Outstanding Balance of Credits Granted
By Credit Terms and Economic Activity of Small Scale Enterprises 1/

	BY INTEREST RATE												
		9% discount	10% discount	N.Y. Prime rate + 3%	Libor + 2%	Libor + 3%	Libor + 4%	Libor + 5%	14 1/8%	14 1/2%	15 1/2%	16%	Total
1. Banco Interoceánico de Panamá, S. A.	US\$	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	
2. Banco Continental de Panamá, S. A.		N/D	N/D	N/D	N/D	N/D	N/D	N/D	N/D	N/D	N/D	N/D	
3. Banco Comercial de Panamá, S. A. (BANCOMER)		N/D	N/D	N/D	N/D	N/D	N/D	N/D	N/D	N/D	N/D	N/D	
4. Banco del Comercio, S. A.		N/A	N/A	394,778	368,419	N/A	N/A	N/A	N/A	N/A	N/A	N/A	763,197
5. Marine Midland Bank		N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	
6. Banco de Colombia		N/D	N/D	N/D	N/D	N/D	N/D	N/D	N/D	N/D	N/D	N/D	
7. The Chase Manhattan Bank, N. A.		97,000	392,000	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	489,000
8. Banco Internacional de Panamá, S. A.		N/D	N/D	N/D	N/D	N/D	N/D	N/D	N/D	N/D	N/D	N/D	
9. Banco Exterior, S. A.		N/A	N/A	N/A	15,000,000	15,000,000	20,000,000	50,000,000	N/A	N/A	N/A	N/A	100,000,000
10. Banco de Desarrollo Agro- pecuario		N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	
11. Banco de Bogotá, S. A.		N/A	N/A	N/A	7,000,000	N/A	N/A	N/A	N/A	N/A	N/A	N/A	7,000,000
12. Banco Cafetero (Panamá), S. A.		N/A	N/A	N/A	N/A	N/A	N/A	N/A	20,355	9,829	1,761	136,195	168,140
13. Banco Fiduciario de Panamá, S. A.		N/D	N/D	N/D	N/D	N/D	N/D	N/D	N/D	N/D	N/D	N/D	

Note: N/A = Not applicable. No credit is outstanding under this classification.

N/D = Information not available in this bank.

1/ = Most of this information was estimated by financial institutions.

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SURVEY ON CREDIT AVAILABILITY FROM FINANCIAL INSTITUTIONS TO
SMALL SCALE ENTERPRISES

Schedule 11

Summary of Experiences on Credits Granted to Small Scale Enterprises 1/

		Credit Limits		Maturity Limits		Interest Rate Limits		Commission Limits		Percentage of number of credits that were in arrears	Percentage of number of credits that were uncollectible	Percentage of the amount of credits that were uncollectible	Percentage of number of credit applications denied
		Minimum	Maximum	Minimum	Maximum	Minimum	Maximum	Minimum	Maximum				
1. Banco Interoceánico de Panamá, S. A.	US\$	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
2. Banco Continental de Panamá, S. A.		6,000	50,000	6 months	5 years	12 7/16%	N/D	1.5%	3%	6%	6%	4%	70%
3. Banco Comercial de Panamá, S. A. (BANCOMER)		10,000	100,000	6 months	3 years	15 1/2%	17%	0.5%	1%	N/D	N/D	N/D	N/D
4. Banco del Comercio, S. A.		15,000	150,000	N/D	N/D	Libor +2%	Prime +3%	N/D	N/D	N/D	N/D	2%	N/C
5. Marine Midland Bank		N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
6. Banco de Colombia		N/D	N/D	N/D	N/D	N/D	N/D	N/D	N/D	10%	N/D	2%	N/D
7. The Chase Manhattan Bank, N. A.		2,700	25,000	1 year	3 years	9% discount	10% discount	US\$24 per year	US\$24 per year	13%	None	None	N/D
8. Banco Internacional de Panamá, S. A.		5,000	35,000	3 months	5 years	11%	22%	N/A	N/A	N/D	N/D	N/D	N/D
9. Banco Exterior, S. A.		2,000	100,000	3 months	5 years	Libor +2%	Libor +5%	N/A	N/A	15%	N/D	2%	N/D
10. Banco de Desarrollo Agropecuario		N/D	N/D	N/D	N/D	N/D	N/D	N/D	N/D	N/D	N/D	N/D	N/D
11. Banco de Bogotá, S. A.		21,000	248,000	N/D	N/D	Libor +1%	Libor +2%	N/A	N/A	None	None	None	15%
12. Banco Cafetero (Panamá), S. A.		1,000	100,000	1 month	18 months	13%	16%	N/A	N/A	N/D	N/D	N/D	N/D
13. Banco Fiduciario de Panamá, S. A.		10,000	50,000	3 months	1 year	Libor +3%	Libor +5%	N/A	N/A	N/D	N/D	N/D	N/D

Note: N/A = Not applicable. No credit was granted under this classification.

N/D = Information not available in this bank.

1/ = Most of this information was estimated by financial institutions.

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	<u>Insufficiency or lack of initial investment by the owner or shareholder</u>	<u>Inadequate cash flow for debt service</u>	<u>Strong competition for its line of products</u>	<u>Lack of technical assistance in small scale enterprises</u>	<u>Lack of administrative assistance in small scale enterprises</u>	<u>Lack of adequate collaterals</u>	<u>Other</u>
1. Banco Interoceánico de Panamá, S. A.	N/A	N/A	N/A	N/A	N/A	N/A	N/A
2. Banco Continental de Panamá, S. A.	1	5	6	4	2	3	N/A
3. Banco Comercial de Panamá, S. A. (BANCOMER)	2	3	6	5	4	1	N/A
4. Banco del Comercio, S. A.	1	3	6	4	5	2	N/A
5. Marine Midland Bank	N/A	N/A	N/A	N/A	N/A	N/A	N/A
6. Banco de Colombia	3	1	6	5	4	2	N/A
7. The Chase Manhattan Bank, N. A.	2	1	7	5	4	3	6
8. Banco Internacional de Panamá, S. A.	N/A	2	N/A	N/A	N/A	N/A	1
9. Banco Exterior, S. A.	2	4	3	6	5	1	N/A
10. Banco de Desarrollo Agropecuario	N/A	N/A	N/A	N/A	N/A	N/A	1
11. Banco de Bogotá, S. A.	2	1	6	5	4	3	N/A
12. Banco Cafetero (Panamá), S. A.	2	3	6	5	4	1	N/A
13. Banco Fiduciario de Panamá, S. A.	1	2	4	6	5	3	N/A
Statistic of summary of relative importance assigned	2	1	6	5	4	3	7

Note, N/A = Not applicable. No answer was provided for this classification.

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SURVEY ON CREDIT AVAILABILITY FROM FINANCIAL INSTITUTIONS TO
SMALL SCALE ENTERPRISES

Summary of Reasons for Not Presently Extending Credit to Small Scale Enterprises
(In order of relative importance from 1 to 8)

	<u>Lack of adequate collateral</u>	<u>High administrative cost to the financial institution</u>	<u>high occurrence of non-compliance with repayment schedule</u>	<u>High funding costs to finance these credits</u>	<u>High occurrence of bad loans</u>	<u>High consumption of time and costs in legal actions regarding bad loans</u>	<u>High consumption of time and costs in evaluating the risk and in the administration of the credit</u>	<u>Other</u>
1. Banco Interoceánico de Panamá, S. A.	1	5	6	2	7	4	3	N/A
2. Banco Continental de Panamá, S. A.	3	2	5	4	6	7	1	N/A
3. Banco Comercial de Panamá, S. A. (BANCOMER)	1	6	4	7	5	3	2	N/A
4. Banco del Comercio, S. A.	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
5. Marine Midland Bank	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
6. Banco de Colombia	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
7. The Chase Manhattan Bank, N. A.	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
8. Banco Internacional de Panamá, S. A.	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
9. Banco Exterior, S. A.	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
10. Banco de Desarrollo Agropecuario	N/A	N/A	N/A	N/A	N/A	N/A	N/A	1
11. Banco de Bogotá, S. A.	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
12. Banco Cafetero (Panamá), S. A.	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
13. Banco Fiduciario de Panamá, S. A.	3	2	N/A	4	N/A	N/A	1	N/A
Statistics of summary of relative importance assigned	1	3	6	4	7	5	2	8

SURVEY ON CREDIT AVAILABILITY FROM FINANCIAL INSTITUTIONS TO
SMALL SCALE ENTERPRISES

Summary Concerning Actual Credit Programs to Small Scale Enterprises

	<u>Financial institutions that presently have a credit program</u>	<u>Financial institutions that presently do not have a credit program</u>	
1. Banco Interoceánico de Panamá, S. A.		No	
2. Banco Continental de Panamá, S. A.		No	
3. Banco Comercial de Panamá, S. A. (BANCOMER)		No	
4. Banco del Comercio, S. A.	Yes		
5. Marine Midland Bank		No	
6. Banco de Colombia	Yes		
7. The Chase Manhattan Bank, N. A.	Yes		
8. Banco Internacional de Panamá, S. A.	Yes		
9. Banco Exterior, S. A.		No	
10. Banco de Desarrollo Agropecuario		No	
11. Banco de Bogotá, S. A.		No	
12. Banco Cafetero (Panamá), S. A.	Yes		
13. Banco Fiduciario de Panamá, S. A.		No	
	Total Yes = 5	Total No = 8	Total = 13
	38%	62%	<u>100%</u>

SURVEY ON CREDIT AVAILABILITY FROM FINANCIAL INSTITUTIONS TO
SMALL SCALE ENTERPRISES

Summary Concerning Financial Institutions which Expressed Interest
in A.I.D. Credit Program for Small Scale Enterprises

Financial institutions that expressed
interest in initiating or extending
their credit program to small scale
enterprises according to the A.I.D.
credit program

1. Banco Interoceánico de Panamá, S. A.	No
2. Banco Continental de Panamá, S. A.	Yes
3. Banco Comercial de Panamá, S. A. (BANCOMER)	Yes
4. Banco del Comercio, S. A.	Yes
5. Marine Midland Bank	No
6. Banco de Colombia	Yes
7. The Chase Manhattan Bank, N. A.	Yes
8. Banco Internacional de Panamá, S. A.	Yes
9. Banco Exterior, S. A.	Yes
10. Banco de Desarrollo Agropecuario	Yes
11. Banco de Bogotá, S. A.	No
12. Banco Cafetero (Panamá), S. A. (1)	No
13. Banco Fiduciario de Panamá, S. A. (1)	No

(1) This bank gave a negative answer on the questionnaire, but expressed by other means its willingness to consider its participation upon knowing more details of the program.

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SURVEY ON CREDIT AVAILABILITY FROM FINANCIAL INSTITUTIONS TO
SMALL SCALE ENTERPRISES

Summary of Estimated Amount that Financial Institutions are Willing
to Extend to Small Scale Enterprises Under A.I.D. Program

		Estimated amount to be extended	
		<u>Minimum</u>	<u>Maximum</u>
1. Banco Interoceánico de Panamá, S. A.	US\$	N/A	N/A
2. Banco Continental de Panamá, S. A.		N/D	N/D
3. Banco Comercial de Panamá, S. A. (BANCOMER)		250,000	1,000,000
4. Banco del Comercio, S. A.		10,000	100,000
5. Marine Midland Bank		N/A	N/A
6. Banco de Colombia		N/D	N/D
7. The Chase Manhattan Bank, N. A.		250,000	1,000,000
8. Banco Internacional de Panamá, S. A.		250,000	750,000
9. Banco Exterior, S. A.		500,000	5,000,000
10. Banco de Desarrollo Agropecuario		N/D	N/D
11. Banco de Bogotá, S. A.		N/A	N/A
12. Banco Cafetero (Panamá), S. A.		N/A	N/A
13. Banco Fiduciario de Panamá, S. A.		N/A	N/A

Note: N/A = Not applicable. This bank expressed no interest to participate in AID program.

N/D = Information was not estimated by this bank.

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SURVEY ON CREDIT AVAILABILITY FROM FINANCIAL INSTITUTIONS TO
SMALL SCALE ENTERPRISES

Summary of Aggregate Amount of Credit Demand from Small Scale Enterprises
for Next Two (2) to Five (5) Years, as Estimated by Financial Institutions

	Aggregate amount of credit <u>demand estimated</u>	
1. Banco Interoceánico de Panamá, S. A.	US\$	N/D
2. Banco Continental de Panamá, S. A.		N/D
3. Banco Comercial de Panamá, S. A. (BANCOMER)		250,000,000
4. Banco del Comercio, S. A.		N/D
5. Marine Midland Bank		N/D
6. Banco de Colombia		N/D
7. The Chase Manhattan Bank, N. A.		10,000,000 (1)
8. Banco Internacional de Panamá, S. A.		N/D
9. Banco Exterior, S. A.		500,000,000
10. Banco de Desarrollo Agropecuario		50,000,000
11. Banco de Bogotá, S. A.		N/D
12. Banco Cafetero (Panamá), S. A.		N/D
13. Banco Fiduciario de Panamá, S. A.		N/D

Note: N/D = Information not provided, basically due to the various factors involved to make such an estimation.

(1) = Estimation given for next two (2) years only.

J/W

A.I.D. U. S. MISSION TO PANAMA

Summary of Information and Statistics
from Small Scale Enterprises

August 30, 1984

 PEAT
MARWICK

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STUDY ON CREDIT DEMAND FROM SMALL SCALE ENTERPRISES

Summary of Enterprises Surveyed by Geographic Area and Economic Activity

<u>Geographic Area</u>	<u>Total Surveyed</u>	<u>General Economic Activity</u>					
		<u>Industry</u>	<u>Commerce</u>	<u>Services</u>	<u>Agriculture</u>	<u>Fishing</u>	<u>Other</u>
Panamá	32	18	7	6	1	-	-
David	36	14	7	9	6	-	-
Colón	14	4	5	5	-	-	-
Chitré/Las Tablas	17	5	4	8	-	-	-
Santiago	<u>8</u>	<u>1</u>	<u>5</u>	<u>2</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>107</u>	<u>42</u>	<u>28</u>	<u>30</u>	<u>7</u>	<u>-</u>	<u>-</u>
	<u>100</u>	<u>39</u>	<u>26</u>	<u>28</u>	<u>7</u>	<u>-</u>	<u>-</u>

JW

STUDY ON CREDIT DEMAND FROM SMALL SCALE ENTERPRISES

Summary of Enterprises Surveyed by Specific Business Activity

	<u>%</u>	<u>Total Surveyed</u>	<u>Panamá</u>	<u>David</u>	<u>Colón</u>	<u>Chitré/ Las Tablas</u>	<u>Santiago</u>
hoses factory	3.7	4	1	1	2	-	-
beauty shop	2.8	3	2	-	-	1	-
laundry	1.9	2	1	-	-	-	1
clothes factory	1.9	2	-	1	-	1	-
furniture factory	5.6	6	3	3	-	-	-
printing shop	3.7	4	1	1	2	-	-
transportation	-	-	-	-	-	-	-
accessory store	6.5	7	2	-	-	3	2
groceries or small supermarket	1.0	1	-	-	-	-	1
mechanic workshop	6.5	7	2	1	-	3	1
electricity workshop	2.8	3	1	2	-	-	-
blacksmith workshop	2.8	3	2	-	-	-	1
construction companies	1.0	1	1	-	-	-	-
fishing	-	-	-	-	-	-	-
agriculture	4.7	5	1	4	-	-	-
livestock farming	1.0	1	-	1	-	-	-
aquaculture	-	-	-	-	-	-	-
bakery or candyshop	5.6	6	2	2	1	1	-
animal food factory	-	-	-	-	-	-	-
food factory	4.7	5	-	5	-	-	-
merchandise distributors	9.3	10	3	3	3	-	1
other service oriented enter- prises	12.1	13	2	6	4	1	-
raftsmanship	6.5	7	4	-	-	3	-
other enterprises	15.9	17	4	6	2	4	1
	<u>100.0%</u>	<u>107</u>	<u>32</u>	<u>36</u>	<u>14</u>	<u>17</u>	<u>8</u>

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STUDY ON CREDIT DEMAND FROM SMALL SCALE ENTERPRISES

Total Assets of Surveyed Enterprises

<u>Total assets (*)</u>	<u>Total</u>		<u>Industry</u>		<u>Commerce</u>		<u>Service</u>		<u>Micro</u>		<u>Enterprises that did not disclose Assets</u>
Less than or equal to \$25,000	58	54%	26	58%	7	30.5%	22	67%	3	100%	-
\$ 1,001 - 50,000	19	18%	7	15%	7	30.5%	5	15%	-	-	-
\$50,001 - 75,000	10	9%	4	9%	3	13.0%	3	9%	-	-	-
\$75,001 - 100,000	7	7%	3	7%	3	13.0%	1	3%	-	-	-
\$ 10,001 to 200,000	10	9%	5	11%	3	13.0%	2	6%	-	-	-
Enterprises that did not disclose assets	<u>3</u>	<u>3%</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3</u> <u>100%</u>
	<u>107</u>	<u>100%</u>	<u>45</u>	<u>100%</u>	<u>23</u>	<u>100.0%</u>	<u>33</u>	<u>100%</u>	<u>3</u>	<u>100%</u>	<u>3</u> <u>100%</u>

Exclude land and building (See Schedule 4)

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STUDY ON CREDIT DEMAND FROM SMALL SCALE ENTERPRISES

Land and Building Cost of Surveyed Enterprises

<u>Cost of land and Building</u>	<u>Total</u>		<u>Industry</u>		<u>Commerce</u>		<u>Service</u>		<u>Micro</u>		<u>Enterprises that do not own land and building</u>	
less than or equal to \$50,000	21	19.6%	10	67%	2	100%	9	90%	-	-	-	-
\$50,001 - 100,000	5	4.7%	4	27%	-	-	1	10%	-	-	-	-
More than \$100,000	1	0.9%	1	6%	-	-	-	-	-	-	-	-
Enterprises that do not own land and building	<u>80</u>	<u>74.8%</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>80</u>	<u>100%</u>
	<u>107</u>	<u>100.0%</u>	<u>15</u>	<u>100%</u>	<u>2</u>	<u>100%</u>	<u>10</u>	<u>100%</u>	<u>-</u>	<u>100%</u>	<u>80</u>	<u>100%</u>

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STUDY ON CREDIT DEMAND FROM SMALL SCALE ENTERPRISES

Number of Employees of Surveyed Enterprises

<u>Number of Employees</u>	<u>Total</u>		<u>Industry</u>		<u>Commerce</u>		<u>Service</u>		<u>Micro</u>	<u>Enterprises that did not indicate the number</u>		
1 - 5	61	57%	23	52%	17	65%	18	57%	3	100%	-	-
6 - 10	27	26%	10	22%	7	27%	10	31%	-	-	-	-
11 - 15	8	7%	5	11%	1	4%	2	6%	-	-	-	-
16 - 20	6	6%	5	11%	1	4%	-	-	-	-	-	-
21 - 25	2	2%	1	2%	-	-	1	3%	-	-	-	-
More than 25	2	2%	1	2%	-	-	1	3%	-	-	-	-
Enterprises that did not indicate the number of employees	<u>1</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1</u>	<u>100%</u>
	<u>107</u>	<u>100%</u>	<u>45</u>	<u>100%</u>	<u>26</u>	<u>100%</u>	<u>32</u>	<u>100%</u>	<u>3</u>	<u>100%</u>	<u>1</u>	<u>100%</u>

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STUDY ON CREDIT DEMAND FROM SMALL SCALE ENTERPRISES

Annual Gross Sales of Surveyed Enterprises

<u>Gross Sales</u>	<u>Total</u>		<u>Industry</u>		<u>Commerce</u>		<u>Service</u>		<u>Micro</u>		Enterprises that did not indicate the amount
More than or equal to \$25,000	38	36%	15	34%	6	26.2%	16	52%	1	33.3%	-
25,001 - 50,000	12	11%	4	9%	2	8.7%	5	16%	1	33.3%	-
\$50,001 - 75,000	12	11%	6	14%	2	8.7%	3	10%	1	33.4%	-
75,001 - 100,000	11	10%	5	11%	2	8.7%	4	13%	-	-	-
100,001 - 125,000	9	8%	4	9%	3	13.0%	2	6%	-	-	-
\$125,001 - 150,000	3	3%	2	5%	-	-	1	3%	-	-	-
150,000 - 175,000	2	2%	-	-	2	8.7%	-	-	-	-	-
\$175,001 - 200,000	6	6%	3	7%	3	13.0%	-	-	-	-	-
more than \$200,000	8	7%	5	11%	3	13.0%	-	-	-	-	-
Enterprises that did not indicate the amount	<u>6</u>	<u>6%</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6</u> <u>100%</u>
	<u>107</u>	<u>100%</u>	<u>44</u>	<u>100%</u>	<u>23</u>	<u>100.0%</u>	<u>31</u>	<u>100%</u>	<u>3</u>	<u>100.0%</u>	<u>6</u> <u>100%</u>

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STUDY ON CREDIT DEMAND FROM SMALL SCALE ENTERPRISES

Answer Obtained Concerning AID Proposed Credit Terms and Conditions

	<u>Without Collateral</u>		3 to 5 years maturity and one year of grace period		<u>18% annual interest</u>		<u>Up to 90% of th investment</u>	
	<u>Yes</u>	<u>No</u>	<u>Yes</u>	<u>No</u>	<u>Yes</u>	<u>No</u>	<u>Yes</u>	<u>No</u>
anamá	27	5	31	1	2	30	29	3
avid	31	5	35	1	16	20	36	-
Colón	12	2	12	2	2	12	11	3
hitré/Las Tablas	15	2	17	-	4	13	15	2
Santiago	8	-	7	1	6	2	8	-
Totals	<u>93</u>	<u>14</u>	<u>102</u>	<u>5</u>	<u>30</u>	<u>77</u>	<u>99</u>	<u>8</u>
Total surveyed	<u>107</u>		<u>107</u>		<u>107</u>		<u>107</u>	
% Yes Answers	87%		95%		28%		93%	
% No Answers	<u>13%</u>		<u>5%</u>		<u>72%</u>		<u>7%</u>	
	<u>100%</u>		<u>100%</u>		<u>100%</u>		<u>100%</u>	

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STUDY ON CREDIT DEMAND FROM SMALL SCALE ENTERPRISES

Interest Rate Considered as Adequate by Enterprises

Considered 18%
too high but
do not comment
on desired
interest rate

	<u>Total</u>	<u>Less than or equal to 9%</u>	<u>10%</u>	<u>11%</u>	<u>12%</u>	<u>13 to 15%</u>	
Panamá	30	-	2	1	6	7	14
David	20	3	9	2	5	-	1
Ciudad Lón	12	1	1	-	5	3	2
Chitré/Las Tablas	13	5	-	-	2	1	5
Santiago	<u>2</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1</u>	<u>-</u>	<u>1</u>
Total	<u>77</u>	<u>9</u>	<u>12</u>	<u>3</u>	<u>19</u>	<u>11</u>	<u>23</u>
	<u>100%</u>	<u>12%</u>	<u>15%</u>	<u>4%</u>	<u>25%</u>	<u>14%</u>	<u>30%</u>

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STUDY ON CREDIT DEMAND FROM SMALL SCALE ENTERPRISES

Summary of Purpose of Credit Required by Enterprises

	<u>Total</u>	<u>Working capital</u>	<u>Equipment acquisition</u>	<u>Construction of facilities</u>	<u>Debt consolidation</u>	<u>Other purposes</u>
Panamá	58	18	16	12	6	6
David	45	21	14	7	-	3
Colón	21	6	6	5	1	3
Chitré/Las Tablas	40	12	11	7	6	4
Santiago	<u>21</u>	<u>6</u>	<u>7</u>	<u>4</u>	<u>4</u>	<u>-</u>
Total answers	<u>185</u>	<u>63</u>	<u>54</u>	<u>35</u>	<u>17</u>	<u>16</u>
	<u>100</u>	<u>34</u>	<u>29</u>	<u>19</u>	<u>9</u>	<u>9</u>

Note: 107 enterprises were surveyed and some enterprises expressed need of financing for more than one purpose.

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STUDY ON CREDIT DEMAND FROM SMALL SCALE ENTERPRISES

Summary of Credit Amount Required by Enterprises (by Purpose of the Credit)

<u>Amount</u>	<u>Total</u>		<u>Working Capital</u>	<u>Equipment acquisition</u>	<u>Construction of facilities</u>	<u>Debt consolidation</u>	<u>Other purposes *</u>	<u>Enterprises that did not indicate the amount</u>
\$ 1,000 - 10,000	101	55%	42	27	16	13	3	-
10,001 - 20,000	27	14%	6	9	8	3	1	-
20,001 - 30,000	16	9%	4	5	3	-	4	-
30,001 - 40,000	7	4%	3	3	1	-	-	-
40,001 - 50,000	11	6%	5	1	3	-	2	-
50,001 - 60,000	1	0.5%	1	-	-	-	-	-
60,001 - 70,000	3	1.5%	2	1	-	-	-	-
70,001 - 80,000	4	2%	2	-	1	-	1	-
More than 80,000	7	4%	1	3	2	-	1	-
Enterprises that did not indicate the amount	<u>8</u>	<u>4%</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>8</u>
	<u>185</u>	<u>100%</u>	<u>66</u>	<u>49</u>	<u>34</u>	<u>16</u>	<u>12</u>	<u>8</u>
	<u>100%</u>		<u>36%</u>	<u>27%</u>	<u>18%</u>	<u>9%</u>	<u>6%</u>	<u>4%</u>

* Detail of other purposes

Land and building acquisition	1
Land acquisition	4
To start another enterprise	6
To expand present enterprise	1
Total	<u>12</u>

STUDY ON CREDIT DEMAND FROM SMALL SCALE ENTERPRISES

Summary of Enterprises that Have Credit Experience (By Institution and Terms)

Financial Institution	Interest Rate					Businesses that have not received credit	Collateral			Enterprises that have not received credit
	Total	8-10%	11-12%	13-14%	15% or more		Total	Yes	No	
Banco Nacional de Panamá	23	5	11	2	5	-	23	13	10	-
Ministerio de Comercio e Industria	12	12	-	-	-	-	12	5	7	-
Banco Exterior	3	1	1	-	1	-	3	1	2	-
Banco Fiduciario	3	1	1	-	1	-	3	2	1	-
Chase Manhattan Bank, N. A.	2	2	-	-	-	-	2	-	2	-
Ministerio de Planificación	2	-	2	-	-	-	2	2	-	-
Corporación Financiera Nacional	2	-	1	1	-	-	2	1	1	-
Banco de Santander y Panamá	2	-	1	-	1	-	2	2	-	-
Cooperativa R. L. Avance de Los Santos	1	-	1	-	-	-	1	-	1	-
Caja de Ahorros	1	-	1	-	-	-	1	1	-	-
Banco de Ultramar	1	-	1	-	-	-	1	1	-	-
Financiera Delta, S. A.	1	-	-	-	1	-	1	1	-	-
Cooperativa Gladys B. de Sucasa	1	-	-	-	1	-	1	1	-	-
Financiera Buena Fé	1	-	-	-	1	-	1	1	-	-
Banco Comercial de Panamá	1	1	-	-	-	-	1	-	1	-
Chiricana de Ahorro y Préstamo	1	-	1	-	-	-	1	1	-	-
Banco de Desarrollo Agropecuario	2	2	-	-	-	-	2	2	-	-
Cámara de Comercio	1	1	-	-	-	-	1	-	1	-
Banco Cafetero	1	-	1	-	-	-	1	1	-	-
Enterprises that have not received credit	49	-	-	-	-	49	49	-	-	49
	<u>110*</u>	<u>25</u>	<u>22</u>	<u>3</u>	<u>11</u>	<u>49</u>	<u>110</u>	<u>35</u>	<u>26</u>	<u>49</u>
	<u>100%</u>	<u>23%</u>	<u>20%</u>	<u>3%</u>	<u>10%</u>	<u>44%</u>	<u>100%</u>	<u>32%</u>	<u>24%</u>	<u>44%</u>

The excess over 107 surveys is due to the fact that some businesses have received more than one credit facility from different financial institutions.

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STUDY ON CREDIT DEMAND FROM SMALL SCALE ENTERPRISES

Factors that Contribute to the Reduced Credit Supply

<u>Order of Importance</u>	<u>Total</u>	<u>Lack of collaterals</u>		<u>High interest rates</u>		<u>High labor cost</u>		<u>Low business profit</u>		<u>Owner or manager's lack of experience</u>		<u>Others</u>	
		<u>%</u>	<u>%</u>	<u>%</u>	<u>%</u>	<u>%</u>	<u>%</u>	<u>%</u>	<u>%</u>	<u>%</u>	<u>%</u>	<u>%</u>	<u>%</u>
First	105*	82	79%	9	9%	5	7%	-	-	2	3%	7	25%
Second	100	6	6%	61	62%	8	12%	16	26%	7	12%	2	7%
Third	71	6	6%	12	12%	23	34%	18	29%	7	12%	5	18%
Fourth	61	4	3%	4	4%	16	24%	22	35%	12	21%	3	11%
Fifth	57	6	6%	11	11%	7	11%	3	5%	27	47%	3	11%
Sixth	24	-	-	2	2%	8	12%	3	5%	3	5%	8	28%
		<u>104</u>	<u>100%</u>	<u>99</u>	<u>100%</u>	<u>67</u>	<u>100%</u>	<u>62</u>	<u>100%</u>	<u>58</u>	<u>100%</u>	<u>28</u>	<u>100%</u>

(*) The two missing surveys over the total 107 is due to the fact that two enterprises consider there is no reduced credit supply, and, thus, a classification of factors was not necessary.

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STUDY ON CREDIT DEMAND FROM SMALL SCALE ENTERPRISES

Summary of External Assistance Required by Enterprises

	<u>Total</u>	<u>Financial</u>	<u>Technical</u>	<u>Administrative</u>
Panamá	45	23	12	10
David	31	8	8	15
Colón	13	10	3	-
Chitré/Las Tablas	20	6	5	9
Santiago	<u>10</u>	<u>3</u>	<u>2</u>	<u>5</u>
	<u>119</u>	<u>50</u>	<u>30</u>	<u>39</u>
	<u>100</u>	<u>42</u>	<u>25</u>	<u>33</u>

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STUDY ON CREDIT DEMAND FROM SMALL SCALE ENTERPRISES

Summary of Concern Expressed by Enterprises upon
Lack of Credit Availability

	<u>Total</u>	<u>To remain at actual level</u>	<u>To shrink</u>	<u>To close</u>
Panama	32	19	5	8
David	36	20	7	9
Colón	14	11	-	3
Chitré/Las Tablas	17	4	8	5
Santiago	<u>8</u>	<u>6</u>	<u>-</u>	<u>2</u>
Total	<u>107</u>	<u>60</u>	<u>20</u>	<u>27</u>
	<u>100</u>	<u>56</u>	<u>19</u>	<u>25</u>

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(DOC. 4416P)

ANNEX C

P I D / D A E C C A B L E

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(DOC. 4416P)

ANNEX C

P I D / D A E C C A B L E

ACTION: AID-3 INFO: DCM RON

02 DEC 83
CN: 05218
CHRG: AID
DIST: AID

ZCZCPNO454
PP RUEHZP
E RUEHC #2332/01 3360559
NR UUUUU ZZH
P 020105Z DEC 83
FM SECSTATE WASHDC
TO AMEMBASSY PANAMA PRIORITY 3947
BT
UNCLAS STATE 342332

ACTION COPY

AIDAC

ACTION TAKEN _____

S.O. 12356: N/A

DATE _____ INITIALS _____

TAGS:
OBJECT: PANAMA SMALL BUSINESS DEVELOPMENT
(325-0240) PID GUIDANCE CABLE

THE SMALL BUSINESS DEVELOPMENT PID WAS REVIEWED AND APPROVED BY THE DAEC ON NOVEMBER 14, 1983. THE MISSION MAY PROCEED TO DEVELOP THE PROJECT PAPER (PP) IN ACCORDANCE WITH THE FOLLOWING GUIDANCE AND DAEC DECISIONS

2. IT WAS AGREED THAT EMPLOYMENT GENERATION IS THE PRIMARY OBJECTIVE OF THE PROJECT, BUT THAT DIRECT JOBS CREATED NEED NOT BE A CRITERION FOR SUBLOANS, DUE TO THE GENERALLY SAFE ASSUMPTION THAT INCREASED INCOME BY THE SUBBORROWERS (AS WELL AS ECONOMIC LINKAGES) WILL CREATE INDIRECT EMPLOYMENT. THE PP SHOULD, NEVERTHELESS ESTIMATE THE EMPLOYMENT IMPACT OF THE PROJECT.

THE PROJECT SHOULD BE DESIGNED TO BECOME ENTIRELY SELF-FINANCING, INCLUDING THE TECHNICAL ASSISTANCE FUND COMPONENT. THE MISSION STATED THAT INTEREST RATES WERE EXPECTED TO BE BETWEEN 18-22 PERCENT. TO ENABLE THE PROJECT TO BE SELF-FINANCING, AND TO ENCOURAGE THE ICIS NOT TO DISCRIMINATE AGAINST SMALLER CLIENTS WE BELIEVE THERE SHOULD NOT BE AN UPPER LIMIT ON THE INTEREST RATES

WE FORESEE THAT THE INTEREST RATES WOULD NOT ONLY VARY ACCORDING TO THE ICI, AS INDICATED IN THE PID, BUT ALSO ACCORDING TO OTHER FACTORS, SUCH AS LOAN ADMINISTRATION COSTS. SOME CROSS SUBSIDIZATION FROM LARGER FIRMS TO THE SMALLER FIRMS MAY BE NECESSARY IN THE PROJECT TO COVER THE COSTS OF TECHNICAL ASSISTANCE, BUT THE MISSION SHOULD ATTEMPT TO APPLY THE FREE-FOR-SERVICE PRINCIPLE TO THE EXTENT FEASIBLE WITHOUT CREATING SERIOUS DEMAND PROBLEMS. A DEMAND STUDY WILL BE NEEDED TO DETERMINE THE PROPER APPROACH.

THE DAEC CONCLUDED THAT THE PROJECT WILL NEED TO ESTABLISH BOTH A MAXIMUM SUBLOAN AMOUNT AS WELL AS CLEAR LIMITATIONS WITH REGARD TO THE MAXIMUM SIZE OF THE BENEFICIARY FIRMS. THE NUMBER OF EMPLOYEES IS ONE CRITERION OF ELIGIBILITY. OTHER CRITERIA COULD BE CONSIDERED AS WELL. THE PP SHOULD PROVIDE THE RATIONALE FOR THE VARIOUS LIMITS CHOSEN

OFF	ACT	INF
DIR		✓
DEP		
DDP		1
ODR	X	
CONT		
EXO		
LMO		
RCO		
AGR		
ERG		1
ENG		
RHUDO		
C&R	✓	

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 C&R SECTION

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5 GUIDANCE REGARDING THE ECONOMIC ANALYSIS HAS BEEN PROVIDED TO THE MISSION IN A SEPARATE MEMORANDUM FROM BENEFSEVERN

6 AT THE PID DAEC THE MISSION REQUESTED AN AD HOC REDELEGATION OF AUTHORITY TO APPROVE THE PP IN THE FIELD. AS THE FOLLOWING ISSUES AND GUIDANCE HAVE MAJOR IMPLICATIONS FOR THE FINAL DESIGN OF THE PROJECT, IT IS REQUESTED THAT THE MISSION PROVIDE A CABLE RESPONSE TO THESE QUESTIONS AS EARLY AS POSSIBLE IN ORDER THAT A DETERMINATION BE MADE WITH REGARD TO THE REQUESTED REDELEGATION OF AUTHORITY. IN ADDITION, APPROVAL OF THE MISSION'S POLICY AGENDA IN ITS ACTION PLAN FOR FY 1984 (REQUESTED IN STATE 234112 AND ADDRESSED IN PANAMA 12007) WILL BE REQUIRED BEFORE PROJECT CAN BE AUTHORIZED

A IT WAS THE CONSENSUS OF THE DAEC THAT PANAMA BEING AN INTERNATIONAL FINANCIAL CENTER WITH OVER 100 INTERNATIONAL BANKS WITH CONSIDERABLE LIQUIDITY PRESENTS A UNIQUE DEVELOPMENT OPPORTUNITY AND CHALLENGE TO MOBILIZE CREDIT FOR THE BENEFIT OF THE PROJECT'S TARGET GROUP. IN THE FACE OF THIS SITUATION THE PROVISION OF A I.D. CAPITAL ASSISTANCE FOR CREDIT WOULD APPEAR JUSTIFIED ONLY TO THE EXTENT THAT IT IS DEMONSTRATED THAT THESE PRIVATE SECTOR RESOURCES CANNOT BE DIRECTED TOWARD THE PROJECT TARGET GROUP OR TO THE EXTENT THAT IT IS NECESSARY IN ORDER TO LEVERAGE SUCH PRIVATE SECTOR CREDIT- THE BUDGET ALLOCATION IN THE PID, HOWEVER,

REFLECTED A PREFERENCE FOR THE LOAN FUND OVER THE CREDIT GUARANTEE FUND. THE MISSION IS THEREFORE REQUESTED TO EXPLORE WITH THE BANKING SECTOR IN PANAMA WHAT INCENTIVES WOULD BE REQUIRED TO ATTRACT THE LARGER BANKS TO INVEST IN OPPORTUNITIES IN SMALL INDUSTRY. WE ASSUME THAT A DOLS. 100,000 GUARANTY FUND WILL NOT ENGENDER MUCH INTEREST, BUT, IF A FORMULA COULD BE DEVELOPED THAT WOULD INTEREST THE BANKS, THE GOP AND A.I.D., ALL OR MOST OF THE A.I.D. FUNDS ALLOCATED TO THE LOAN FUND COULD BE REALLOCATED TO THE GUARANTEE FUND. IT IS QUITE POSSIBLE THAT, AS THE MISSION REPRESENTATIVES CONTEND, THE LARGE BANKS WILL NOT BE INTERESTED IN DEALING WITH THE SMALLER FIRMS, EVEN IF NO LIMITS ARE PLACED ON INTEREST RATES AND THE CREDITS ARE GUARANTIED. IF THIS IS THE CASE THE MISSION SHOULD EXPLORE THE POSSIBILITY OF HAVING THE LARGER BANKS MAKE LOANS TO THE FINANCIERAS AND/OR CREDIT COOPERATIVES, WHICH IN TURN WOULD LEND THE FUNDS TO THE TARGET GROUPS. THE BANKS' RISK COULD BE COVERED IN ONE OF TWO WAYS. THE COOPS OR FINANCIERAS COULD OFFER AS SECURITY A PORTFOLIO OF SUBLOANS GUARANTIED BY THE A.I.D. PROJECT OR THE A.I.D. PROJECT

WLD GUARANTY THE ACTUAL LOANS FROM THE BANKS TO THE JOBS AND FINANCIERAS. THE CABLE SHOULD REPORT THE OUTCOME OF THIS ASSESSMENT, INCLUDING THE PROPOSED MOUNT OF THE GUARANTY FUND.

--B. THE MISSION STATED THAT THE GUARANTY FUND WOULD COVER THE RISK IN UP TO 80 PERCENT OF SUB-LOANS AND 100 PERCENT OF THE UNCOLLATERALIZED PORTION OF THE SUBLOANS. IF THIS CONCEPT IS CHANGED, THE REPORTING CABLE SHOULD SO INDICATE. IN ADDITION, THE CABLE SHOULD EXPLAIN WHAT LEVERAGE RATIO IS EXPECTED; HOW MUCH CONTINGENT LIABILITY THE GOP WILL ASSUME; HOW THE GOP WILL ENSURE THAT FUNDS ARE AVAILABLE TO BACK UP THIS CONTINGENT LIABILITY; WHAT VALUE THE BANKS WILL PLACE ON A GOP CONTINGENT LIABILITY; AND WHETHER A SIZABLE CONTINGENT GOP LIABILITY WILL PRESENT PROBLEMS WITH THE I.F. ALSO RELEVANT TO THE FEASIBILITY OF THE GUARANTY FUND IS THE QUESTION OF WHETHER THE REQUIREMENT THAT BANKS EXHAUST LEGAL REMEDIES BEFORE THE GUARANTY IS PAID MAY BE A PROBLEM IF SUCH PROCEEDINGS ARE CUMBERSOME. IF RECLOSURE IS A MAJOR PROBLEM, MISSION SHOULD INDICATE IN THE CABLE THE EFFECT ON THE PROJECT DESIGN.

C. IF A TRUST MECHANISM IS USED, THE MISSION SHOULD CLARIFY WHETHER THE GOP OF THE TRUST IS THE BORROWER. IF SOME OTHER ARRANGEMENT BESIDES THE TRUST IS TO BE USED, E.G. A PRIVATE CORPORATION THAT COULD EVENTUALLY ATTRACT PRIVATE INVESTORS, THE CABLE SHOULD EXPLAIN THE

CHOSEN ALTERNATIVE. IN EITHER CASE, THE MISSION SHOULD EXPLICITLY EXPLAIN HOW THE THREE PROJECT COMPONENTS WILL FIT TOGETHER ADMINISTRATIVELY AND THE GOVERNMENT VS. PRIVATE ROLE IN MANAGEMENT OF THE PROJECT. IF BORROWER IS OTHER THAN GOP WE ASSUME LOAN WILL BE GUARANTEED BY GOP.

- D. THE CABLE SHOULD CLARIFY WHAT POLICY REFORMS, IF ANY, ARE NECESSARY TO ACHIEVE THE PROJECT OBJECTIVES

7 AS DISCUSSED IN THE DAEC REVIEW, THE MAJOR PART OF THE INTENSIVE REVIEW SHOULD TAKE PLACE AFTER AID/W HAS HAD AN OPPORTUNITY TO RESPOND TO THE MISSIONS CABLE. MISSION REPRESENTATIVES ESTIMATED THAT THE CABLE WOULD BE READY BY MID FEBRUARY 1984, WHICH SHOULD ALLOW SUFFICIENT TIME TO COMPLETE THE INTENSIVE REVIEW AND MEET THE JUNE OBLIGATION TARGET. SHULTZ

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ANNEX D - COUNTRY CHECKLIST

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

A. GENERAL CRITERIA FOR COUNTRY ELIGIBILITY

- | | |
|--|-----|
| 1. <u>FAA Sec. 481[FY 1984 Continuing Resolution.</u> | No. |
| Has it been determined or certified to the Congress by the President that the government of the recipient country has failed to take adequate measures or steps to prevent narcotic and psychotropic drugs or other controlled substances (as listed in the schedules in section 202 of the Comprehensive Drug Abuse and Prevention Control Act of 1971) which are cultivated, produced or processed illicitly, in whole or in part, in such country or transported through such country, from being sold illegally within the jurisdiction of such country to United States Government personnel or their dependents or from entering the United States unlawfully? | |
| 2. <u>FAA Sec. 620 (c).</u> If assistance is to a government, is the government liable as debtor or unconditional guarantor on any debt to a U.S. citizen for goods or services furnished or ordered where (a) such citizen has exhausted available legal remedies and (b) the debt is not denied or contested by such government? | No. |

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3. FAA Sec. 620(e)(1). If assistance is to a government, has it (including government agencies or subdivisions) taken the effect of nationalizing, expropriating, or otherwise seizing ownership or control of property of U.S. Citizens or entities beneficially owned by them without taking steps to discharge its obligations toward such citizens or entities? No.
4. FAA Sec. 532(c), 620(a), 620(f), 620D [FY 182 Appropriation Act Secs. 512 and 513. Is recipient country a Communist country? Will assistance be provided to Angola, Cambodia, Cuba, Laos, Vietnam, Syria, Libya, Iraq, or South Yemen? Will assistance be provided to Afghanistan or Mozambique without a waiver? No.
5. ISDCA of 1981 Secs. 724, 727 and 730. For Specific restrictions on assistance to Nicaragua, see Sec. 724 of the ISDCA of 1981. For specific restriction on assistance to El Salvador, see Secs. 727 and 730 of the ISDCA of 1981. N/A
6. FAA Sec. 620(j). Has the country permitted, or failed to take adequate measures to prevent, the damage or destruction by mob action of U.S. property? No.
7. FAA Sec. 620(l). Has the country failed to enter into an agreement with OPIC? No.

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8. FAA Sec. 620(o)[Fishermen's Protective Act of 1967, as amended, Sec. 5. No.
- (a) Has the country seized, or imposed any penalty or sanction against, any U.S. fishing activities in international waters?
- (b) If so, has any deduction required by the Fishermen's Protective Act been made?
9. FAA Sec. 620(g)[FY 1982 Appropriation Act Sec. 517. No.
- (a) Has the government of the recipient country been in default for more than six months on interest or principal of any AID loan to the country? (b) Has the country been in default for more than one year on interest or principal on any U.S. loan under a program for which the appropriation bill appropriates funds?
10. FAA Sec. 620(s). If Yes.
- contemplated assistance is development loan or from Economic Support Fund, has the Administrator taken into account the amount of foreign exchange or other resources which the country has spent on military equipment?
- (Reference may be made to the annual "Taking into Consideration" memo. "Yes, taken into account by the Administrator at time of approval of Agency OYB." This approval by the Administrator of the Operatinal Year Budget can be the basis for an affirmative answer during the fiscal year unless significant changes in circusmtances occur.)

11. FAA Sec. 620(t). Has the country severed diplomatic relations with the United States? If so, have they been resumed and have new bilateral assistance agreements been negotiated and entered into since such resumption? No.
12. FAA Sec. 620(u). What is the payment status of the country's U.S. obligations? If the country is in arrears, were such arrearages taken into account by the AID Administrator in determining the current AID Operational Year Budget? (Reference may be made to the Taking into Consideration memo.) Panama is not in arrears in its U.N. obligations.
13. FAA Sec. 620A[FY 1982 Appropriation Act Sec. 520. Has the country sided or abetted, by granting sanctuary from prosecution to, any individual or group which has committed an act of international terrorism? Has the country aided or abetted, by granting sanctuary from prosecution to, any individual or group which has committed a war crime? No.
14. FAA Sec. 666. Does the country object, on the basis of race, religion, national origin or sex, to the presence of any officer or employee of the U.S. who is present in such country to carry out economic development programs under the FAA? No.

15. FAA Sec. 669, 670. Has the country, after August 3, 1977, delivered or received nuclear enrichment or reprocessing equipment, materials, or technology, without specified arrangements or safeguards? Has it transferred a nuclear explosive device to a non-nuclear weapon state, or if such a state, either received or detonated a nuclear explosive device, after August 3, 1977? (FAA Sec. 620E permits a special waiver of Sec. 669 for Pakistan.) No.
16. ISDCA of 1981 Sec. 720. Was the country represented at the Meeting of Ministers of Foreign Affairs and Heads of Delegations of the Non-Aligned Countries to the 36th General Session of the General Assembly of the U.S. of Sept. 25 and 28, 1981, and failed to dissassociate itself from the communique issued? No.
- If so, has the President taken it into account?
(Reference may be made to the Taking into Consideration memo.)
17. ISDCA of 1981 Sec. 721. See special requirements for assistance to Haiti. N/A
18. FY 1984 Continuing Resolution. Has the recipient country been determined by the President to have engaged in a consistent pattern of opposition to the foreign policy of the United States? No.

B. FUNDING SOURCE CRITERIA FOR COUNTRY ELIGIBILITY

1. Development Assistance No.
Country Criteria.

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

2. Economic Support Fund Country
Criteria.

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

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

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c. ISDCA of 1981, Sec. 726(b). If ESF assistance is to be furnished to Chile, has the President Certified that (1) the Govt. of Chile has made significant progress in human rights[(2) it is in the national interest of the U.S.[and (3) the Govt. of Chile is not aiding international terrorism and has taken steps to bring to justice those indicated in connection with the murder of Orlando Letelier?

N/A

5C(2) PROJECT CHECKLIST

Listed below are statutory criteria applicable to projects. This section is divided into two parts. Part A. includes criteria applicable to all projects. Part B. applies to projects funded from specific sources only.
B.1. applies to all projects funded with Development Assistance Funds,
B.2. applies to projects funded with Development Assistance loans, and B.3. applies to projects funded from ESF.

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

A. GENERAL CRITERIA FOR PROJECT

1. FY 1982 Appropriation Act Sec. 523[FAA Sec. 634A[Sec. 653(b).

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- (a) Describe how authorizing and appropriations committees of Senate and House have been or will be notified concerning the project[(b) is assistance within (Operational Year Budget) country or international organization allocation reported to Congress (or not more than \$1 million over that amount)?
- (a) The project was included in AID FY 1984 Congressional Presentation as a proposed \$6.0 million loan/\$3.5 million grant with an initial obligation in FY 1984.
- (b) Yes.
2. FAA Sec. 611(a)(1). Prior to obligation in excess of \$100.00, will there be (a) engineering, financial or other plans necessary to carry out the assistance and (b) a reasonably firm estimate of the cost to the U.S. of the assistance? Yes.
3. FAA Sec. 611(a)(2). If further legislative action is required within recipient country, what is basis for reasonable expectation that such action will be completed in time to permit orderly accomplishment of purpose of the assistance? N/A
4. FAA Sec. 611(b)[FY 1982 Appropriation Act Sec. 501 If for water or water-related land resource construction, has project met the standards and criteria as set forth in the Principles and Standards for Planning Water and Related Land Resources, dated October 25, 1973? (See AID Handbook 3 for new guidelines.) N/A

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5. FAA Sec. 611(e). If project is capital assistance (e.g., construction), and all U.S. assistance for it will exceed \$1 million, has Mission Director certified and Regional Assistance Administrator taken into consideration the country's capability effectively to maintain and utilize the project?

This is not a capital assistance project.

6. FAA Sec. 209. Is project susceptible to execution as part of regional or multilateral project? If so, why is project not so executed? Information and conclusion whether assistance will encourage regional development programs.

No.

7. FAA Sec. 601(a). Information and conclusions whether project will encourage efforts of the country to: (a) increase the flow of international trade[(b) foster private initiative and competition[and (c) encourage development and use of cooperatives, and credit unions, and savings and loan associations[(d) discourage monopolistic practices[(e) improve technical efficiency of industry, agriculture and commerce[and (f) strengthen free labor unions.

The project is designed to strengthen small scale enterprises' access to credit through the commercial banking and cooperative systems. Opening new avenues to credit will in turn encourage private initiative, competition, and should result in the improvement of technical efficiency in industry and commerce. The Project will not directly impact on free labor unions.

8. FAA Sec. 601(b). Information and conclusions on how project will encourage U.S. private trade and investment abroad and encourage U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise). Project is targeted for Panamanian private sector. Some U.S. banks established in Panama are expected to be active participants in this project. In addition, U.S. commodities will be financed and procured under the Project.
9. FAA Sec. 612(b), 636(h)[
FY 1982 Appropriation Act
Sec. 507. Describe steps taken to assure that, to the maximum extent possible, the country is contributing local currencies to meet the cost of contractual and other services, and foreign currencies owned by the U.S. are utilized in lieu of dollars. Not applicable. The currency used in Panama is the U.S. Dollar although it is denominated a "Balboa". There is no U.S. owned local currency.
10. FAA Sec. 612(d). Does the U.S. own excess foreign currency of the country and, if so, what arrangements have been made for its release? N/A
11. FAA Sec. 601(e). Will the project utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise? Yes.

12. FY 1982 Appropriation Act Sec. 521. If assistance is for the production of any commodity for export, is the commodity likely to be in surplus on world markets at the time the resulting productive capacity becomes operative, and is such assistance likely to cause substantial injury to U.S. producers of the same, similar or competing commodity? No.
13. FAA 118(c) and (d). Does the project comply with the environmental procedures set forth in AID Regulation 16? Does the project or program take into consideration the problem of the destruction of tropical forests? Yes.
14. FAA 121(d). If a Sahel project, has a determination been made that the host government has an adequate system for accounting for and controlling receipt and expenditure of project funds (dollars or local currency generated therefrom)? N/A

B. FUNDING CRITERIA FOR PROJECT

1. Development Assistance Project Criteria

a. FAA Sec. 102(b), 111, 113, 281(a). Extent to which activity will (a) effectively involve the poor in development, by extending access to economy at local level, increasing labor-intensive production and the use of appropriate technology, spreading investment out from cities to small towns and rural areas, and insuring wide participation of the poor in the benefits of development on a sustained basis, using the appropriate U.S. institutions[(b) help develop cooperatives, especially by technical assistance, to assist rural and urban poor to help themselves toward better life, and otherwise encourage democratic private and local governmental institutions[(c) support the self-help efforts of developing countries[(d) promote the participation of women in the national economies of developing countries and the improvement of women's status[and (e) utilize and encourage regional cooperation by developing countries?

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

(a) (b) (c) (d) Yes. The rationale for this project is to develop a mechanism through which small business can more fully participate in Panama's market economy. The GOP and USAID Panama have identified small scale enterprises as the most appropriate mechanism through which to achieve this objective.
(e) The Project will not emphasize directly regional cooperation by developing countries.

Yes.

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

Appropriate technologies that help earn a profit will be employed.

d. FAA Sec. 110(a). Will the recipient country provide at least 25% of the costs of the program, project, or activity with respect to which the assistance is to be furnished (or is the latter cost-sharing requirement being waived for a "relatively least developed" country)?

Yes, Panama's contribution exceeds 25% of the total costs of the Project.

e. FAA Sec. 110(b). Will grant capital assistance be disbursed for project over more than 3 years? If so, has justification satisfactory to Congress been made, and efforts for other financing, or is the recipient country "relatively least developed"? (M.O. 1232.1 defined a capital project as "the construction, expansion, equipping or alteration of a physical facility or facilities financed by AID dollar assistance of not less than \$100,000, including related advisory, managerial and training services, and not undertaken as part of a project of a predominantly technical assistance character.

This is not a capital assistance project.

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f. FAA Sec. 122(b). Does the activity give reasonable promise of contributing to the development of economic resources, or to the increase of productive capacities and self-sustaining economic growth?

Yes.

g. FAA Sec. 281(b). Describe extent to which program recognizes the particular, needs, desires, and capacities of the people of the country[utilizes the country's intellectual resources to encourage institutional development[and supports civil education and training in skills required for effective participation in governmental processes essential to self-government.

The Project is tailored to contribute directly to small businesses in Panama. It will open up credit channels for such small enterprise thus allowing them to enter and participate more fully in the market and economic development process.

Technical assistance and training will directly contribute towards the strengthening of the private and public sector institutions that make up the credit system for small businesses.

2. Development Assistance Project Criteria (Loans Only)

a. FAA Sec. 122(b). Information and conclusion on capacity of the country to repay the loan, at a reasonable rate of interest.

USAID review has concluded that the GOP has the capacity to repay the loan.

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

N/A

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c. ISDCA of 1981, Sec. 724 (c) and (d). If for Nicaragua, does the loan agreement require that the funds be used to the maximum extent possible for the private sector? Does the project provide for monitoring under FAA Sec. 624(g)? N/A

3. Economic Support Fund Project Criteria

a. FAA Sec. 531(a). Will this assistance promote economic or political stability? To the extent possible, does it reflect the policy directions of FAA Section 102? N/A

b. FAA Sec. 531(c). Will assistance under this chapter be used for military, or paramilitary activities? N/A

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

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

N/A

5C(3) - STANDARD ITEM CHECKLIST

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

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

A. Procurement

1. FAA Sec. 602. Are there arrangements to permit U.S. small business to participate equitably in the furnishing of commodities and services financed? Yes.
2. FAA Sec. 604(a). Will all procurement be from the U.S. except as otherwise determined by the President or under delegation from him? Yes.
3. FAA Sec. 604(d). If the cooperating country discriminates against marine insurance companies authorized to do business in the U.S., will commodities be insured in the United States against marine risk with such a company? Panama does not discriminate against the U.S. marine insurance companies.

4. FAA Sec. 604(e) [ISDCA of 1980 Sec. 705(a)]. If offshore procurement of agricultural commodity or product is to be financed, is there provision against such procurement when the domestic price of such commodity is less than parity? (Exception where commodity financed could not reasonably be procured in U.S.) N/A
5. FAA Sec. 604(g). Will construction or engineering services be procured from firms of countries otherwise eligible under Code 941, but which have attained a competitive capability in international markets in one of these areas? N/A
6. FAA Sec. 603. Is the shipping excluded from compliance with requirement in section 901(b) of the Merchant Marine Act of 1936, as amended, that at least 50 per centum of the gross tonnage of commodities (computed separately for dry bulk carriers, dry cargo liners, and tankers) financed shall be transported on privately owned U.S. flag commercial vessels are available at fair and reasonable rates? N/A

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7. FAA Sec. 621. If technical assistance is financed, will such assistance be furnished by private enterprise on a contract basis to the fullest extent practicable? If the facilities of other Federal agencies will be utilized, are they particularly suitable, not competitive with private enterprise, and made available without undue interference with domestic programs? Yes.
8. International Air Transport. Fair Competitive Practices Act, 1974. If air transportation of persons or property is financed on grant basis, will U.S. carriers be used to the extent such service is available? Yes.
9. FY 1982 Appropriation Act Sec. 504. If the U.S. Government is a party to a contract for procurement, does the contract contain a provision authorizing termination of such contract for the convenience of the United States? Yes.

B. Construction

1. FAA Sec. 601(d). If capital (e.g., construction) project, will U.S. engineering and professional services to be used? N/A

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2. FAA Sec. 611(c). If contract for construction are to be financed, will they be let on a competitive basis to maximum extent practicable? Yes.
3. FAA Sec. 620(k). If for construction of productive enterprise, will aggregate value of assistance to be furnished by the U.S. not exceed \$100 million (except for productive enterprises in Egypt that were described in the CP)? N/A

C. Other Restrictions

1. FAA Sec. 122(b). If development loan, is interest rate at least 2% per annum during grace period and at least 3% per annum thereafter? Yes.
2. FAA Sec. 301(d). If fund is established solely by U.S. contributions and administered by an international organization, does Comptroller General have audit rights? N/A
3. FAA Sec. 620(h). Do arrangements exist to insure that United States foreign aid is not used in a manner which, contrary to the best interests of the United States, promotes or assists the foreign aid projects or activities of the Communist-bloc countries? Yes.
4. Will arrangements preclude use of financing?

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- a. FAA Sec. 104(f) [FY 1982 Appropriation Act. Sec. 525. (1) To pay for performance of abortions as a method of family Planning or to motivate or coerce persons to practice abortions [(2) to pay for performance of involuntary sterilization as method of family planning, or to coerce or provide financial incentive to any person (3) to pay for any biomedical research which relates, in whole or part, to methods or the performance of abortions or involunatry sterilizations as a means of family planning [(4) to lobby for abortions? Yes.
- b. FAA Sec. 620(g). To compensate owners for expropriated nationalized property? Yes.
- c. FAA Sec. 660. To provide training or advice or provide any financial support for police, prisons, or other law enrforcement forces, except for narcotics programs? Yes.
- d. FAA Sec. 662. For CIA activities? Yes.
- e. FAA Sec. 636(i). For purchase, sale, long-term lease, exchange or guaranty of the sale of motor vehicles manufactures outside U.S., unless a waiver is obtained? Yes.

- f. FY 1982 Appropriation Act, Sec. 503. To pay pensions, annuities, retirement pay, or adjusted service compensation for military personnel? Yes.
- g. FY 1982 Appropriation Act, Sec. 505. To pay U.S. assessments, arrearages or dues? Yes.
- h. FY 1982 Appropriation Act, Sec. 506. To carry out provisions of FAA section 209(d) (Transfer of FAA funds to multilateral organizations for lending)? Yes.
- i. FY 1982 Appropriation Act, Sec. 510. To finance the export of nuclear equipment, fuel, or technology or to train foreign nationals in nuclear fields? Yes.
- j. FY 1982 Appropriation Act, Sec. 511. Will assistance be provided for the purpose of aiding the efforts of the government of such country to repress the legitimate rights of the population of such country contrary to the Universal Declaration of Human Rights? No.
- k. FY 1982 Appropriation Act, Sec. 515. To be used for publicity or propaganda purposes within U.S. not authorized by Congress? No.

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INITIAL ENVIRONMENTAL EXAMINATION

Project Location: Panama, R. P.

Project Title: Small Business Development

Funding: All Years: \$9,000,000
First Year (FY 84): \$1,500,000 Loan
\$ 500,000 Grant

Life of Project: Five Years : \$6,000,000 Loan
\$3,000,000 Grant

Prepared by: Celso Carbonell, Jr., ODR

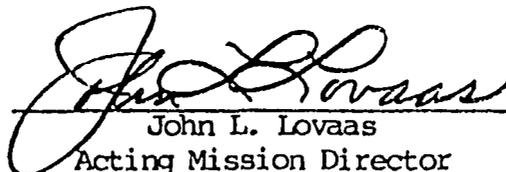
Background:

Section 216.2 (c) (2) of 22 CFR Part 216, Environmental Procedures, describes the classes of action which are eligible for categorical exclusion and for which an Initial Environmental Examination is not generally required. The activities of the subject project are applicable to the following categorical exclusions:

- 1) 216.2 (c) (i) Education, technical assistance and training programs.
- 2) 216.2 (c) (iii) Analysis, studies, workshops and meetings.
- 3) 216.2 (c) (v) Document information and transfer.
- 4) 216.2 (c) (x) Support for intermediate credit institutions.
- 5) 216.2 (c) (xiv) Projects to develop the capability of recipient countries in development planning.

Environmental Action Recommended:

Based on the categorical exclusions discussed above, the Mission recommends that the Small Business Development Project be given a Negative Determination requiring no further environmental review.


John L. Lovaas
Acting Mission Director

8/23/84
Date

(DOC. 4416P)

ANNEX F

B O R R O W E R L O A N / G R A N T R E Q U E S T

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República de Panamá

Ministerio de Planificación y Política Económica

Despacho del Ministro

ACTION
TO <i>ESG</i>
DUE <i>7/20/84</i>
TAKEN

12 de julio de 1984

Nota No. 021-DM

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OFF	ACT	INF
DIR		✓
DEP		
ODP		
ODR		✓
CONT		✓
EXO		
RLA		
RCO		
AGR		
ERG	✓	
ENG		
RHUDO		
C&R		

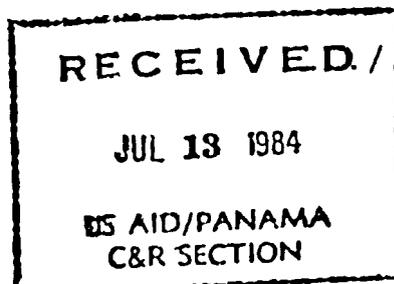
Señor
Robín Gómez,
Director de la Agencia
para el Desarrollo Internacional
E. S. D.

Estimado señor Gómez:

Como es de su conocimiento, el Gobierno Nacional le ha dado prioridad a todas las medidas que de alguna manera u otra, tiendan a reducir los niveles de desempleo y subempleo, al igual que aumentar la productividad e ingresos de nuestros trabajadores. Es con gran satisfacción, que equipos técnicos de nuestras diversas instituciones han trabajado conjuntamente con el personal profesional de la AID por más de un año en la elaboración del "Proyecto de Fomento a la Pequeña Empresa".

Como usted sabe, este Proyecto apoya la estrategia del Gobierno Nacional en la generación de empleos y contempla los instrumentos necesarios para resolver algunos de los problemas principales que confrontan las pequeñas empresas en la obtención de créditos comerciales y gestión empresarial. El fondo de garantías le dará acceso al sistema bancario a las empresas que no pueden respaldar su solicitud crediticia con garantías propias; el fondo de préstamos le dará liquidez al sistema de cooperativas para que ellos puedan hacer préstamos a pequeñas empresas y el sistema de asistencia administrativa facilitará la gestión de las pequeñas empresas ante las instituciones financieras.

Después de haber tenido la oportunidad de analizar el Proyecto y sus tres componentes básicos, deseamos solicitar a la Agencia para el Desarrollo Internacional el financiamiento de este Proyecto por un total de B/. 9,500,000 distribuido de la siguiente manera:



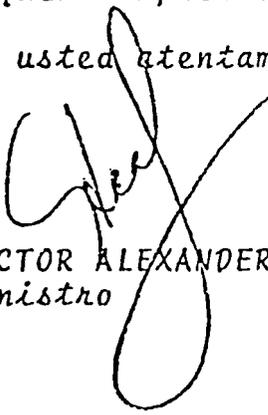
Fondo de Préstamo: un préstamo de B/.6,000 000 para financiar el fondo de préstamos y una donación de B/.300,000 para cubrir el déficit operacional durante los dos primeros años.

Fondo de Garantías: una donación de B/.1,500,000 para establecer el fondo de garantías.

Componente de Asistencia Administrativa: una donación de B/.1,700,000 para cubrir parte de los gastos de operaciones que incurriera el Ministerio de Comercio e Industrias durante el período de transición, en donde se cierra la ventana de crédito y se asume el nuevo rol de asistencia técnica y administrativa a la pequeña empresa.

Por lo anterior expuesto, deseamos reiterar nuestra solicitud, teniendo en cuenta de antemano el respaldo positivo que ustedes han brindado y brindarán al Proyecto de Fomento a la Pequeña Empresa.

De usted atentamente,


HECTOR ALEXANDER
Ministro

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