

**COOPERATIVE AGREEMENT ON HUMAN SETTLEMENTS
AND NATURAL RESOURCE SYSTEMS ANALYSIS**

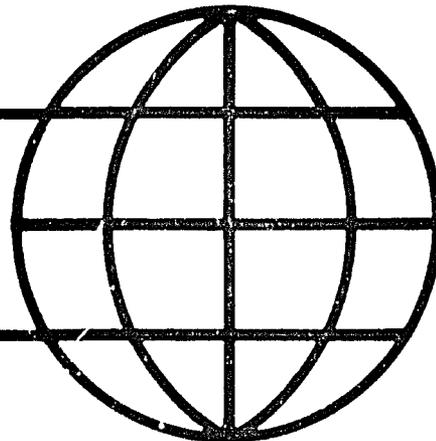
EVALUATION REPORT

RURAL GROWTH AND SERVICE CENTERS:
THE AGRO-INDUSTRY COMPONENT

by

Robert A. Hackenberg
Rene Hinojosa
Beverly H. Hackenberg

Regional Cities Project
Clark University/Institute for Development Anthropology
Cooperative Agreement (USAID)



Clark University
International Development Program
950 Main Street
Worcester, MA 01610

Institute for Development Anthropology
Suite 302, P.O. Box 813
99 Collier Street
Binghamton, NY 13902

EVALUATION REPORT

Rural Growth and Service Centers:
The Agro-Industry Component

by

Robert A. Hackenberg
Rene Hinojosa
Beverly H. Hackenberg

This evaluation research was authorized
by PIO/T No. 525-0187-3-20065 between USAID/Panama
and Clark University as an amendment to Cooperative
Agreement No. DAN-1135-A-00-1078-00.

Boulder, Colorado

October, 1983

Table of Contents

	<u>Page</u>
I. The Role of Agro-Industry in the URBE Concept	1
The URBE Concept	1
The Role of Agro-Industry: Requirements for Project Eligibility	2
COFINA: The Administrative Agency for Agro-Industrial Loans	6
Conclusions: A Project in Trouble	14
II. Learning About the Program: Information Sources on the Agro-Industry Component	20
Locating the Sources	20
Record Sources	22
1. USAID	22
A. Quarterly Reports	22
B. Project Implementation Letters (PIL's)	24
C. Audit Documents	25
D. Reprogramming Documents	28
E. Miscellaneous Reports	31
2. MIPPE	32
A. Annual Plans and Program Reports	32
B. Reprogramming Documents	34
3. COFINA	36
A. Annual Reports	37
B. Other Documents	37
Interview Sources	38
1. USAID	38
2. MIPPE	39
3. COFINA	39
Conclusions	40
III. Program Operations: COFINA As Source of Agricultural Credit	42
Expectations and Realities	42
Policy Issues and Policy Studies	42
1. The National Plan for Agroindustrial Development	44
2. Studies of Specific Agro-Industries	46
COFINA's Application and Review Procedures and Loan Promotion	48
Supervision, Technical Assistance and Monitoring: COFINA	
Follow-Up Activities	52
Conclusions	55
IV. Loan Performance: Agro-Industries Supported by COFINA	58
Introduction	58
Descriptive Characteristics of Funded Enterprises	58
Financial Status of Funded Enterprises	61
Employment Generation and Investment Cost	63
Potential for Survival: Field Data on Selected Industries	65
1. Ernesto Berard, S. A.	66
2. Federacion de Cooperativas Agropecuarias (COAGRO)	68
3. Hermanos Rudas, S. A.	71
4. Sarigua	75
5. Semillas Superiores, S.A.	78

Table of Contents

	<u>Page</u>
6. Frutas Panamenas, S. A. (FRUPASA)	79
7. Industrias Apicolas (INAPASA)	82
8. Apiarios Guerra, S. A.	82
9. Miel San Sebastian	83
10. Apiarios Industriales, S. A.	84
11. Punta Rincon, S.A.	84
12. Punta Bucaro, S. A.	85
Performance of COFINA Agro-Industries: Conclusions	85
V. Project URBE Objectives and COFINA Agro-Industrial Achievements: Conclusions	93
Executive Summary	93
1. Agro-Industrial Program Goals and Guidelines	93
2. Administrative Structure	95
3. Information Sources for the Agro-Industry Evaluation	97
4. COFINA's Performance as Loan Administrator	99
A. Policy and Priorities	99
B. COFINA's Application and Review Procedures	100
C. Supervision and Technical Assistance	101
5. Performance of Loan Supported Agro-Industries	101
Conclusions: Objectives and Achievements	104

Appendices to COFINA Report

- A. Status Report on Audit Recommendations, September 22, 1982
Attachment #12
List of Approved and Disbursed Loans for Which Reimbursement has been claimed.
- B. Status Report on Audit Recommendations, September 22, 1982
Attachment #14
Projects which COFINA has Under Active Consideration
- C. Status Report on Audit Recommendations, September 22, 1982
Attachment #1, Anexo #1 and Anexo #4.
From MIPPE Proposal for Technical Assistance Submitted February 26, 1982.
- D. Status Report on Audit Recommendations, February 22, 1983
 - 1. Text pages 1-5.
 - 2. Attachment #4.
Minutes of Meeting of January 25, 1983: MIDA, COFINA, USAID and MIPPE. Status Report on COFINA's Agro-Industry Loans.
 - 3. Attachment #5
Letter from John Champagne to MIPPE Director of Regional Planning and Coordination, November 1, 1982
 - 4. Attachment #6
Newspaper Announcement of COFINA Agro-Industry Loan Program, La Estrella de Panama, December, 1982.
 - 5. Attachment #7
COFINA Status Report on Agro-Industry Loan Program to January 31, 1983.
- E. Action Memorandum to Mission Director, May 30, 1983.
Subject: Rural Growth and Service Centers: Extension of PACD
- F. MIPPE First Year Plan of Operations and Budget for Project URBE.
- G. MIPPE Revised Project Plan for Remaining URBE Disbursements
March 9, 1983
Pp. 6-9, 15-20, 23-25.
- H. MIPPE Revised Project Plan for Remaining URBE Disbursements
May 16, 1983
Attachment A: COFINA
- I. Listing of Approved COFINA Agro-Industry Projects:
 - 1. September, 1982
 - 2. November, 1982
 - 3. February, 1982
- J. COFINA Loan Application Form
- K. COFINA Guide to Project Preparation.
- L. Data Sheets for Individual Active Loans (13) Prepared by COFINA in February, 1983
- M. Executive Reports on Individual Active Projects (10) Prepared by COFINA. Various Dates since November, 1982.

CHAPTER I

THE ROLE OF AGRO-INDUSTRY IN THE URBE CONCEPT

The Urbe Concept

On August 3, 1978, a \$10 million loan agreement was concluded between the United States and the Government of Panama. The agreement included an additional authorization for \$5.4 million of Housing Investment Guaranty (HIG) funding which brought the amount of the package up to \$15.4 million. Counterpart funding from the Government of Panama raised the total amount to \$28.5 million for a period of five years.

The program included a family of components, each of which was to be supported by a portion of the loan, as follows:

Small Businesses and Industries	\$ 3,000,000
Agro-Industry Projects	3,200,000
Transport Terminals	2,500,000
Housing	5,400,000
Technical Assistance	<u>1,300,000</u>
TOTAL	<u>\$ 15,400,000</u>

The project, designated "Rural Growth and Service Centers" by USAID, became better known by its Spanish acronym, which was contracted from Proyecto de Desarrollo de Sistemas Urbanos Integrados to "Proyecto URBE".

The overall objective of Project URBE was to provide a comprehensive regional development plan for western Panama in order to integrate that region more directly into the urban industrial, modern life of the nation. Project developers felt that a well-articulated, cooperative effort organized under the Ministerio de Planificacion y Politica Economica (Ministry of Planning and Economic Policy or MIPPE) would be the best method by which a comprehensive development program could be carried out in the western region.

The general concepts under which the program operated drew heavily on growth pole and central place theory in geography. Rank-size distributions of a nation's cities would indicate those which needed their urban infrastructure enhanced in order to grow. Through the growth of smaller towns and cities, the distribution of people and wealth in the nation would be "rationalized".

Project URBE was to affect five provinces in western Panama, listed from east to west: Cocolé, Los Santos, Herrera, Veraguas, Chiriquí. Within these, primary investments were to be made in two growth centers: Chitre-Los Santos (Herrera-Los Santos border area), and David (Chiriquí). Secondary investments were to be made in six service centers: Penonomé and Aguadulce (Cocolé), Las Tablas (Los Santos), Santiago (Veraguas), Concepción and Puerto Armuelles (Chiriquí).

By seeing to it that the various ministries--those responsible for housing, sewers, electricity, water, transportation, etc.--worked together, a program would be created in which multiplier effects would expand the overall impact of individual projects in each area. It was estimated that these multiplier effects, along with the direct effects, would in the end create between 2,700 and 3,500 jobs for the urban poor and migrants to the cities of western Panama. We have, however, found no evidence to indicate whether these expectations have been realized. No effort seems to have been made to determine a method for estimating numbers of jobs created.

The task of employment generation was distributed among several components of the URBE Project: agro-industry, housing and small scale enterprise were all seen to contribute to this objective. However, the contribution of agro-industry was of a special type. Where all other components of the URBE Project were to be located in the communities described above, the agro-industries could be placed in rural locations since they were to serve a linking function. They were intended to consume rural resources and stimulate rural productivity. At the same time, they were to purchase services and utilize labor from the communities designated above. While the concept was not well-developed at the time (1978), today we recognize that the purpose of the agro-industries was to generate rural non-farm employment.

The Role of Agro-industry: Requirements for Project Eligibility

Approximately \$4.6 million will be used to finance subloans for agro-industries; \$3.4 million from the USAID loan and the balance (\$1.2 million) from GOP contributions. The subprojects are expected to generate 750-1000 new jobs, of which 90% will remain within the target area of Western Panama. They are also expected to provide "significant occupational opportunities" in the agricultural sector by stimulating the demand for agricultural products.

The lending mechanism for agro-industries was to be the National Finance Corporation (COFINA)---an autonomous government agency. Technicians of the agro-industrial division of the Ministry of Agriculture (MIDA) will assist in sub-project identification and development, preparation of feasibility studies, and provision of technical assistance during implementation. Each proposed sub-project is to be reviewed by a Technical Committee with equal representation from COFINA and MIDA. This committee will insure that each proposal is consistent with national agro-industry planning objectives and priorities. Examples of the kind of agro-industries intended for financing are dried and processed fish, fruit and vegetables, fertilizer production and animal feeds.

Loans up to \$500,000 will be provided for individual projects. Funds are to be applied to plant, equipment and working capital. Subloan reflows are to finance additional projects. Skills training will be provided for the employees who will hold the jobs to be generated. Examples of the kind of training that may be provided includes grading and sorting of agricultural produce, quality testing; installation, operation and maintenance of common industrial machinery. The worker training program will be carried out through the National Training Center (CENAFORP), at a cost estimated at \$.3 million.

Additional technical points concerning project selection and financing which appear in appropriate sections of the project paper include the following:

1. Subprojects must be consistent with MIDA's policy for agro-industrial development.
2. All subprojects must meet viability criteria specified in COFINA's standard appraisal guidelines (Appendix K).
3. Evidence of an adequate domestic or export market is required.
4. Subprojects must demonstrate a clear benefit to the target group, preferably through employment generation and linkages with smallholder agriculture.
5. One identifiable fulltime job should be generated for each \$5,000 invested. A higher cost may be allowed if the project produces a product usable by rural small-holders (animal feed, for example), or provides additional income to large numbers of rural households (such as cacao or castor bean processing). In no case may the cost per job exceed \$10,000.
6. Subprojects should utilize raw materials for which current demand is weak, or for which production by small-holders can be expanded.
7. Total loan amounts should not exceed \$500,000 per project.
8. Investors must provide equity equivalent to 20% of the total investment cost of new and 25% in the case of existing industries.
9. Subprojects should not directly compete with existing industries which have underutilized capacity.
10. All subprojects should be in or near a growth or service center.
11. Proposed subprojects must not qualify for commercial loans.
12. Existing industries must provide a current certified financial statement.
13. Subprojects must be environmentally sound.

Subprojects are expected to originate from two sources: proposals may be directed to COFINA by interested entrepreneurs, or pre-feasibility studies for desired projects may be prepared by COFINA and/or MIDA. An entrepreneur to apply for the loan must then be located. In either case, proposals will be reviewed by a four-person Technical Committee consisting of two representatives from each agency. The Technical Committee will also determine what further steps and documentation may be needed to obtain final technical approval. The COFINA format for subproject analysis (see Appendix A) will serve as a guide.

Following this preliminary review by the Technical Committee, a full-scale project study must be prepared on technical, financial and administrative phases of the project. Analysis of the feasibility study will be completed by MIDA and COFINA personnel; additional consultants may be retained if needed. Technical assistance funds provided by the project may be used for this purpose. Following approval of the feasibility study, a credit analysis will be carried by COFINA using its "normal procedures".

When technical, financial and administrative analyses, and credit evaluation has been performed, the project will be reviewed for a second time by the Technical Committee. If the response is positive, the loan application will be forwarded to COFINA's Credit Committee for final consideration. With Credit Committee approval, the loan application is advanced to COFINA's Board of Directors. If approved, then COFINA's legal officer prepares a contract for the loan.

COFINA is to be responsible for all disbursements and collections. Technical assistance to borrowers during the life of the loan will be provided by MIDA. In the project paper (Rural Growth and Service Centers, AID/BAS-002, p. 29) a list of illustrative industries with appropriate cost figures has been prepared. It is entered opposite as Table 1. The cumulative total of this list is \$6.3 million, and the paper notes that, "All the above proposals are consistent with MIDA's agro-industrial policy, and pre-feasibility studies have been completed for 75% of them. The total identified credit demand...exceeds by a comfortable margin the \$3.4 million in subblending resources available from the project." Neither tobacco nor alcohol-related projects can be funded.

Applicants for project support must meet COFINA's requirements for eligibility: evidence of managerial and financial soundness; willingness to accept

Table 1

EXAMPLES OF AGRO-INDUSTRIES FOR COFINA FINANCING

<u>Industry</u>	<u>Total Investment</u>
Meat Cannery	\$ 150,000
Dried and Salted Fish	200,000
Fruit and Vegetable Processing	475,000
Frozen Frog Legs	130,000
Commercialization of Sharks	220,000
Animal Waste Collection and Processing	80,000
Banana Waste Collection	100,000
Castor Bean Processing	400,000
Cacao Processing	500,000
Pineapple Processing	100,000
Potato Processing	500,000
Fertilizer Mixing	500,000
Rice Bran Oil	160,000
Frozen Yucca	80,000
Yucca Starch	400,000
Soy Oil, Flour	400,000
Industrialization of Potatoes	500,000
Cashews, Cashew Oil	350,000
Animal Feed from Molasses	250,000
Citric Acid from Molasses	400,000
Leather Curing	400,000
	<u>1,400,000</u>
<u>Total</u>	\$6,295,000

Source: Project Paper, "Rural Growth and Service Centers,"
AID/BAS-002, p. 29.

recommended technical assistance in production techniques, worker training, financial management or other area which COFINA deems necessary, and normal eligibility requirements established by COFINA for agro-industries.

COFINA: The Administrative Agency for Agro-industrial Loans

The Compania Financiera Nacional was established in December, 1975. It had been in operation for approximately 2.5 years before the URBE Project was signed into law. COFINA received funds from several government sources, primarily a 7% tariff on imports imposed by the government. Credit lines were also obtained from U. S. banks.

COFINA's mandate provides that it shall promote priority activities in support of economic development. Favored areas for COFINA investment include manufacturing, export, tourism, transport, and exploitation of Panama's natural resources. At the time URBE loans were initiated, COFINA was lending at 8.5% to 10% interest. Loans can be made for up to 15 years with a grace period of up to three years. Most loans were made for up to six years with a one year grace period. COFINA's loan portfolio in 1978 was only valued at \$1.4 million, plus \$3.0 million in approved but undisbursed projects. At that date, there were no delinquent accounts in the file.

From its inception to mid-1978, COFINA approved 31 loans at an average size of \$150,000. The majority were for industries located within the Panama-Colon corridor. In 1978, COFINA had an administrative staff of 30 persons and an industrial credit staff of 24 responsible for project identification and promotion. In 1977, regional offices were opened in David and Colon. The URBE Project designers considered COFINA to be well-provided with staff and technical expertise. Therefore, only ten months of short-term technical assistance was considered necessary for subloan promotion.

A statement in the text notes that "COFINA only has one individual on its current staff who is knowledgeable in the technical aspects of agro-industrial development....Rather than attempt to build such expertise into COFINA, it was decided to rely on the technical capabilities of the Directorate of Agro-Industries located in the Ministry of Agricultural Development." When this cooperative relationship between MIDA and COFINA failed to materialize in subsequent years, the lack of "in-house" technical capacity to review agricultural projects became a recurrent problem.

The failure to forge a close working relationship with MIDA may have been the result of extremely rapid growth. In the years since it was organized, annual new loan commitments at COFINA increased as follows:

<u>Year</u>	<u>Total Financing (000's)</u>
1976	476.1
1977	3,836.9
1978	11,573.4
1979	14,698.4
1980	17,877.6
1981	35,579.5
1982	7,330.0*

* first 6-months only

Source: Corporacion Financiera Nacional,
Informe Anual, 1982, Cuadro No. 8.

It should be expected that other dimensions of growth increased at the same pace. Table 2 discloses that the organizational structure in 1982 was much more complex than that described in the project paper. Notice that the Division of Projects (Gerente de Proyectos) incorporates two sub-units, one for agriculture (Director Agroindustrias) and another for industry (Director Industrias). Other noteworthy features of this table include the following:

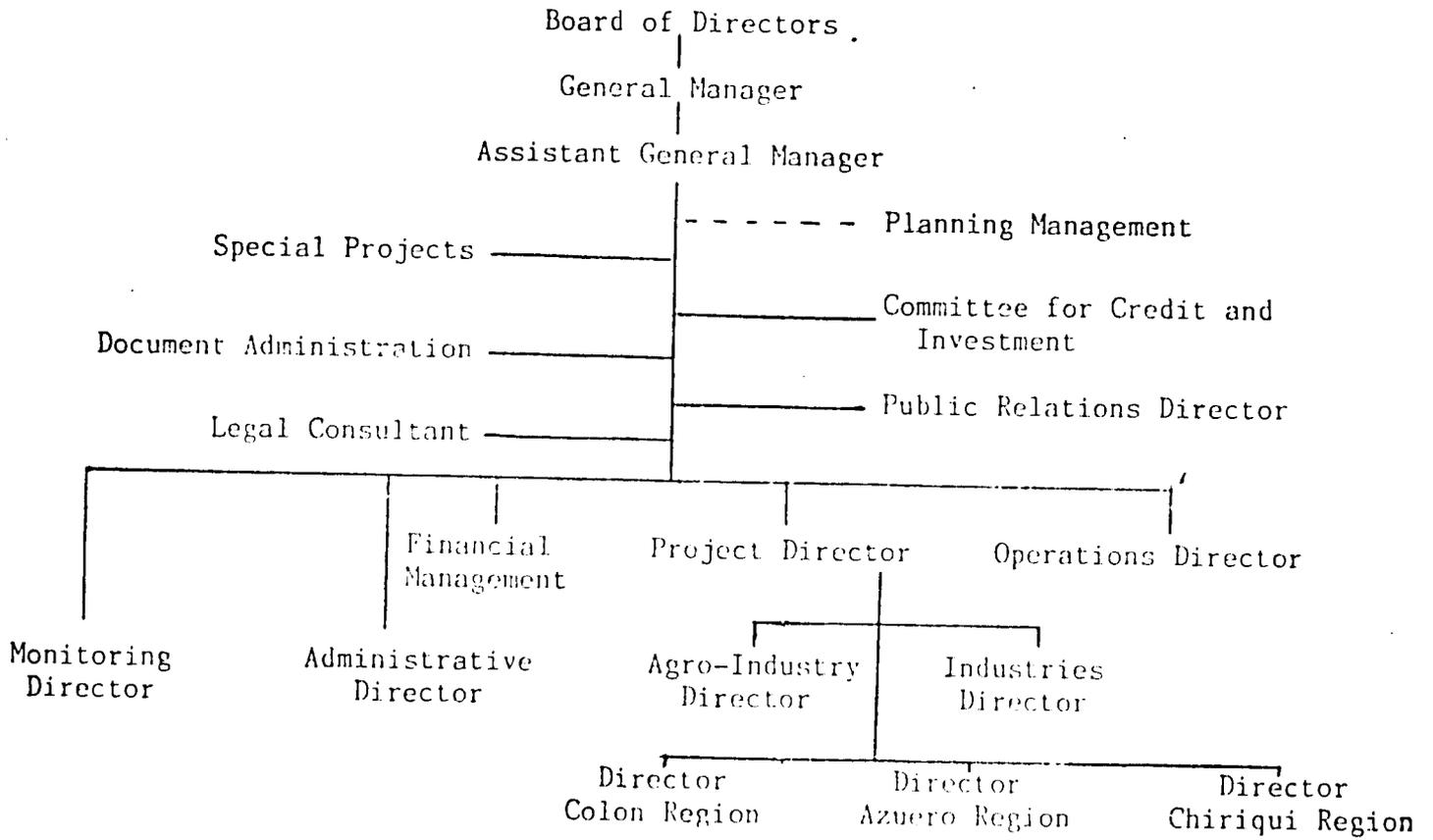
1. By 1982, a separate field office for the Azuero had been established in Chitre-Los Santos. This is in addition to those in Colon and David already described.
2. There are separate directorates for administration (Administrativa) and monitoring (Seguimiento).

The number of personnel also increased substantially from the figure of 54 cited in the project paper for 1978. Table 3 confirms that there were 97 personnel employed in June of 1981 and that number increased to 122 a year later in June of 1982. The biggest single identified addition between 1981 and 1982 was in the number of project evaluators. It might appear that the monitoring staff is disproportionately small (3 officials) compared with the personnel engaged in new project development.

The distribution of loan activity within COFINA is mirrored for the years 1980-1982 in Table 4 opposite. The table suggests a declining role for agriculture

Table 2

TABLE OF ORGANIZATION: COFINA
(1982)



Source: Corporacion Financiera Nacional. Informe Anual 1982
National Financial Corporation: Annual Report, 1982

Table 3

GROWTH OF PERSONNEL, COFINA, 1981-1982

Personnel Detailed List	Personnel June 1981	Personnel Change		Personnel June 1982
		July 1981	June 1982	
		-	+	
TOTAL	<u>97</u>			<u>122</u>
<u>Executive Personnel</u>	<u>16</u>			<u>17</u>
Managers	6	2	2	6
Directors	8	-	1	9
Consultants	2	-	-	2
<u>Technical Personnel</u>	<u>24</u>			<u>37</u>
Financial Analysts	3	1	2	4
Credit Officers	4	2	4	6
Project Evaluators	12	3	11	20
Planners	2	-	1	3
Project Auditors	1	-	-	1
Monitoring Officers	2	2	3	3
<u>Administrative Personnel</u>	<u>57</u>			<u>68</u>
Lawyers	1	-	2	3
Department Heads	4	1	-	3
Others	41	4	19	56
Temporary Help ¹	11	11	6	6

1. Technical Administrators

Source: Corporacion Financiera Nacional: Informe Anual 1982
National Finance Corporation: Annual Report, 1982

Table 4

INVESTMENTS BY TYPE OF ECONOMIC ACTIVITY

(1980 - 1982)

(In thousands of balboas/dollars)

ECONOMIC ACTIVITY	1980	1981	1982
<u>Total</u>	<u>10,862</u>	<u>5,104</u>	<u>3,016</u>
Mining	-	600	-
Agroindustry	6,120	3,454	-
Manufacturing Industries	<u>1,812</u>	<u>1,050</u>	<u>3,016</u>
Bakeries	48	-	-
Candies, Sweets	1,727	-	-
Oil Refining	-	1,050	-
Manufacturing Clay Products for Construction	37	-	1
Glass Manufacture and Products of Glass	-	-	500
Manufacture of Pharmaceuticals and medicines	-	-	2,516
Tourism	2,800	-	-
Transportation	130	-	-

Source: Department of Planning and Credit Policy, COFINA

at COFINA during 1981. The special division for agro-industrial projects was terminated in November, 1981. The directorate for monitoring (Seguimiento) was closed at the same time. Emphasis apparently shifted to manufacturing industries.

While the statistics in Table 4 reflect activity in the entire COFINA loan portfolio---not just the portion in which URBE has an interest---it will be seen in the balance of the manuscript that they reflect the situation in URBE-sponsored agro-industries as well. A premonition of future disclosures is contained in Table 5 opposite, a news clipping from La Prensa, a Panama City newspaper, dated April 11, 1983.

The headline states that "COFINA needs applications for agro-industrial projects". The body of the paper describes a meeting held in Chitre at which COFINA officials requested the local Chamber of Commerce to canvas the Azuero region for projects which could generate loan applications. The article warns that while \$1.8 million has already been expended by USAID through COFINA on enterprises which process fruits and vegetables and similar activities, another \$1.8 million remains to be invested, and will be lost unless it can be committed by May 31, 1983!

Table 6 presents a trend analysis of the cost per new job generated by the entire COFINA loan portfolio since its inception in 1976. The rate of investment displays surprising volatility, ranging from as little as \$24,000 to as much as \$224,000 per employee. This table is quite significant, however, for it reveals that at no point in its history has COFINA approached the degree of efficiency as an employment generator required by Project URBE.

The target figure for agro-industries in the project design was \$5,000 to \$10,000 per job. In its most efficient years (1976 and 1980) COFINA's investment ratio was 2.5 to 3 times the maximum figure. This is another area where, as we view the results of COFINA's activity within Project URBE, we may expect to encounter some trouble.

Over the years in which it has served as administrator for a major portion of Project URBE funding, COFINA has been characterized by two trends, neither of which can be interpreted favorably. The first has been the drift toward involvement in very large, very expensive showpiece projects: the trans-isthmus

Table 5

COFINA REQUEST FOR AGROINDUSTRIAL PROJECTS,
April, 1983

La Prensa LUNES 11 DE ABRIL DE 1983

7A

COFINA necesita solicitudes de proyectos agro industriales

Por Rogelio Herrera

En interesante reunión celebrada recientemente en la ciudad de Chitré, entre directivos de la Cámara de Comercio, Industrias y Agricultura de esta ciudad y representantes de COFINA, se estableció la necesidad de que se utilice 1.8 millones de balboas destinados a promover los proyectos Agro-Industriales en Panamá.

Los Licenciados Alexis Arias, Daniel Sousa y el señor Alvaro Tello, promotores de COFINA, explicaron a los asistentes el mecanismo que hace posible lograr los créditos respectivos.

La entidad crediticia aporta hasta un 70% de la inversión, tocando al inversionista cubrir el 30% restante. La tasa de interés es de un 12% anual fijo, 1% de manejo y 1% de compromiso. Se dan 15 años de plazo para el activo fijo y 5 años al capital de trabajo. En el primer caso existen 4 años de gracia y en el segundo 1 año. Se presta un mínimo de 25.000 balboas y un máximo de 250.000.

Muy oportuna fueron las intervenciones del Ingeniero José Holguin, Ingeniero Benito Suárez y los empresarios Víctor Pérez y José M. Rodríguez. Observaron la necesidad de mano de obra especializada, eficientes agencias de mercadeo y una mejor estructura de leyes proteccionistas por parte del Gobierno Nacional.

Los fondos que provienen del A.I.D., son destinados a empresas que procesen frutas, verduras y otras actividades similares. Hasta el momento 1.8 millones de balboas han sido invertidos en la República de Panamá con este fines. Sin embargo, COFINA tiene la misma cantidad por prestar, que de no ser utilizada al 31 de mayo de 1983, se puede perder.

Los funcionarios de COFINA, solicitan por lo menos, proyectos de ideas en estos campos, a fin de solicitar una prórroga al banco respectivo y que se aprovechen las inversiones en nuestro país.

Table 6

COST OF INVESTMENT PER NEW JOB GENERATED

Years: 1976 - 1982

(In thousands of dollars)

	Investment	Employees	Relation of Investment/Employees
<u>TOTAL</u>	<u>\$ 196,876</u>	<u>3,684</u>	<u>54</u>
1976	700	29	24
1977	6,828	193	35
1978 ⁽¹⁾	56,809	254	224
1979 ⁽¹⁾	48,792	930	52
1980 ⁽¹⁾	35,706	1,242	29
1981 ⁽¹⁾	35,227	826	43
1982 ⁽²⁾	12,814	210	61

(1) Includes financing for Hoteles Turisticos, S.A.
 (2) First half of the year.

Source: Office of Planning and Credit Policy, COFINA
Corporacion Financiera Nacional: Informe Anual, 1982
 National Finance Corporation, Annual Report, 1982

petroleum pipeline (oleoducto), the Marriott Hotel, and the development of Contadora are examples which come readily to mind. Several of these have proven to be unwise investments.

The second trend has been toward extremely rapid staff turnover and replacement. The COFINA 1981 Annual Report provides names and pictures of the administrative staff. While conducting our interviewing during the first quarter of 1983, we were unable to locate any of these people in the same positions. Since the publication of the 1982 Annual Report, the directors of the regional offices with which we were concerned---Chiriqui and Azuero---were also replaced. The highest officer in COFINA, the General Manager, Marcos Fernandez, was also a recent appointee at the time of our survey.

Conclusions: A Project in Trouble

The agro-industry component of the URBE Project appears to have encountered some serious difficulties. As Table 5 discloses, the loan account in COFINA faces termination in six weeks with nearly 50% of its budget uncommitted. During five years of project life, only half the project has been allocated properly. An equally serious issue from USAID's point of view has been the failure of COFINA to present reimbursement requests.

At the beginning of April, according to USAID accountants, only \$1.265 million had been properly reimbursed to COFINA. Another \$.865 million had either not been requested, or requests presented had been disallowed for insufficient documentation. With the project facing a closing date of May 31, 1983, only about one-third of the amount made available for agro-industry in 1978 had been cleared from USAID's books!

It is difficult for a component to register better performance than the agency in which it is located. The problems of Project URBE's agro-industry component have been COFINA's problems. These have included the following:

1. Rapid growth on the basis of showpiece projects with little time for consolidation.
2. Preference for export-oriented manufacturing enterprises bearing little relationship to Panama's resources or consumer needs.
3. Declining interest in agricultural projects.
4. Rapid staff turnover.
5. Reorganization of the agricultural directorate and the monitoring directorate out of existence in 1981.

In addition, there have been rumors of favoritism in the award of loans and of internal mismanagement of funds.

An underlying theme throughout the five years since 1978, has been the lack interaction between agencies required by the project design to link each component with the overall objectives. The implementation of the agro-industry component was the joint responsibility of the Ministry for Agricultural Development (MIDA) and COFINA.

MIDA was to make policy, identify priorities, participate in the preparation of pre-feasibility studies, and provide technical assistance to loan recipients. MIDA appears to have abdicated or minimized its responsibility as outlined above in all matters except participation in the Technical Committee charged with making evaluations of proposals. The Technical Committee was and is chaired by a MIDA official from the Direccion de Agroindustria. Technical assistance under the project was embodied in the support provided by two consultants (Daniel Ruiz and Augusto Rios) rather late in the project (May and September, 1981) for periods of one (Rios) or two (Ruiz) years. Their contribution was made directly to the Technical Committee (as opinions on proposals) or to COFINA administrators (as advice on project priorities). No technical assistance was provided to recipients of subloans.

The Project URBE blueprint calls for overall project management to be provided by the Ministry of Planning and Economic Policy. The organization expected to implement this expectation is described in Table 7 opposite. A special unit was created within MIPPE's Directorate for Regional Planning and Coordination with a full-time Project Coordinator. Beneath him is a phalanx of "coordinating officers for the components of Project URBE".

The project design certifies that active intervention to establish working accommodations between the agro-industry project and other parts of the program are essential, as set forth specifically below:

1. Agro-industries could be served by the two industrial parks to be constructed in David and Chitre by GOP as a portion of its counterpart funding.
2. Agro-Industries could utilize the transport terminals and related transportation networks linking urban centers with the rural resource base from which raw materials were to be provided.

Table 7

ESTRUCTURA OPERATIVA PARA LA EJECUCION DEL PROYECTO URBE / AID

DIRECTOR DEL PROYECTO URBE/AID
Lic. Augusto Cedeño
(DIRECTOR DE PLANIFICACION Y COORDINACION REGIONAL) MIPPE

COORDINADOR DEL PROYECTO URBE/AID
Arq. Víctor Mizrahi
Jefe del Departamento de Desarrollo Urbano MIPPE

Asesor del Proyecto URBE/AID
Ing. Aquiles Moreno

Funcionarios Coordinadores de los componentes del Proyecto URBE/AID

Jorge Prado
Ingeniero Industrial
AGROINDUSTRIAS
PEQUEÑOS NEGOCIOS

Elizardo Jaén
Arquitecto
- CULTURA
- DEPORTES

Darwin Mendoca
Ingeniero Civil
- ALCANTARILLADOS SANITARIOS
- PARQUES INDUSTRIALES

Armando Quintero
Ingeniero Civil
- TERMINALES DE TRANSPORTE TERRESTRE
- VIVIENDAS

Leyda de Morales
Administradora
- ASISTENCIA TECNICA
- CAPACITACION INSTITUCIONAL

Georgina Utrilla
Técnica
- PLANES DE ESTUDIO

ENTIDADES EJECUTORAS Y FUNCIONARIOS RESPONSABLES

- AGROINDUSTRIAS
Gerencia de Proyectos (COPIA)
Lic. Casilda González
Dirección de Agroindustrias
Ing. Víctor Cerrón (MIDA)
- PEQUEÑOS NEGOCIOS
Gerencia de la Pequeña Empresa
Ina. Carmelo Falco

- CULTURA
Dirección de Diseño (INAC)
Arq. Fernando Saavedra
- DEPORTE
Dirección de Diseño y Construcción (INDP)
Arq. Hernando Flores

- ALCANTARILLADOS SANITARIOS
Dirección de Ingeniería (IDAAN)
Ing. Luis Pedrechi
- PARQUES INDUSTRIALES
Dirección de Proyectos Especiales (MCI)
Dr. Alexander Ferguson

- TERMINALES DE TRANSPORTE TERRESTRE
Dirección Nacional de Transporte (Min. de Gob. y Just.)
Lic. Enrique Herrera
- VIVIENDA
Departamento de Programación de Proyectos (MIVI)
Arq. Beatriz de Foz
Asesoría del Ministro (MVI)
Arq. Yolanda Rivera

3. Agro-industries could utilize maintenance, support and supply services, as well as goods required by workers, to be provided by proprietors of small businesses to be created with loans from the program provided by the Ministry of Commerce and Industry.
4. Agro-industries could have utilized housing for managers and technicians, lower level employees, and also for producers of the raw materials which their presence was intended to stimulate.

From this perspective, agro-industries can be seen as the key element in the establishment of backward linkages from the regional growth centers to the service centers and rural regions which they serve. They occupy a pivotal position in the URBE Project.

Unfortunately, MIPPE personnel interpreted their responsibilities toward the separate components as monitoring rather than management. An attempt was made to establish and maintain a communications network between MIPPE and the separate offices responsible for each of the components. Periodic visits were made to check on individual progress. Memos were written on the basis of results and transmitted to USAID for the purpose of preparing the latter's quarterly reports.

The self-perception which MIPPE apparently developed concerning its role was one of liaison between USAID and the components in charge of the separate GOP ministries (IDAAN, MICI, MIVI). It did not include negotiating among the ministries to actually integrate the components in the sense envisioned by the project design. However, in addition to liaison, it did undertake some specific administrative assignments: (1) establishing the Coordinating Committee and (2) preparing the agenda for its meetings.

The Coordinating Committee was to include representation from the five major ministries involved in portions of the multisectoral development project: Ministries of Agricultural Development (MIDA), Ministry of Commerce and Industry (MICI), Ministry of Housing (MIVI), and National Water and Sewer Institute (IDAAN). Its authority was to include (1) approving the annual project budgets for all components; (2) analyze and approve changes in project plans; (3) evaluate project progress on the basis of reports prepared by MIPPE

Despite this heavy administrative responsibility, the Coordinating Committee appears to have met only twice in the years prior to the evaluation! Neither MIPPE nor USAID personnel appear to have made regular visits to the field to inspect

the status of individual projects, although ad hoc field trips to attend an occasional seminar or escort visitors (e.g., members of the evaluation team) were undertaken. The level of information at MIPPE was quite limited concerning completion status or performance record of any specific component; since MIPPE was to be the data source for USAID administrators, their knowledge of the project was also inadequate.

The integrated area development concept which was central to the accomplishment of Project URBE's objectives was rendered inoperable, finally, by administrative decisions for which USAID is responsible. In mid-1982, when only a year of LOP time remained, administrators became fully aware of lack of progress among several components: industrial parks and transportation terminals were seriously jeopardized, and COFINA industries were lagging behind schedule.

The USAID judgement on this situation was that the project team, consisting of a manager and members of four administrative units under the leadership of the Office of Agricultural Development must be reconstructed. Individual projects were separated and made the independent responsibility of USAID divisions:

1. COFINA and the MICI small loan program were assigned to the Office of Human Resources Development.
2. Transportation terminals were assigned to the Office of Engineering.
3. The housing program was assigned to the Regional Housing and Urban Development Office.
4. The Office of Agricultural Development was left with a "coordinating" function over a set of components now in the hands of divisions over which it had no control.

In an ironic turn of events, USAID unintentionally created a structure which was the mirror opposite of that represented within the GOP by MIPPE (the coordinating agency) and its loosely affiliated ministries (MIDA, MICI, MIVI, IDAAN and COFINA). It appears to have functioned more effectively in the USAID environment than in the GOP context, at least for the purpose of stimulating administrative action. Under this arrangement, USAID succeeded in completing a May, 1983 review of the project and specified terms for an 18-month extension of the PACD to December 31, 1984. However, the integrated area development concept has been unable to survive the change in administration.

The explanation for the failure of MIPPE to exercise its coordinating function, and an account of other management problems which frustrated inter-agency cooperation will be found in a comprehensive report by Carlos Morales, who served as project coordinator from URBE's inception to December, 1982. His report is entitled, "Proceso de Ejecucion del Proyecto URBE/AID Informe General de la Coordinacion del Proyecto hasta 1982."

Morales notes that during the course of the project the position of Minister of Planning was vacated and filled five times. There has been one more turnover since his departure. He also reports early disagreements (in 1979) between COFINA and MIDA which eliminated the prospect for close cooperation during the balance of the project.

As a consequence of these developments, the evaluation team has prepared a set of separate studies which concentrate on each of the three URBE Project components which have made substantial independent progress: the small business loan program administered by the Ministry of Commerce and Industry, the shelter program administered by the Ministry of Housing, and the present study which deals with the agro-industry loan program under the management of COFINA.

CHAPTER II

LEARNING ABOUT THE PROGRAM:

Information Sources on the Agro-Industry Component

Locating the Sources

Conducting a project evaluation should consist of a comparison between achievements and intentions. The intent, where USAID projects are concerned, is contained in the project paper. The achievements should be fully documented in the files of the responsible agencies, both USAID and GOP. Evaluation teams do not expect to spend most of their time doing detective work to discover what actually took place during the life of the project. During the URBE Project evaluation, however, "detective work" is an accurate description of our performance. Nowhere does this apply quite so well as to the agro-industry component.

During our preliminary visit in July, 1982, to develop terms of reference for the evaluation, we became familiar with the administrative structure created by MIPPE for project monitoring (Table 7). We were informed at the time by the project coordinator that each person on his staff was intimately familiar with one or another component of the project. We were assured that the appropriate staff member would work with us on sequential phases of the evaluation, providing appropriate documentation from MIPPE's files.

When the evaluation team arrived to begin work in January, the situation encountered was quite different. Documentation available from USAID (to be described below) was minimal, but this was not too surprising since a fulltime liaison agency had been established at MIPPE and we had been invited to establish our permanent offices there. However, information resources on Project URBE at MIPPE proved to be extremely uneven and mostly in the form of oral reports from the "funcionarios coordinadores" rather than documents.

With reference to the team members and assignments in Table 7, the following notes may be useful in explaining our plight:

1. Master Plans for Growth and Service Centers.

The person in charge was completing the master plan for Las Tablas. All others were complete but she knew nothing about their status or use by the respective communities. This was not her assignment.

2. Transport Terminals and Housing.

The engineer in charge was quite knowledgeable concerning the status of transport terminals and had made field visits to verify contents of designs. However, since neither project had advanced to the point of land purchase, his competence was not effectively utilized. He had no documents but provided copies of drawings and site plans.

On the much more important subject of housing, he knew nothing since it was not his responsibility. A liaison person in another MIPPE office had recently been appointed to represent the Ministry in dealings with the Ministry of Housing. She had no records and little information.

3. Industrial Parks and Sewer Systems.

The engineer in charge was quite knowledgeable concerning the status of industrial parks although he produced no documentation. Once again, the preliminary status of the project (one in Chitre was in the site preparation stage, the one in David was less advanced) prevented his information from making a contribution. On the sewer systems he was not well informed.

4. Sports and Culture Centers.

The person assigned to this minor component of the project possessed little information and no documentation.

5. Agro-industries and Small Business Loans.

These two assignments represent the major portion of funding for which MIPPE was responsible: \$6.2 million of the \$10 million available in loan funds. It was our great disappointment to discover that the engineer responsible for both of them had neither records nor first-hand field observations concerning sub-projects. His oversight consisted of periodic visits to the MICI and COFINA offices in Panama City to obtain figures on the current status of (1) loan approvals; (2) expenditures and commitments; (3) reimbursement requests. These were then transmitted to USAID's project manager for inclusion in quarterly reports.

6. Technical Assistance and Training.

Contracting for technical assistance, or more properly the lack of it, proved to be a major obstruction in the execution of all phases of Project PRBL. Delays for legal and administrative reasons have plagued the project since 1978. Consequently, there was no need for a person in this capacity and none was introduced to us. In fact, each ministry included in the project made its own arrangements for recruitment of technical assistance. These were then routed through MIPPE for pro forma approvals.

These brief notes explain why it was necessary for the evaluation team to conduct an elaborate records search through USAID, COFINA and MIPPE for whatever records

could be found. The provincial offices of MIPPE were also included in the search for documentation. Offices were visited in Penonome, Santiago, David and Chitre. There was no evidence encountered to indicate that any of these MIPPE employees were maintaining contact with their counterparts who were implementing portions of the URBE Project.

The situation concerning agro-industries was worse, with reference to documentation, than that encountered with either the small business loans or the housing components. However, in neither of the other undertakings did the team find that recorded data was adequate to provide the basis for an evaluation. It was necessary for us to supplement file data with other research methods in all three cases where it was decided to make a detailed inquiry suitable for the preparation of in-depth reports.

The information sources employed for all three studies were essentially the same: (1) collection of photocopies of such records as are available; (2) interviews with officials of relevant agencies; (3) field inquiry conducted among the recipients of agro-industrial loans. The analysis based on the comparative evaluation of these sources is the basis for the text of this report.

Record Sources

The files of the three administrative units intimately involved with the conduct of the agro-industries loan program were USAID, MIPPE's Directorate of Regional Planning and Coordination, and COFINA's Directorate of Projects in which the agro-industry unit is located.

1. USAID.

A. Quarterly Reports.

The project manager is responsible for preparation of reports documenting the progress of all parts of the program, explanations of delays if any, and plans for the next interval of time. From the date the loan agreement was signed until the end of December, 1978, reports were filed on a monthly basis. The substance pertains to meeting the conditions precedent to disbursement. Beginning with January, 1979, administrative reporting is conducted on a quarterly basis.

Each quarterly report contains a preliminary section pertaining to overall project administration followed by individual paragraphs on each of the components. The reports tend to be highly condensed, lacking names and dates of critical events within each of the components. However, copies are present for the

interval of time between January, 1979 and September, 1982.

The COFINA sections of the quarterly reports deal essentially with numbers of projects submitted for approval and the amounts of support committed on the assumption that disbursements will be released to cover the amounts approved. Other items pertain to the need for submission of reimbursement requests equal to disbursements. However, the content of these reports is episodic rather than cumulative. Subsequent reports never refer back to, or attempt to correct or explain, differences with preceding reports.

This is important because of the apparent "numbers game" being played by COFINA in conveying the data on loan approvals. The quarterly reports contain the following sequence of unverified assertions:

- 1) January - March, 1979.

COFINA alleges that 8 projects worth \$2.5 million are under review.

- 2) July - September, 1979.

COFINA alleges that 26 subprojects are under active consideration with an estimated value of \$5.7 million. Three projects have been approved, four are "in final process of approval", and eleven are in "an advanced state of feasibility study". The total value of these projects is reported at \$5.7 million---close to twice the amount available for lending.

- 3) January - March, 1980.

COFINA reports seven projects approved for \$1,046,653.

- 4) January - March, 1981.

To March 3, 1981 COFINA reports 14 subloans approved for \$2.0 million.

- 5) July - September, 1981.

COFINA now alleges that it has approved twenty subloans with funding amounting to \$2.4 million.

- 6) January - March, 1982.

COFINA now claims that 16 of 20 subloans have been completed; the remaining 4 are in progress. "It is anticipated that during the coming quarter COFINA will submit at least one more project worth \$.4 to .5 million. This would bring COFINA's commitments to within \$.3 of the total originally planned."

- 7) April - June, 1982.

COFINA is asserted to have a revised target of 22 projects with 16 completed.

8) July - September, 1982.

Eighteen COFINA loans are "completed"; twelve more are "in progress". The report continues: "COFINA anticipates that during the next six months most of these subprojects will be reviewed and submitted for approval by the COFINA credit committee. These projects have an aggregate investment value of \$3.0 million. Un-committed AID funds amount to \$1.0 million, which suggests that if this schedule is adhered to funds allotted to the agribusiness component will be fully committed prior to the current PACD of May 31, 1983."

The number of COFINA subloans reported as either "approved" or "completed" is an unpredictable variable. In the various quarterly reports it changes from 14 (March, 1981) to 20 (September, 1981) to 16 (March, 1982) to 18 (September, 1982). Without implying that there was a deliberate attempt to mislead, the error factor contained in these reports could not avoid giving a false sense of security to AID administrators who are guided by them.

When the evaluation team assembled and verified the loan accounts at COFINA, however, it appears that on March 25, 1983, only 13 subloans were assigned to the URBE/AID account. These approved projects, all cleared for disbursement, had an aggregate value of \$2,034,930. No others were anywhere near approval and no more were activated prior to the May 31, 1983 PACD. The "prediction" contained in the July - September, 1982 report that "funds allotted to the agribusiness component will be fully committed prior to the current PACD of May 31, 1983" proved to be wildly inaccurate.

There were no more recent quarterly reports in the file. They apparently ended with the report from which the quotation was obtained: July - September, 1982. This may have resulted from the removal of the project manager who had served since the beginning of the loan program. His interim replacement, who served until June, 1983, filed no reports. A third project manager who now has the coordinating responsibility has not yet had the opportunity to prepare any quarterly reports.

B. Project Implementation Letters (PIL's).

There are specific and important references to the COFINA agro-industry loan project in PIL's Nos. 23 (June 17, 1980), 29 (October 30, 1980), and 37 (May 18, 1982). The first two letters provide USAID approval for the only COFINA loans specifically authorized by name and loan amount, as follows:

1) Industrias Apicolas	\$ 148,000
2) Fabrica de Embutidos	62,500
3) Apiarias Guerra	90,000
4) Quesaria Dalys	10,000
5) Planta de Fertilizante	500,000
6) Apiarias Industriales	150,000
7) Hermanos Rudas	150,000
8) Semillas Superiores	220,953
9) Miel de San Sebastian	150,000
10) Nutripec	48,149
11) Ernesto Berard	62,500

This listing also contains some errors and reports events that are not operative at present. Loans numbered 4 and 10 above are not in force at present. Loan number 11 is the same as number 2. While this level of inaccuracy shakes our confidence in the PIL's as a data source, they do provide names of borrowers and amounts of individual loan approvals and are therefore verifiable. Nothing in the quarterly reports is verifiable except the total numbers of so-called approvals or completions, none of which appear to be correct.

PIL's Nos. 37 and 49 provide authorizations for the expenditure of loan funds for COFINA's technical assistance requirements. The latter number (dated May 31, 1983) is accompanied by the memorandum of agreement which describes the terms under which COFINA will be permitted to continue to operate until June 30, 1984. These terms include a time frame for approvals and a dated schedule for processing a set of proposed new agro-industrial loans.

C. Audit Documents.

The Regional Inspector General for Audit, Latin America, investigated the status and conduct of the URBE Project during 1981 (most recent data in the audit report are for June 30, 1981). A final report was prepared and submitted to USAID/Panama on March 19, 1982. Much of the factual data of value in the USAID files was developed in response to the audit recommendations. Unlike the quarterly reports and PIL's described above, the data included in responses to the audit has maintained a higher level of specificity (contains names dates and amounts) and verifiability (because of more complete identification of events, we could establish whether they were true or false).

The audit documents which were useful to us included the following:

- 1) Audit Report No. 1-525-82-8.

Recommendations 5 and 6 pertain specifically to COFINA. They require COFINA to expedite processing of reimbursement vouchers and review loan processing and approval procedures to expedite the credit review process.

2) Status Report of September 22, 1982.

In discussing audit recommendations 5-6, the project manager notes the intent of COFINA to approve a "pipeline of new projects" in excess of \$3.0 million "within the next 3-6 months (See Attachment 14).

Attachment 12 to this status report offers a list of 17 loan subprojects, identified by name and amount of loan funds committed (total of \$2,035,899). The list is dated September 15, 1982; it is included as Appendix A to this report.

Attachment 14, dated September 13, 1982, identifies 12 projects valued at \$3,600,600 which are "to be brought to the stage of disbursement in a period of 3 to 6 months". The letter conveying this information is signed by Pedro R. Mora, Project Manager for COFINA. The projects are listed by name, location, activity and investment level proposed; this attachment is included as Appendix B to this report. This letter appears to be the source of the quote from the quarterly report of September, 1982 (p. 24). None of the 11 projects proposed for new support (there is one, Ernesto Berard, proposed for an addition) were ever funded.

3) Status Report of February 22, 1982.

This report and its attachments provide the most comprehensive and accurate baseline to be found for an assessment of the current problems and prospects of COFINA during 1983-1984. A thorough study of this report and its attachments is advised for anyone responsible for the fate of COFINA's loan program during the during the time extension of the PACD.

Recommendation No. 1. of the audit report was that a revised technical assistance plan should be prepared by MIPPE. This demand was based on the finding that only 78 man months of 166 planned had been contracted. Of \$1,095,000 obligated for this purpose, only \$192,821 had been disbursed by USAID at the time the data were reported (September 30, 1981).

The status report incorporates as Attachment 1 a revised technical assistance program prepared and submitted by MIPPE on September 22, 1982. It summarizes expenditures to date (9-22-82), including the cost of the two consultants, Rios and Ruiz and proposed expenditure for a feasibility study of a coffee producers cooperative, honey production, a plan for design and evaluation of projects, and a study of agro-industrial priorities to be conducted by IDIAP (the Panamanian Institute for Applied Agricultural Research). See Appendix C to this report, Anexo No 1. Anexo No 4, under "Proyectos Ejecutados" merely notes that financing has been provided for 19 Agroindustrial loans amounting to \$2.5 million. Neither this figure nor that contained in Attachment 12 to the earlier status report (see Appendix B) is correct.

Recommendations 5-6, pertaining to COFINA specifically, are considered in detail in the text of the status report (pp. 3-5) and in Attachments 4-7. This entire set of records is included as Appendix D to this report.

The text observes that there has been a complete change in administration at COFINA since the status report of September 22, 1982. The new project manager, Casildo Gonzalez, considers that only two of the twelve projects listed in Appendix B "show genuine promise of for implementation in the short run".

But COFINA has undertaken a promotional campaign of publicity and meetings with prospective applicants in December. From this, COFINA has produced a new list of ten potential loan opportunities "which they are now actively pursuing".

The source of the data USAID included in this status report on COFINA originated at a meeting held January 25, 1983, between representatives of MIDA, COFINA, USAID and MIPPE (see agenda in Appendix D).

The minutes of the meeting contain a statement by Casildo Gonzalez, the current manager of COFINA projects, "that COFINA has approved 15 loans for an amount of \$2,201,421.51, of which \$2,115,075.81 has been disbursed. Applications for reimbursement of \$1,495,346.81 have been presented to USAID, of which USAID has paid \$1,264,521.95 and has rejected \$194,797.92. This last figure aggregates to the sum of \$227,136.90 which corresponds to approvals unable to be reimbursed by USAID, raising the amount available for commitment to new projects to \$1,820,513.31.

"For the commitment of these funds (\$1,820,513.31) COFINA will present a list of 12 projects actually at the level of feasibility studies or evaluation which represent a commitment of \$1,670,000 which will be committed and disbursed during 1983."

Appended to Attachment #4, the agenda and minutes of the January 25, 1983 meeting, is a table entitled "Status of Reimbursements to AID-URBE" prepared by COFINA's Manager of Operations and dated November 2, 1982. It is the source of some of the figures provided in the quotation from Casildo Gonzalez' statement. It reports data on 14 loans with approval of funding amounting to \$2,201,421 and disbursements of \$2,115,075.

But the observations pertaining to (1) the applications for reimbursement of \$1,495,346; (2) USAID payment of \$1,264,521; and (3) 12 new projects representing a commitment of \$1,670,000 are from Attachment #7, a year-end report dated January 21, 1983. So is the conclusion that \$1,820,513 is available for new projects.

The balance of this meeting dealt with uses of technical assistance proposed for the remainder of the project, including studies which MIDA listed in the agenda (item II). Promotion of the loan program to attract additional applicants for loan funds was also discussed.

Attachment 5, a letter from John Champagne to Augusto Cedeno, MIPPE Director of Regional Planning and Coordination, notes that no new agroindustrial project has been submitted to USAID for final approval since October 1981. According to the PIL's cited above, this should be October, 1980. The evaluation team has no record of a project approved by COFINA more recently than March, 1981. It is not mentioned in any of the PIL's as having received "final USAID approval".

Attachment 6 is a copy of an announcement advertizing the COFINA agroindustry loan program in La Estrella de Panama, December, 1982. It is included in Appendix D. It contains an appended list of prospective investors from Chiriqui and the Azuero region.

4) Status Report of June 21, 1983.

The final status report on the audit was filed on this date, together with nine attachments. However, the evaluation team departed Panama, having completed its field work, on April 25, 1983. Our documentation on events subsequent to that date is not complete. We are lacking this item.

The project audit was a grueling experience for USAID staff and incited substantial opposition from MIPPE and other government agencies as reported by Carlos Morales in memoir (see p. 19 above for reference). However, it served to stimulate staff members of both USAID and GOP to develop written reports of URBE Project performance which were not available previously or from other sources.

D. Reprogramming Documents.

Background on the reprogramming exercise is provided in the memorandum prepared by the evaluation team entitled "Interim Report and Work Plan for the URBE Evaluation", Hackenberg to Fearon, February 3, 1983, pp. 4-6. The memo notes the impending expiration date, May 31, 1983, and the failure to expend more than 40% of the \$10 million in loan funds and 20% of the \$5.4 million in HIG housing support.

The primary responsibility of USAID officials implicated in the URBE program during the first half of 1983, then, was to achieve a satisfactory reprogramming of the balance of funds which would justify an extension of the expiration date. This justification was contained in a series of documents referenced

below, many of which are working drafts:

- 1) Draft Response to MIPPE's Revised Urbe Plan, March 16, 1983.

This is a draft reply to the reprogramming proposal submitted by MIPPE on March 9, 1983 as the basis for granting an extension of the PACD.

Pp. 4-5 note that no new loans have been approved in the past 18 months, and that submission of reimbursement requests continue to lag.

As for the schedule of new loans proposed by COFINA ; none of the projects proposed for February-March have thus far been approved although four were scheduled.

"Furthermore, we have been informed by COFINA staff that no more than four of the twelve projects listed in the plan are likely to be approved during the next twelve months. The estimated total value of these four projects is \$430,000. With approximately \$1.2 million in available credit under the loan and the additional \$307,000 available / from unclaimed reimbursements/ for new loans, USAID estimates that even with the one-year extension COFINA will not be able to utilize \$1.1 million or more of earmarked UBSE funds.

"If USAID's estimate is accurate, we strongly recommend that the funds either be reprogrammed for other uses or deobligated as of the current May 31, 1983 PACD."

The evaluation team strongly concurred in this recommendation at the end of its inquiry into the conduct of the agro-industries loan program by COFINA.

- 2) Draft Preliminary Comments on the MIPPE Reprogramming Proposal, March 25, 1983.

This draft was prepared for a discussion with Vice-Minister Alexander to convey to him USAID dissatisfaction with the MIPPE proposal of March 9, 1983.

It contained a Spanish version of the remarks on COFINA stated in #1 above.

- 3) Draft of Memorandum of Understanding Between USAID and MIPPE, April 19, 1983.

On COFINA, the draft requests assurance that no additional reimbursements will be submitted on ongoing subloans. For new subloans, COFINA will submit reimbursement requests every month.

COFINA is also to submit a schedule indicating time which will be required for the approval of future subloans.

- 4) PIL No. 49, dated May 31, 1983, with Accompanying Memorandum of Understanding.

The PIL extends the PACD for the transportation terminals to December 31, 1984 and other components to June 30, 1984.

The Memorandum of Understanding contains the same language as the draft of April 19, 1983 (see #3 above).

A time schedule is appended to this memorandum which requires that all outstanding requirements be met by May 30

5) Action Memorandum for the Mission Director, May 30, 1983.

This document is included as Appendix E to this report. It repeats or paraphrases large sections of the evaluation team's memo of February 3, 1983, referenced at the beginning of this section.

It contains the following crucial paragraph (p. 5):

"As indicated in the recently completed URBE project evaluation by the Clark University team, the prospect of a project extension based upon a revised implementation plan presented two options for USAID/Panama. The first was to adhere to the original project purpose and attempt to reschedule those URBE components which were lagging behind: technical assistance, transport terminals and industrial parks. The second was to recover funds from those lagging components and reassign them to activities which were making progress.

"Both USAID/Panama staff and MIPPE administrators are committed to try to complete the original project objectives."

In other words, no substantive reprogramming was undertaken. The original components were simply reaffirmed as objectives within a revised time frame. This time frame is the substance of the Memorandum of Understanding.

An extension of the project completion date was advised by the evaluation team. Adherence to the original set of components was not. Neither the transport terminals nor the industrial parks are apt to be completed within the new time frame and there is no reason for believing that they will. The housing program will no longer perform its role in the initial integrated area development design since the funds intended for home construction to serve the needs of middle income households have been reassigned to home improvements for the poor.

We have little confidence in COFINA's ability to process further loan applications on the basis of the performance to be reported in the following chapters. Furthermore, because of the lagged and distorted time frame in which project operations are now perceived, there is no prospect that the guiding premise of the URBE concept---that infrastructure and loan programs will be

mutually reinforcing elements in an interdependent pattern achieving the retention of population and generation of employment---can be realized.

E. Miscellaneous Reports

The following items in the USAID Project URBE archive proved valuable in rounding out the evaluation team's perspective.

- 1) Proposed Framework for Evaluating the URBE Project, May 22, 1979. A methodological essay on evaluation by J. Wunsch.
- 2) Project Evaluation, Rural Growth and Services Center, Loan 525-T-046. June 30, 1980.

This evaluation was completed at the end of the first 18 months (to June 30, 1980). The unsigned document from an unidentified source consists of four pages of text with appended tables and charts.

With regard to COFINA the report notes only that six subloans have been approved valued in excess of \$1.0 million and expected to generate 430 new jobs.

It is true that six projects, currently in operation, were approved prior to June 30, 1980. But the number of jobs generated by those loans is 61, not 430!

- 3) Comments on Feasibility Studies by USAID Staff, January - May, 1980.

USAID staff prepared reviews of the feasibility studies for four loans under consideration by COFINA, three of which were later implemented. This practise was discontinued. The comments are extremely valuable and testify to the technical competence of USAID staff members preparing them.

- 4) Project URBE Reimbursement Requests, January '13 and January 19, 1982.

Discussion of the COFINA failure to prepare reimbursement requests and review of requests received to this date. Seven loans then in force are identified by name.

The core of documentation available on Project URBE from USAID is to be found in the Regional Inspector General's Audit Report, and USAID/Panama's reply to it. The attachments are especially useful since they are annotated in the text and reason for preparing them are explained. Data in the quarterly reports is worse than useless since it tends to convey erroneous impressions of the status of the project. Information in PIL's proved to be inaccurate on some important points. Reprogramming documents were of high quality.

2. MIPPE

A. Annual Plans and Program Reports.

Implementation procedures spelled out in PIL No. 1 call for preparation of an annual budget and work plan at the beginning of each project year. Annual reports evaluating the degree of completion accomplished at the end of each year were also envisioned. The items listed below, for reasons unexplained, have been omitted from recent lists of project documents prepared by MIPPE (see Anexo No. 4, Revised Technical Assistance Plan September 22, 1982; this document appears as Attachment #1, Status Report on Audit, February 22, 1983).

- 1) Proyecto URBE/AID: Objectives, Functions and Components. May, 1979.

This document outlines the conceptual frame of the project and its primary goal: the integration of urban systems. It gives an overview of the administrative structure and components.

The outline of components is instructive:

- a) Infrastructure
 - i. Transport terminals
 - ii. Industrial parks.
 - iii. Sewer systems.
 - iv. Housing
 - v. Cultural and sports facilities.
- b) Productive Enterprises.
 - i. Loans for small business.
 - ii. Loans for agro-industries.
- c) Institutional Development.
- d) Integrated Plans for Urban Development
- e) Training of Workers and Small Businessmen

According to this document (p. 6) it is the responsibility of COFINA to administer sub-loans provided to municipalities for terminal construction and for training terminal administrators in their operation and maintenance. This did not occur. COFINA is also assigned the fiscal responsibility for GOP funds to be used in industrial park construction. (p. 8)

Division of responsibilities between COFINA and MIDA are clearly spelled out with reference to agroindustrial loans (pp. 15-17). COFINA is to (1) administer the loan; (2) perform feasibility studies; (3) evaluate applications; (4) approve credit; (5) administer loan agreements. MIDA is to (1) identify projects to be developed; (2) provide technical assistance in preparing applications and feasibility studies; (3) technical assistance to applicants in the execution of financed projects.

This document sheds some light on a question which vexed the evaluation team and may still perplex USAID and MIPPE administrators. The current view at USAID concerning the Pequena Empresa (MICI) and agro-industry (COFINA) loan programs is that technical assistance should be provided from support funds to loan recipients (prestatarios). Within MIPPE, the view prevails that loan supported technical assistance is for institution-building and should go to the administrative agencies rather than to the borrowers.

In Section III, "Desarollo Institucional", it states that, "The project will finance a program of technical assistance for the personnel who work in the public institutions that participate in the project, with the intention to strengthen national institutional capacity for (1) planning and assisting in the development of growth and service centers...and (2) to continue developing other similar centers in the future...The Ministry of Planning will execute all the contracts for technical assistance and training." This is item (c) in the outline above.

What USAID officials and the evaluation team regarded as technical assistance to loan recipients is provided in this document as "Training of Workers and Small Businessmen". It is conceived of as instruction and courses are to be provided for this purpose (p. 20).

The difference between technical assistance for institutional development and training to be provided to loan recipients is made clear in the budget. A total of \$300,000 is intended for training of workers and businessmen while \$1,300,000 is intended for technical assistance for institutional development (Anexo 1).

This document is included as Appendix F to this report.

2) Progress Report to June 30, 1980.

This is an account of project operations to the end of the first year. On agro-industries, it describes efforts to coordinate COFINA and MIDA activities. It notes that while the \$500,000 revolving fund was established with USAID support, the first reimbursement request prepared by COFINA was rejected "practically 100%" because it did not comply with specifications in the loan agreement.

During 1979, COFINA and MIDA jointly approved subprojects allocating 10.9% of funds available. The slow progress of this component is noted and attributed to "problems of administration and internal methods of work for formulating and evaluating projects." The report notes that COFINA must establish separate files for each loan account with documentation which will support reimbursement requests. It also observes the failure of MIDA to provide guidelines for project solicitation.

The report concludes that for the present year, the completion of two loans of \$500,000 each satisfies the objective of accelerating the dispersal of funds. The lack of a policy defining political and economic objectives appears to be responsible for the failure of the program to generate loan applications from smaller enterprises.

3) Progress Report to June 30, 1981.

The tone of this report is more positive with respect to agro-industries. Procedures for joint project review by COFINA-MIDA have been established and a national agroindustrial plan is to be undertaken.

The report claims that 18 agro-industrial loans in the amount of \$2.7 have been approved. A program of investigation for the development of productive projects has been initiated and a technical assistance contract for creation of a system to monitor and support loan recipients is under negotiation. Another six loans valued at \$855,433 will be realized by May, 1983.

4) Progress Report to June 30, 1982.

This report is much less comprehensive and deviates from the outline first presented in document #1 at the beginning of this section.

The statement claims that \$2.2 million has been committed to projects but no number is reported. A program of agro-industrial investigation is being continued and "actually have developed investigations relating to soya and maranon."

"Consultants David Ruiz and Augusto Rios have continued to work to implant a system of post-credit monitoring of the loans financed by COFINA."

COFINA has engaged in an intensive promotional campaign intended to arrange for the commitment of \$1,400,000 in the next few months. Announcements have been placed in La Estrella de Panama and meetings have been held at the local level.

It is noteworthy that, despite frequent references to work on policy documents and studies of individual agricultural industries to determine their suitability for COFINA support, no copies of these documents were encountered by the evaluation team.

B. Reprogramming Documents.

The USAID officials maintained a strategy throughout the Project URBE period of not earmarking funds more rapidly than they were being utilized by the appropriate GOP agencies. Since funds for several components---transport terminals.

technical assistance and agro-industries---had not been expended at the pace required, substantial surpluses had accumulated. USAID administrators demanded that MIPPE produce revised plans and budgets indicating how (1) funds at hand would be disposed of, and (2) how remaining unearmarked funds could be utilized before the PACD of May 31, 1983.

Three revised plans were prepared and released by MIPPE after September, 1982, as follows:

- 1) Technical Assistance Plan of September 22, 1982.

This has already been prepared as Appendix C to this report. See description, last paragraph, p. 26.

The last page of this document presents a budget summary showing that, according to MIPPE's figures, \$6,058,800 of the original \$10,000,000 in the USAID loan remained uncommitted.

USAID replied that this document was inadequate since it did not indicate how an accelerated program of appropriate expenditures would liquidate this amount.

- 2) Revised Project Plan, March 9, 1983.

This plan contains 3 pages of data pertaining to the status of agro-industrial loans. The number of loans proposed for processing during the coming year (12) and the sum proposed for new commitments (\$1,670,000) are the same as in Appendix D, Attachment 7. They are from the COFINA statement of accounts prepared for the meeting of January 25, 1983.

See USAID's draft response of March 16, 1983. p. 29 above.

USAID notes that COFINA staff members now admit that no more than 4 of the 12 projects listed are apt to be operative during the next 12 months.

There is also a section pertaining to technical assistance and training. Brief extensions of the consultancies of David Ruiz and Augusto Rios are proposed, together with newly funded studies of the following:

- a) Marketing and commercialization of fruits.
- b) An agroindustrial system for meat production.
- c) An agroindustrial system for dairy products.
- d) Agroindustrial promotion.
- e) Agroindustrial investigations (IDIAP).
- f) Training seminar-workshop on an agro-industrial plan which is a working draft of the National Plan for Agro-industrial Development.
- g) Training seminar on management of the African bee

The text of these recommendations and loan status reports is included as Appendix G.

3) Second Revision of Project Plan, May 16, 1983.

With reference to COFINA, this document contains the following:

- a) A new proposed list of 15 projects in various stages of review. The estimated expenditure for these will be \$1,973,000. A number of these are similar to (the same as?) projects submitted in the list which appears as Appendix D, Attachment #7.
- b) Disbursement schedule proposed for these loans. Note that 12 of the 15 were to be disbursed at least in part by the date this is written (October 28, 1983).
- c) Schedule of reimbursements requested from USAID..
- d) A revised approval schedule outlining the steps in the evaluation of applications and assuring that the review can be completed in 66 days (!).

This document appears as Appendix H to this report.

A chronological review of this set of documents reveals a progressively diminishing role for MIPPE in project administration. In the early annual reports, criticism is expressed and an effort was made to correct deficiencies in the performance of individual components. Later, it becomes clear that MIPPE's role has become essentially clerical, assembling notes on current performance from participant agencies and collating them for presentation to USAID.

Early statements by MIPPE are incorporated in comprehensive annual reviews which restate and emphasize the role of regional development goals based on the improved performance of growth and servicecenters. This theme is completely lacking from later documents, e.g., the Annual Report of June 30, 1982. By this time, it appears that the planners have lost faith in the grand design and are focusing on the performance of individual ministries rather than the relationships between components. In this respect, they are duplicating the parallel performance of USAID/Panama.

3. COFINA.

The Corporacion Financiera Nacional was a difficult subject for inquiry. Officials were cooperative and made positive responses to our questions. But they failed to provide background or context for their answers. Neither documents nor responses could be clearly related to each other. And there was no master file containing a chronological or topical set of sources on the entire agro-industry loan program, or on individual subloans making it up.

The file structure for individual sub-loans at COFINA is complex and difficult to penetrate. Data on a particular loan is divided between separate sets of files built around the following subjects: (1) a legal file contains contracts and approvals; (2) a credit file contains data on collections; (3) there is a separate file for project studies; (4) and a separate file for evaluation and monitoring. A monthly executive report is supposed to be prepared for each project (Informes Ejecutivos).

We attempted to collate information from all four files on several projects but were unable to proceed further because of the amount of time consumed. Data quality appeared to be good and coverage was complete. Record sources utilized within COFINA include the following:

A. Annual Reports.

1) Informe Anual, 1981.

These reports are more concerned with locating COFINA's contribution within the national economy than with an account of any specific subprojects.

These reports manage to convey surprisingly little information that would be useful to anyone. But the pictures are superb.

2) Informe Anual, 1982.

Like the previous year's report, this one gives no specific project data. However, taken together these reports manage to convince the reader that the agro-industrial program is a minor part of the total level of institutional activity.

B. Other Documents

1) Guion General, November, 1982.

This document, prepared by consultants Rios and Ruiz, is evidently the much discussed guide for formulation of programs for agro-industrial development.

It seeks to "establish general terms of reference", and contains the following sections within its 9 pages:

- a) Antecedents
 - i. Character and justification of the program.
 - ii. Methodological aspects for the formulation of a program.
- b) Elements for the Formulation of Diagnoses and Prognosis.
 - i. Diagnosis of an agricultural system.
 - ii. Analysis and description of agricultural products.

As a record source, COFINA was a puzzle. Individual project files appear to have been properly maintained. There was no clear answer available to the question which is obvious from the foregoing notes: why did the number of projects reported approved diminish from earlier to later documents in the series? While files appear to be comprehensive, the reports which were based on them were quite fragmentary. Our solution to this problem is contained in the following section.

Although consultancies were provided to Augusto Rios and David Ruiz, no copies of reports or memoranda from them were encountered at COFINA. According to Rios, interviewed in the field at Los Santos, his reports were filed with MIDA at the Comité Técnico. The evaluation team visited Eng. Guillen, chairman of the Comité Técnico, but was not able to recover this material. No records were made available from the meetings of the Comité either.

Interview Sources

Officials responsible for the conduct of the COFINA agro-industrial loan program were interviewed in Panama City and also in the field. The following resource persons were especially helpful to us.

1. USAID.

Persons responsible for the COFINA component of Project URBE who had personal knowledge of its operations were interviewed a number of times. These included the following:

Jocelyn Fearon
John Champagne
Harlan Davis
Bernai Velarde
Frank Pope
Celso Carbonell
Frank Miller
Frank Almaguer

The opinion was widely shared among USAID personnel that COFINA was extremely independent in the conduct of its AID-supported activities and unresponsive to requests for information or compliance with regulations. It was asserted several times that the General Manager of COFINA had refused requests to meet with top-level USAID personnel to attempt to resolve differences. The

explanation for this was usually given in terms of COFINA's relative affluence resulting from generous support from other sources.

2. MIPPE.

Within MIPPE the designated official responsible for liaison with COFINA was Eng. Jorge Prado. He was a generous information source, giving much time and sharing a substantial amount of travel with us. Perhaps because of other responsibilities, he was less well-informed on COFINA loan operations than we could have wished. He knew little more than what was contained in the brief notes and listings he collected for transmittal to USAID. These, in turn, became the substance of the quarterly reports discussed above.

Prado was fully indoctrinated in the philosophy of urban and regional development, however, and never tired of recounting the intricacies of URBE Project design, and the presumptive relationship between the components. As was so often the case, however, MIPPE personnel failed to convert this knowledge of the conceptual model to a criticism of the performance of individual components.

3. COFINA

At COFINA, our contacts were primarily with Sra. Maria del Carmen de Cedeno, the Assistant Project Manager. Her superior, Casildo Gonzalez, also met with members of the evaluation team on several occasions. Both Cedeno and Gonzalez were forthcoming and accessible. However, neither was especially well-informed on the performance of the agro-industry component. This was attributable in both cases to the recency with which they had assumed their present positions.

In the field, the evaluation team visited COFINA offices in both David and Los Santos. Alvaro Tello was in charge of the Chitre-Los Santos office. In David, we interviewed Sra. Estribi, the assistant director, and Ignacio Quinteros, a technician. In Los Santos, Eng. Augusto Rios and Daniel Souza, both consultants, were also interviewed. In Panama City, we visited the MIDA office of Agricultural Development and interviewed Eng. Victor Guillen, the chairman of the Technical Committee responsible for approving feasibility studies.

It became apparent that our investigations pointed toward a number of policy questions which could only be answered at the top management level within

COFINA. For this purpose, we sought an interview with Dr. Marco Fernandez, the General Manager. We were unsuccessful.

Original Data Sources

At the end of our review of documents and interviews with experienced personnel who had worked with the program, we remained ignorant concerning both the accomplishments and effectiveness of the agro-industrial loan program. The most basic question---how many loans are presently in force?---remained unanswered. Follow-up questions which were of interest to us concerning the number of employees generated with loan funds, and the investment per new job created, could not be answered either from COFINA files or USAID reports.

In the opinion of the evaluation team, however, our responsibility included much more than this. We felt compelled by our scope of work to provide an opinion on the general health of the loan-supported industries, their productivity and performance. This was especially true since reconsideration of the budget allocation made to COFINA was an important factor in the reprogramming exercise then in progress.

Two measures were undertaken to remedy our lack of substantive knowledge after a thorough review of existing information sources. First, we requested Sra. Maria de Cedeno to complete an information sheet on each loan currently in force. COFINA complied promptly with this request. The resulting thirteen responses will be used in Chapter IV below.

Secondly, we undertook several field trips to visit as many of the thirteen operating loan-supported enterprises as possible. Of the thirteen loan recipients, four were not operational for a variety of reasons which will be discussed in due course. Of the remaining nine, four were honey-producers. We chose one of these as representative of the group, and visited all five of the others. Our "sample" then consisted of six of the nine possible recipients of field visits. Data from the field studies will also be introduced in Chapter IV, which is concerned with the present status of COFINA enterprises.

Conclusions

In many ways, the information developed by the evaluation team on COFINA from the information sources described in this chapter fails to satisfy us. It is much less adequate than documentary data developed on MIVI's shelter

program or MICI's small business loan project (Direccion General de la Pequena Empresa). Among the items which might have been expected to be present were the following:

1. Application guidelines for prospective borrowers.
2. Financial statements indicating the status of collections, delinquency in repayment, and related financial matters.
3. A statement of technical assistance resources available to loan recipients.
4. Periodic reports indicating either the performance of COFINA in generating new loan applications, the performance of the agro-industries established by loan recipients, or both.
5. Analysis performed by COFINA comparing loan performance with targets, loan applicants with loan approvals, employment goals with jobs generated, investment per occupation in loan supported enterprises, etc.,
6. Policy statements for the guidance of applicants and loan officers indicating the type of loans which might be preferred by COFINA because of their prospective impact on the agricultural economy of the Panama and the western region served by Project URBE.

None of these were available from MIPPE, COFINA or USAID. The closest thing to a program description prepared by COFINA, for example, was the newspaper advertisement published in La Estrella de Panama (see Appendix D, Attachment #6).

However, neither MIPPE nor USAID appears to have requested that COFINA provide more adequate documentation which might serve to disclose the level of its performance from 1979 through 1982. For example, there is no record of anyone in authority taking note of the fact that COFINA failed to approve a new loan more recently than March, 1981. While expressions of official concern over failure to obtain valid reimbursement requests were transmitted to COFINA at regular intervals, other matters of equal importance (see items 1-6 above) were neglected.

Furthermore, even the administrative issue of reimbursement requests received little attention from USAID until the investigation by the Regional Inspector General's Office was concluded and the first draft of the audit report was received (November 6, 1981). It follows that much of the useful documentation presented in this chapter was associated with the audit report. The remainder was developed as part of the reprogramming exercise.

CHAPTER III

PROGRAM OPERATIONS

COFINA As Source of Agricultural Credit

Expectations and Realities

With the information sources inventoried in the preceding chapter, the evaluation team concentrated on two questions: How had COFINA discharged its administrative responsibilities to the credit program? How had the enterprises receiving COFINA loans performed? The present chapter will seek to answer the first question; the second will be the subject of the chapter to follow. In both chapters we will follow the same presentation strategy: comparison of performance with the objectives and procedures outlined in the project paper. The expectations contained in the project design will be matched with the realities existing after more than four years of experience with Project URBE.

The present chapter will examine COFINA's performance within a framework of three sequential responsibilities assigned to it by the project design:

1. Development of an agro-industrial policy, including priorities for the recruitment of entrepreneurs within the Project URBE target area.
2. Establishment of application and review procedures and promotion of the program in a manner which will attract loan applications from enterprises which fall within the policy guidelines established in #1 above.
3. Provision of supervision, technical assistance and monitoring for the loan-supported enterprises approved by procedures established in #2 above.

These responsibilities envision an interdependent working relationship between COFINA, the credit agency, and MIDA, which was expected to devise policy and to prepare studies of specific industries. Each of the three issues outlined above requires inter-agency cooperation for success. The performance of all three will be considered in separate sections below.

Policy Issues and Policy Studies

COFINA apparently entered into its contractual relationship with Project URBE with a backlog of projects under study valued at \$6.3 million (see p. 4 above). The project planners noted that "total identified credit demand exceeds by a comfortable margin the \$3.4 million in sub-lending resources available from

the project." The apparent glut of prospective applicants probably encouraged the planners to introduce selectivity in allocating loan funds which were to be offered at concessional rates.

As a consequence, the agro-industrial loan program was hedged with a set of constraints aimed not only at generating agricultural employment in the URBE target area but also at strengthening the agricultural economy of Panama. This was to be accomplished by devising an agro-industrial strategy for Panama and fitting the URBE-supported enterprises into its framework. For this purpose, (1) a national policy was to be developed by MIDA identifying suitable resources and agro-industries, and (2) pre-feasibility studies of particular industries were to be performed by MIDA jointly with COFINA through the former's Directorate of Agro-Industries.

From the statement in the project paper (prepared in 1978) it is evident that MIDA's policy-making role was an ongoing responsibility, and not an ad hoc assignment defined as support for the URBE Project. The project designer's affirmed the following (Rural Growth and Service Centers AID/BAS-002, p. 64):

"...the Directorate of Agro-Industries, a part of MICI since 1953, was relocated in the new Agriculture Ministry in 1973. Since that time it has pursued two principal lines of action. The first is to prepare feasibility studies for potential agro-industrial enterprises, and, where possible, locate investors and financing sources. During 1977, the Directorate undertook four major studies: feasibility study for a slaughterhouse in Santiago to be funded by FODEM to cost \$.5 million; feasibility study for a \$1.3 million leather industrial complex in Sona...; feasibility study for a plantain processing facility; and a comprehensive analysis of Panama's agro-industrial sector with recommendations for a national sector policy to be coordinated by a single institution....The Government will use a review of the recently completed MIDA study as a mechanism for addressing the issue...The Directorate's second major activity is to establish and temporarily manage processing plants....The Agro-Industrial Directorate has a professional staff of 11...three chemical engineers, two industrial chemical engineers, a mechanical engineer, two economists and one each: industrial technician, plant administrator and agronomist...."

"Additional technical assistance will be provided to the Agro-Industrial Directorate under the project in specialized processing fields to complement technical assistance being provided by the OAS. Three months each are programmed in the following fields: meat processing, oil extraction, fruit and vegetable juices, industrialization of sugar derivatives, animal feed and milk products and three months of an agro-industrial development generalist."

This quotation has been provided to establish the expectations which existed in 1978 that (1) a comprehensive analysis of Panama's agro-industrial sector was available for COFINA's guidance; (2) abundant personnel resources from MIDA were at hand within the Agro-Industrial Directorate for technical assistance and studies of specific industries, named in the project paper: meat processing, oil extraction, fruit and vegetable juices, sugar derivatives, animal feed and milk products.

1. The National Plan for Agroindustrial Development.

Despite the reference made to it in the project paper, and frequent references in other documents, the evaluation team could not locate a copy of the national sector policy alleged to have been in existence for five years. It is clear from our discussions with USAID and COFINA personnel, and from the description in MIPPE's reference documents, that the following were to be prepared:

- A. A national policy statement on agro-industry.
- B. Specific priorities for establishment of particular kinds of agroindustries.
- C. A guide to prospective applicants explaining the priorities and technical requirements for developing particular agro-industries.

Verification of the status of a national agroindustrial policy has proven to be more difficult than anticipated. Since we haven't seen it, we cannot be certain that it exists. There is reason to believe that MIDA's Agro-Industrial Directorate possesses a draft. Apparently it has not yet been finalized (or was not at the end of January, 1983).

The nebulous status of this document leads to one certain conclusion, however. It is not a finished working document, has not been transmitted to COFINA and has not been used as a guide for project selection as intended by the URBE Project designers.

The source for these statements is the discussion which took place at a meeting of January 25, 1983, called by USAID to discover the present status of the agroindustrial loan program. The meeting included representatives of COFINA (Casildo Gonzales), MIDA (Eng. Victor Guillen) and MIPPE (Arq. Mizrachi). It was the only interagency meeting of this sort (to our knowledge) in the history of the project. It was called to resolve issues in the Audit Report (Recommendations 5-6 pertaining to COFINA) and also to gather data for the reprogramming

effort made necessary by the impending May 31, 1983 expiration date for the project. Minutes of the meeting were kept by Arq. Victor Mizrachi of MIPPE (Appendix D, Attachment #4).

The following points were established at this meeting:

1. David Ruiz and Augusto Rios, consultants provided to COFINA with URBE funds allocated to MIDA, had developed a matrix that establishes priorities for agro-industrial projects as part of the National Plan for Agroindustry. The matrix, according to Casildo Gonzales, Project Manager for COFINA, will be used by COFINA as a guide in selection of enterprises for loan support.
2. Eng. Victor Guillen, of MIDA's Agro-Industrial Directorate, plans to assign project funds to finance a seminar-workshop for the discussion of the completed document entitled "Plan Nacional de Desarrollo Agroindustrial".
3. USAID inquired if work methods to be employed in determining investment possibilities by MIDA in the future will conform to the diagnostic (presumably the matrix produced by Ruiz and Rios).

Lic. Nunez answered for MIDA that the procedure for identifying fields of investment is responsive to the matrix developed and to the Plan for Agroindustrial Development.

4. With reference to specific agro-industries, USAID inquired when they will have established a set of priorities for fruit production.

Nunez answered that the proposed seminar-workshop will provide a frame of reference for establishing the priorities.

5. USAID inquired when MIDA proposes to hold the seminar.

Nunez replied that it will be held during the coming year, depending on the matrix and completion of a working document. Moreover, it requires a plan or norms for developing agroindustry which will guide institutions like COFINA.

6. USAID suggested that MIDA ought to provide dates, even if tentative, for presenting the program of agro-industrial priorities.

Casildo Gonzales added that COFINA has an interest in developing profiles for projects through consultancies if funds can be made available, but this awaits completion of the matrix when types of priority agroindustries have been identified.

The substance of this meeting would have been appropriate for an early date in the developing of the loan program. But it took place only four months

before its conclusion! At this late date, COFINA and MIDA are still making reference to the need for seminars to convey the policy guidelines and priorities concerning agro-industries to interested parties and cooperating Ministries. And the dates for these events are still placed in the future!

The evaluation team remains unsure as to the nature of the documents that now exist within MIDA's Agro-Industrial Directorate. They may include a working draft of the national plan, a matrix developed by the consultants, and a set of priorities for specific industries. However, these documents have not played the fundamental role in guiding the selection of loan projects during the 1978-1983 interval which was intended for them.

In its revised plan for the URBE Project, dated March 9, 1983, MIPPE included a budget item of \$3,000 for the seminar-workshop on the working draft (borrador) of the National Plan for Agroindustrial Development. It is to be a model of development planning responding to the interests of all sectors. To the evaluation team, this sounds like a classic example of too little, produced too late!. A description of the seminar workshop appears in Appendix G.

At the time of the evaluation team's field inquiry (January-April, 1983) there were no statements of either agroindustrial policy or priorities available for use by COFINA, and MIDA personnel could give no firm date for their delivery. At the January 25 interagency meeting, USAID also inquired about the presence of a guide to be used by prospective applicants in preparing their project studies.

Casildo Gonzales answered that a guide was delivered to the applicant on the content of the study, "depending on the amount of the project". It also was said to provide orientation to the regional COFINA offices. The only document which might comply with this description which was encountered by the evaluation team was the "Guion General" prepared by Ruiz and Rios (see pp. 37-38 above). It was noted in the description of this document in the preceding chapter that it seemed doubtful that anyone could find it useful.

2. Studies of Specific Agro-Industries.

Selection of appropriate loan applications was to have been facilitated by preparation of pre-feasibility studies of particular industries which were identified in the project paper: meat processing, oil extraction, fruit and vegetable juices, sugar derivatives, animal feed and milk products.

The interagency meeting of January 25, 1983, described above, also received a statement from Eng. Guillen of MIDA concerning these studies. He affirmed that \$50,000 had been budgeted for these studies, of which \$29,600 had been expended by December 31, 1982. The expenditure had paid IDIAP to perform an investigation relating to the production of soya milk, an investigation of cashew nut production (maranon), and has planned a study of fruit trees.

Guillen added that the remainder of the technical assistance program should include consultancies to perform the following:

- A. A study of marketing and commercialization of fruit trees.
- B. A study of agroindustrial systems pertaining to meats.
- C. A study of agroindustrial systems pertaining to dairy products.
- D. A program for agro-industrial promotion.
- E. A study of the impact of the African bee on honey production.

The MIPPE revised project plan of March 9, 1983 gives further detail on the work completed by IDIAP, claiming completion of the following investigations: fruit trees, honey production, vegetable oil, cheese-making. The budget accompanying this report has some additional useful data. MIPPE agrees with Eng. Guillen that \$29,600 was committed to IDIAP for these studies, but claims that only \$20,100 was expended prior to December 31, 1982; a balance of \$9,500 remains for expenditure in 1983! The remainder of \$20,400 is not budgeted for any specific purpose.

With regard to the activities designated as A-E above, the MIPPE revised plan includes budget allocations for each to be expended during 1983, as follows:

A. For the study of fruit trees:	\$17,300
B. For the study of meat production:	21,600
C. For the study of dairy products:	21,600
D. For the promotional program:	5,400
E. Seminar on the African bee	10,000
F. Budget assigned to IDIAP for 1983	29,900

TOTAL \$105,800

In March, 1983, facing the completion date of May 31, 1983, the MIDA component of the agroindustrial loan program had expended \$20,100 and had a balance of \$105,800 unexpended. This also supports the conclusion that MIDA had failed to provide the research required for COFINA's policy guidance since 1978.

In conclusion, some of the studies outlined in the project paper were alleged to have been completed by IDIAP. No reports of these studies were described or shown to members of the evaluation team. Furthermore, some of the subjects covered by the IDIAP research were apparently duplicated in the new research agenda set up by MIPPE for the present year: cheese making and fruit tree cultivation. This duplication remains unexplained.

As in the case of the alleged National Plan for Agroindustries, the conclusion is unsatisfactory. We did not see satisfactory evidence of studies completed by IDIAP or by MIDA's Agro-Industrial Directorate. However, we can be certain that even if some studies were completed prior to December 31, 1982, most of the budget remained unspent. Furthermore, the work completed does not seem to have influenced any COFINA decisions on project development.

COFINA's Application and Review Procedures and Loan Promotion

The structure for application processing envisioned in the project paper appears to have been followed. The proponent of a project makes initial contact with COFINA's Panama office and secures a loan application. He discusses terms of his enterprise with a loan officer. If he decides to proceed he must negotiate the following steps:

1. Preparation of the loan application (see Appendix J).
2. Prepare a comprehensive project studying following the Guía General (see Appendix K)
3. The project study is then reviewed by the Technical Committee which passes on its agroindustrial merit.
4. If approved, a credit investigation is made by COFINA officials. This inquiry will include the collateral offered (garantias)
5. The results of the credit inquiry, together with the action of the Technical Committee, is subjected to a final review by the Credit Committee.
6. If approved, the legal status of the applicant is verified, the necessary documents are submitted, and the loan contract is prepared. (See Appendix J for documents inventory).

Neither statistics nor details could be obtained from COFINA on the steps involved in the application process nor the length of time required. However, scattered observations were obtained for three of the nine projects presently in operation. The length of the interval between date of application and date of first disbursement was 7 months (Miel San Sebastian), 11 months (Sarigua) and 26 months (Semilla Superiores).

More systematic observations were not possible concerning the length of time required because COFINA does not report dates on which application forms are filed. However, these three examples suggest that the duration of the review process is usually greater than six months and usually less than two years. In the MIPPE revised project plan, submitted on March 9, 1983 (Appendix G), the lead time required for disbursement of funds following approval was estimated for 12 applications. The range was from 3 to 8 months, and the modal interval (six cases) was 6 months.

One of the audit recommendations (No. 6) was that COFINA should modify its review and approval procedures in order to shorten this interval. In the COFINA section of the second MIPPE revised plan for Project Urbe, prepared on May 16, 1983, there is a section entitled "Proceedings and Justification for the Mechanism of Approval" (see Appendix H to this report). This section consists of an outline of steps required and time consumed in the applications process.

The outline begins with the delivery of documents by the client to COFINA. These documents apparently include a completed project study. It ends with the preparation and signature of a contract, following intervening approvals by the Technical Committee and the Credit Committee. It estimates that the time elapsed is only 66 days.

The document argues that the applications process will be accelerated by the following measures:

1. COFINA will assign a technician with experience in agroindustries to assist the client from the moment he arrives at COFINA. This will speed the preparation of the project study.
2. With reference to the presentation of the study at various levels for approval, a meeting of the Credit Committee will be held every week.
3. Expansion of the legal department has greatly reduced the time required for contract preparation.
4. COFINA is providing a team of consultants who will work with the technician and entrepreneur in formulating the project and shortening the period required for approval.
5. COFINA is maintaining a continuous program of promotion including meetings with Chambers of Commerce in the interior.
6. Finally, an official of the office of Project Manager has been designated to speed up all the exchanges relating to Project URBE.

Without intending to disparage these initiatives, the evaluation team must note that the 66 days described in the steps outlined in Appendix H do not include (1) the interval between obtaining the application and filing the project study, nor (2) the interval between obtaining approval and securing the first disbursement of loan funds. These two intervals appear to make up the greater proportion of the time required to get a loan.

Will COFINA's revised procedures (if actually implemented) speed up the applications process? In the second revised MIPPE project plan of May 16, 1983, there is a second set of estimates of the time which will be needed to process a list of loan applications under consideration at COFINA (see also Appendix H). The time required for approval of these projects ranges from one to three months (8 are to be approved in one month, 3 in two months, and 4 in three months). Following the approval, the mean length of time elapsed prior to first disbursement is estimated at three months.

While we are dealing with estimates rather than actual intervals consumed in processing real projects one conclusion seems clear. COFINA may be seeking to expedite its approval process as stated. However, it does not intend to shorten the time between a client's appearance to prepare an application and the date he receives his first disbursement to much less than six months. However, six months from start to finish would represent a substantial improvement over past performance.

One further positive observation should be included with reference to the fourth of the six points in the list of proposed improvements offered by COFINA above. There is an excellent team of consultants available to applicants who require assistance in formulating their projects. The evaluation team had the opportunity to interview Augusto Rios and Daniel Souza, two engineers who were working out of COFINA's Los Santos office in March of this year. They were providing assistance in completing feasibility studies and also offering assistance to ongoing projects.

We were able to make an assessment concerning (1) their knowledge of opportunities for agroindustries to be established within the ERBE region; (2) their opinions of the requirements for improvement of several COFINA-funded enterprises which we had visited; and (3) ways in which the application and approval process could be expedited. We were positively impressed with their knowledge and also

their technical judgements regarding these questions. On the final point, they noted that their monthly reports and comments on projects were transmitted directly to the Technical Committée rather than to the COFINA office in Panama. They were unsure as to whether the data they were developing was utilized in the decision-making process.

Our final comments in this section concern the matter of loan promotion, i.e. advertisement concerning the availability of loans for agro-industry. COFINA offers no statistics on its approval-disapproval ratio in processing loan applications. However, of the 13 projects currently defined as URBE loan recipients by COFINA, the chronology of approval is provided below:

APPROVAL DATES FOR URBE-FUNDED COFINA PROJECTS

<u>Semester</u>	<u>Number</u>
1979	
First	1
Second	2
<hr/>	
1980	
First	3
Second	2
<hr/>	
1981	
First	5
Second	0
<hr/>	
TOTAL	13

There were no projects approved during 1982. The implication from this distribution of project approvals is that either the volume of applications is quite low or the number of rejections is quite high.

The latter assumption, that the rejection rate is high, is supported by some meager evidence. Of the 12 projects considered to be active in March of this year (see Appendix G), only 5 were still being processed when the May revision of the project plan was prepared by MIPPE (Appendix H). Similarly, in September, 1982, a list of 12 projects under consideration was prepared by COFINA (Appendix B). By February of 1983 (Appendix D), only four of those were still said to be in progress.

Discussions with Augusto Rios in Los Santos revealed that several applicants had withdrawn their files because of the length of time required for approval by the Technical Committee. These impressions suggest the importance of maintaining a substantial number of new applications in preparation at all times if the agro-industrial program is expected to continue. The promotional campaign is the appropriate vehicle for this purpose.

In the January 25 meeting between USAID, COFINA, MIDA and MIPPE, Casildo Gonzales listed a number of promotional activities which had been recently completed. These included newspaper advertisements, radio announcements and meetings with the local Chambers of Commerce. However, the earliest of the newspaper notices (see Appendix D, Attachment 6) is dated December, 1982. Another (see table 5 above) is dated April 11, 1983---six weeks before the project completion date.

There is little doubt but that COFINA promotional efforts, like policy development for agro-industry selection, has come at the end of the five year life of the project rather than at the beginning where it belonged. The time to have initiated high-pressure promotion activities would have been no later than the second semester of 1981 when the stream of new loan recipients dried up completely.

Supervision, Technical Assistance and Monitoring: COFINA Follow-Up Activities

Once a loan agreement has been completed, the cooperating agencies of the government of Panama have the responsibility for maintaining the project in a profit-making position, and insuring that loan funds are utilized for the purposes intended. The project planners stated that MIDA was to provide technical assistance, utilizing its regular personnel for this purpose. Monitoring was to be conducted by COFINA administrative employees.

The project budget allocates financial support for technical assistance, studies and promotion as follows (Rural Growth and Service Centers AID/BAS-002, p. 82):

A. COFINA	\$ 70,000	To be used for loan promotion.
B. MIDA	\$120,000	To be used for special studies of particular agro-industries.
TOTAL	\$190,000	

As allocated in the MIPPE revised plan of March 9, 1983 (the most recent of COFINA budgets available to us) intended expenditures were as follows:

<u>Agency</u>	<u>Purpose</u>	<u>Amount Allocated</u>
COFINA	Loan promotion in URBE Project area	\$ <u>000,000</u>
MIDA	<u>Technical Assistance:</u>	
	David Ruiz	35,282
	Augusto Rios	34,667
	Subtotal	\$ <u>69,949</u>
	<u>Special Studies:</u>	
	IDIAP Research	50,000
	Contract Studies	65,900
	Subtotal	\$ <u>115,900</u>
TOTAL		\$ <u>185.849</u>

When the MIPPE budget allocation of March, 1983 is compared with the project budget of 1978, a basic change has taken place. The fund intended for COFINA to promote the loan program was transferred to MIDA to finance technical assistance in the persons of Ruiz and Rios. MIDA did not assign its regular staff to this task as the project planners intended.

Did Ruiz and Rios function as resource persons to assist loan recipients in improving their projects? Casildo Gonzales, COFINA's project manager, at the inter-agency meeting of January 25, 1983, affirmed that Ruiz and Rios were engaged in monitoring COFINA projects and had provided useful advice. In our interview with Rios at Los Santos, he stated that he and David Ruiz were participating in the preparation of several feasibility studies for applicants: Procesadora de Granos and Productos Lacteos.

Rios observed that since October, 1982, the follow-up responsibility (Seguimiento) has been located in the regional COFINA offices. This was the date upon which the administrative unit responsible for this function in Panama City was closed. There are 13 active loans in the URBE portfolio and these are divided between the Los Santos office (7 projects) and the David office (6 projects). Rios performs follow-up functions for the Los Santos office, and Ignacio Quinteros, a COFINA permanent employee, is his counterpart in David. In David, Quinteros observed that he visits each project every six weeks to two months.

Previous to October, 1982, the follow-up responsibility was assumed by COFINA's main office personnel. In the case of Semillas Superiores, for example, a project which received its first disbursement in May, 1981, there have been 12 follow-up visits. These took place between November, 1980 and June, 1982. These and other data confirm that visits every two months have been the normal frequency.

At no point in these interviews, however, did the consultants accept responsibility for providing technical assistance to ongoing projects. Since Rios and Ruiz have been made responsible for policy-related research and follow-up visits, in addition to feasibility studies for applicants, this is not surprising. The appointment of David Ruiz dates from May 1, 1981. Augusto Rios joined COFINA on September 1, 1981. There is no indication as to who (if anyone) discharged their assignments prior to those dates; however, the follow-up visits were being made from Panama during late 1980 and 1981.

The shortfall in technical assistance could have been remedied by MIDA's Agro-Industrial Directorate, presumably. In response to a USAID question at the inter-agency meeting of January 25, 1983, Eng. Guillen replied that his staff included three industrial chemists, three economists, three industrial engineers, an industrial mechanic, and a business administrator. MIDA appears to have made Ruiz and Rios completely responsible for its commitment to URBE projects; it appears that its professional staff was otherwise occupied.

It seems clear from the URBE plan that the two types of responsibility, follow-up and technical assistance, were divided between COFINA and MIDA. In the months prior to the second semester of 1981, follow-up activities were performed by COFINA from Panama City. Since then, the appointment of the MIDA consultants, Ruiz and Rios, permitted COFINA to assign part of this burden to them.

MIDA was to have conducted feasibility studies and provided technical assistance. Prior to retention of Rios and Ruiz neither of these were performed. After these consultants were hired, they participated in project studies, but not in provision of technical assistance. At the same time, a portion of MIDA's pre-URBE responsibility for the development of a national agricultural policy was transferred to Ruiz and Rios also!

In short, both COFINA and MIDA took advantage of the consultant appointments to transfer some assignments which, under the project plan, were to be

assumed by their permanent employees. Meanwhile, little or no technical assistance was provided to the recipients of Project URBE agro-industrial loans, as will be confirmed in the following chapter.

Conclusions

As stated at the beginning of this chapter, COFINA and MIDA shared responsibility for the following sequential components of the agro-industrial program under Project URBE:

1. Development of policy and priorities for selection of agro-industries which would be loan recipients.
2. Conduct an applications review program and promote interest in agribusiness opportunities throughout the target area.
3. Provide supervision, technical assistance and monitoring for loan recipients.

Since COFINA was presumed to enter the project in 1978 with a large backlog of projects awaiting approval, it was assumed that the goal of 22 projects averaging \$150,000 would be easily reached within the project period.¹

The assumption proved to be incorrect. The last COFINA loan project presently operating was approved on March 16, 1981. It was the 13th loan-supported agribusiness to benefit from the program.² These 13 projects, taken together, represent an expenditure of \$2,024,000 in URBE funds when fully disbursed. More than one-third of the loan fund was never committed and more than one-third of the projects eligible for support were never identified.

The shortfall may be attributed at least in part to the record established by the administrative agencies, COFINA and MIDA on the components reviewed in this chapter:

1. A comprehensive statement of agroindustrial policy, despite the quotation from the project paper at the beginning of this chapter, has not been made available to either COFINA or USAID by MIDA to the present time. Of the \$120,000 originally budgeted for specific studies of agro-industries intended to establish priorities, only \$20,100 had been expended by the end of 1982, and there were no reports in circulation. In March of this year, with less than three months of the project period remaining, MIDA was still anticipating making

-
1. The target figure of 22 loan projects averaging \$150,000 is taken from the USAID Quarterly Reports for the latter half of 1982. The figures do not appear in the project paper.
 2. Our data and these conclusions represent the situation as of April 15, 1983. This was the day we completed field work on this project.

arrangements for allocating \$96,000 in technical assistance money from the project for new studies of specific industries! These would require the negotiation of contracts with as-yet-unidentified consultants.

There were neither policy statements nor identified priorities available to guide COFINA in selection of applicants for loans during the interval from February, 1979 through March, 1981 in which all presently operating projects were approved. Projects were reviewed during a period when there were no policy statements. If drafts of statements or partial research results have been available since that date, they have appeared during an interval in which no projects were successful brought to the stage of loan contract completion.

2. The applications review process appears to have taken from six months to two years to complete, i.e. to close the interval between filling out a loan application and receipt of first disbursement. At least some applicants were discouraged by the length of time required and withdrew. Audit recommendation No. 6 requires COFINA to improve and expedite the review process for dealing with applications. It has provided an assurance that it can now complete the reviews in 66 days. However, its own time schedules for completing the processing of loans now in progress indicates that this is not realistic.

While \$70,000 was budgeted in technical assistance to COFINA for the promotion of loans for new agribusiness in the target area, it was not received. Instead, the entire \$190,000 budgeted for URBE technical assistance to agro-industry was assigned to MIDA. COFINA has undertaken some promotional activities beginning in December, 1982. Multi-media have been utilized, and some applications have been generated (12 as of the end of January, 1982). As yet, none of these efforts has produced a loan contract. There is no explanation of COFINA's failure to engage in promotion during the first four years of the project, or its failure to receive support budgeted for this purpose.

3. Neither COFINA nor MIDA appears to have assigned regular staff to the tasks of supervision, assistance with feasibility studies, and technical support of loan recipients as the project design envisioned. When two consultants were retained for these purposes (in May-September, 1981) almost three years of project time had passed by. By the time the consultants became available all the loan projects now operating had already been approved (the last was March 16, 1981)! They have since been active in reviewing new projects and preparing

feasibility studies. However, none of the projects on which they have worked have been funded.

The subjects discussed in this chapter have all been afflicted with a common fault: disjuncture. By the time promotion was undertaken and technical assistance in preparing feasibility studies became available, all loans in force had already been approved. The policies and priorities which were to be established to guide COFINA in selecting clients have not yet been formulated, and the bulk of the research to be supported has not yet been contracted. At the present time, when COFINA has expedited its review procedures to facilitate the processing of loan applications, there seems to be a severe lack of suitable loan projects being presented.

These points have been established beyond reasonable doubt but they fail to deal adequately with the central problem uncovered in this chapter: why have no COFINA agro-industrial projects reached the stage of completed loan contracts since March of 1981? To answer this question, we must examine the characteristics of the projects now in operation. The next chapter introduces the data collected by the evaluation team on loan-supported enterprises.

CHAPTER IV

LOAN PERFORMANCE:

Agro-Industries Supported by COFINA

Introduction

Despite the difficulties which have beset the agro-industry component of the URBE Project since its inception, a number of loans have been advanced to the disbursement stage. COFINA identified thirteen enterprises which had received credit from the program. Curiously, this figure (13) does not correspond to any of the lists of approvals provided by the agency for the months of September and November, 1982, or February, 1983 (see Appendix I), which contained 19, 14 and 12 enterprises, respectively. Furthermore, the companies identified on these lists (and on other COFINA documents in circulation) are only partially congruent with those to be described below.

It is the intent of this chapter to examine these thirteen funded enterprises for what may be learned about their performance, and how this performance reflects on the management of this program by COFINA, MIDA and USAID. At the same time, we will develop some insights which shed some light on the enigma of the conflicting approval lists introduced above.

Descriptive Characteristics of Funded Enterprises

Between February 9, 1979, and March 16, 1981, thirteen enterprises received loan support from COFINA under the Project URBE program of agro-industrial credit. Their descriptive characteristics appear in Table 8 opposite. The average amount of URBE/AID support provided is \$155,764 per enterprise, but the average amount of credit advanced to each firm is \$258,276. In other words, USAID is only funding 60% of the loan funds advanced to these enterprises; COFINA is providing the balance from other sources of credit which are not described in any communications with USAID or with the evaluation team.

Likewise, there are agroindustrial projects financed by COFINA without any contribution from URBE funds. Examples of these are documented in the COFINA annual reports for 1981 and 1982: Pesquera Taboguilla (a fishery project); Fabrica de Barquillos Manolo (a bakery); Ingenio la Perseverancia (a sugar central); Queseria Dallys (cheese factory). Several of these projects which did not receive URBE-funded credit are within the target area.

-9-
Table 8

URBE/COFINA AGRO-INDUSTRIAL LOANS

(All active accounts to April, 1983)

<u>Year</u>	<u>Enterprise:</u> <u>Name, Location, Approval Date</u>	<u>Type of</u> <u>Industry</u>	<u>Loan</u> <u>Total</u>	<u>URBE</u> <u>Support</u>
<u>1979</u>				
1st Semester	1. Industrias Apícolas Boquete, Chiriquí February 9	Honey Production	\$ 151,200	\$ 148,000
2nd Semester	2. Ernesto Ferard Volcan, Chiriquí July 2	Meat Products	122,500	102,500
	3. Apiarias Guerra Boquete, Chiriquí December 27	Honey Production	90,000	80,010
<u>1980</u>				
1st Semester	4. Federacion Coop. Agrop. Aguadulce, Coclé May 13	Fertilizer	1,100,000	500,000
	5. Miel San Sebastian Ocu, Herrera May 22	Honey Production	150,000	133,350
	6. Hermanos Rudas Santiago, Veraguas May 23	Honey Production	150,000	133,350
2nd Semester	7. Sarigua Farita, Herrera September 12	Shrimp Farm	95,090	55,000
	8. Jesus Plinio Cogley Los Pozos, Herrera December 11	Swine Feed Plant	47,000	41,783
<u>1981</u>				
1st Semester	9. Semillas Superiores Anton, Coclé January 12	Seed Production	220,953	196,427
	10. Frutas Panamenas San Andres, Chiriquí January 22	Passion Fruit Juice	728,370	186,940
	11. Apiarias Industriales Remedios, Chiriquí February 12	Honey Production	150,000	133,350
	12. Punta Eneon San Lorenzo, Chiriquí March 5	Shrimp Farm	241,516	214,708
	13. Punta Bucaro Los Santos, Los Santos March 16	Fish Production	110,963	99,512
	TOTALS	13 Projects	\$3,357,592	\$2,024,930
	Mean Value		\$ 258,276	\$ 155,766

Source: COFINA Data Sheets, Appendix 1.

Industries receiving COFINA loan support (Table 8) are distributed evenly with reference to the growth centers of David and Chitre-Los Santos. Six of the thirteen loans are concentrated in Chiriquí while the other seven are divided between Los Santos, Coclé, Herrera and Veraguas. However, the restriction contained in the project paper (p. 25) that all should be located in or near a growth or service center was given a liberal interpretation. Sites such as Ocu (Miel S. Sebastian), Volcan (Ernesto Berard), San Andrés (FRUPASA), Boquete (Apiarios Guerra), Parita (Sarigua), Anton (Semillas Superiores), Remedios (Apiarios Industriales), and San Lorenzo (Punta Rincón) strain the definition of "near".

They are also distributed evenly along an ascending trend line with reference to growth in numbers through the years 1979 (3), 1980 (5), and the first semester of 1981 (5) before coming to a sudden halt. While there was substantial government reorganization and policy change following the death of General Omar Torrijos on August 1, 1981, the approval of agro-industrial loans from URBF funds terminated earlier in the year (March 16). The significant event in COFINA operations which took place in that month was the conclusion of a loan agreement with the World Bank for \$20 million in industrial credit for relending to local investors. In the opinion of USAID administrators, COFINA's attention was diverted to the larger problem of disbursement created by the World Bank credit.

With regard to the enterprises themselves, they are asymmetrically concentrated in several industries: honey production for export (4 loans), and shrimp farming (2 loans). Unfortunately, neither of these two enterprises "demonstrate strong linkages to agricultural production within the project area" called for by the project paper (p. 25). The other enterprises comply more forcefully with this requirement. Best examples of backward linkage to regional farm production are fertilizer mixing (COAGRO), seed production (Semillas Superiores), meat packing (Ernesto Berard) and fruit juice processing (FRUPASA).

The range of URBF financial support is from \$41,753 to \$500,000 but this is deceptive. Actually nine of the loans are within or very close to the interval between \$100,000 to \$200,000. This is sufficient to establish a qualitative distinction between the scale of operations eligible for COFINA support and the much smaller enterprises (\$50,000 ceiling) which are financed through MICI's small business loans (Pequeña Empresa).

Financial Status of Funded Enterprises

The average funded project has a grace period of 24 months and a term of 7.3 years. Individual arrangements for these variables may be inspected in Table 9 opposite. The average term of loan is much shorter than the maximum of 15 years allowed. Panamanian investors, like those in most developing countries, prefer to make commitments for limited periods of time. The interest rates have held rather consistently at 12.5% for most projects since 1978, although commercial rates have been in the range of 18-24%.

The table contains two surprises. The first pertains to the substantial number of fatalities encountered in the rather short list of only thirteen funded projects. Enterprises numbered 1, 8, 12 and 13 have all passed into the hands of the legal department. Repossession has already been initiated, as in the case of Industrias Apícolas, or is about to take place, as in the case of Punta Rincon. All four projects have suspended operations.

Perusal of the informes ejecutivos prepared at COFINA for internal distribution (see Appendix M) conveys the additional bad news that three more enterprises on the list are being considered for legal action: numbers 3, 5 and 6. The judgment of failure is based either on their inability to get into production or to market their products, resulting in substantial deficits and non-payment of amortization.

The overall situation regarding delinquent accounts (morosidad) is the second surprise. Non-payments of \$10,000 or more are encountered in eleven of the thirteen clients. Non-payments of more than \$100,000 are found among three of them (and two of these approach the \$200,000 mark). The average level of delinquency across the board is \$66,857 on a portfolio in which the average face value of the loans is only \$155,764, i.e. 42.9% of the mean loan value.

The situation regarding delinquent accounts is especially distressing in view of the recency of the loan program. Four of the clients are still making only payments to interest. Since only one of these is in serious financial difficulty (number 6) an ominous implication is suggested: when the other clients who are still in the grace period (numbers 7, 9 and 11) emerge from it, they may fall into the high risk category.

These data also highlight a disproportionate rate of failure, or high risk status among members of a single industry group: honey producers. Three of the

Table 9

URBE/COFINA AGRO-INDUSTRIAL LOANS: FINANCIAL STATUS

(All loans to April, 1983)

<u>Year</u>	<u>Enterprise Name</u>	<u>URBE Support</u>	<u>Grace Period</u>	<u>Term of Loan</u>	<u>Interest Rate</u>	<u>Unpaid Balance</u>
1979	1. Industrias Apícolas#	\$ 148,000	29 Mo.	7 Yrs.	12.5%	\$199,701
	2. Ernesto Berard	102,500	24 Mo.	5 Yrs.	12.5	3,232
	3. Apiarias Guerra	80,010	24 Mo.	5 Yrs.	12.5	31,992
1980	4. Fed. Coop. Agro.	500,000	24 Mo.	9 Yrs.	12.5	23,331
	5. Miel San Sebastian	133,350	24 Mo.	10 Yrs.	12.5	194,011
	6. Hermanos Rudas	133,350	24 Mo.	10 Yrs.	12.5	12,521*
	7. Sarigua	55,000	12 Mo.	5 Yrs.	12.5	42,838*
	8. Jesus Cogley#	41,782	0	7 Yrs.	12.5	58,531
1981	9. Semillas Superiores	196,427	12 Mo.	7 Yrs.	12.5	42,446*
	10. FRUPASA	186,940	12 Mo.	7 Yrs.	12.5	64,716
	11. Apiarias Ind.	133,350	24 Mo.	10 Yrs.	12.5	9,583*
	12. Punta Rincon#	214,708	12 Mo.	6 Yrs.	LIBOR + 2.25	84,606
	13. Punta Bucaro#	99,512	0	-	12.5	133,569
	TOTALS	\$2,024,930				\$869,145

These projects are inoperative and in process of foreclosure.

* Payments charged on interest only. This usually means project is still in Grace Period.

Source: COFINA Data Sheets, Appendix L.

four members of this class are in serious financial trouble. Two of the three seafood enterprises have also been unsuccessful. The seafood producers' problems appear to be highly individualized and do not support generalizations. In the case of the producers of miel de abeja (honey), however, there is evidence of industry-wide difficulties which will be discussed later in this chapter.

Employment Generation and Investment Cost

The primary objective of the URBE agro-industry program was to encourage production of raw materials and add value to them in order to stimulate the regional economy. The secondary objective was to generate employment in order to retain population who might otherwise have migrated to the metropolitan region. The project paper set the goal of 750-1000 direct jobs to be created from the URBE investment. The amount to be spent per job was to be an average of \$5,000 and in no case more than \$10,000.

Since the URBE loan fund provided from USAID sources alone was \$3.2 million, it might be expected to produce 640 jobs at the \$5,000 "average" figure, and 320 jobs at the maximum \$10,000 figure. The range of 320-640 (rather than 750 to 1000) will be used for this analysis. The data from the COFINA field study and interviews with regional COFINA office staff are presented in Table 10 opposite.

It is conventional in employment generation lending to produce a figure for jobs expected in the preparation of the project study. For the thirteen loans listed in Table 10, the total funding commitment was \$3,357,592 and the jobs to be generated were 186. If this ratio was adhered to, the cost per job would have averaged \$18,052, or approximately twice the maximum allowed by the project design. But it was not realized. Even with two enterprises in the "suspended" category with zero employment, a total of 225 was reached.

To determine the level of investment per occupation generated, we subtracted the loan funds advanced to industries with zero employment (numbers 8 and 13) from the total loan commitment (\$3,357,592) and divided the remainder by 225. The average investment per job generated is now \$14,220. While this is 40% higher than the project paper estimate, it is substantially below the target provided by the COFINA project studies.

The column on the right margin of Table 10 provides data on investment per direct job for each industry. The range is quite wide: from \$5,883 (Ernest Bernard) to \$44,000 (COAGRO). In general, only processors of farm products staid

Table 10

EMPLOYMENT PLANNED AND GENERATED WITH INVESTMENT PER JOB:
URBE/COFINA AGRO-INDUSTRIAL LOANS
(All Loans to April, 1983)

<u>Enterprise Name</u>	<u>Total¹ Loan</u>	<u>Employment² Planned</u>	<u>Direct Employment³</u>	<u>Indirect Employment</u>	<u>Investment per Direct Job</u>
1. Industrias Apícolas	\$ 151,200	8	13	-	\$ 16,631
2. Ernesto Berard	122,500	15	21	-	5,833
3. Apiarias Guerra	90,000	8 ⁴	5	-	18,000
4. Fed. Coop Agrop.	1,100,000	16	25	60	44,000
5. Miel San Sebastian	150,000	11	9	-	16,666
6. Hermanos Rudas	150,000	11	8	-	18,750
7. Sarigua Inc.	95,090	9	15	12	22,959
8. Jesus Cogley	47,000	6	0 ⁶	-	- - -
9. Semillas Superiores	220,953	8 ⁵	11	35	20,086
10. Frutas Panamenos	728,370	63	95	60	7,667
11. Apiarias Industriales	150,000	11	15	-	10,000
12. Punta Rincon	241,516	8	8	-	30,189
13. Punta Bucaro	110,963	12	0 ⁶	-	- - -
TOTALS	<u>\$3,357,592</u>	<u>186</u>	<u>225</u>		<u>\$ 14,120</u>

1. The total loan must be used in computing cost per job, not just URBE portion.
2. From COFINA project studies.
3. From Evaluation Team's field survey.
4. 3 permanent, 5 temporary
5. 4 permanent, 4 temporary
6. Not in operation, omitted from total mean investment per job.

below the USAID maximum figure of \$10,000 per job. It should be noted, parenthetically, that the status of employment in several of the industries in process of foreclosure remains uncertain. It is interesting to note that for the four enterprises with a computation provided for investment per direct job who are also in financial difficulty (numbers 1, 3, 5, and 12), all are above the average in cost per worker! This certainly suggests the conclusion that lower investment per worker increases chances for survival.

Potential for Survival: Field Data on Selected Industries

The precarious position of a substantial number of funded COFINA agro-industries has been documented above. Several are in foreclosure status and the majority are in arrears on their loan payments. To seek explanations for this precarious state of affairs, the evaluation team chose a sample from among the COFINA-funded agro-industries which were not already at the edge of extinction.

The following enterprises were visited in the field:

1. Ernesto Berard. Volcan, Chiriqui. March 2.
2. Federacion Cooperativa Agrpecuaria. Aguadulce, Coclé. March 10.
3. Hermanos Rudas. Santiago, Veraguas. March 3.
4. Sarigua. Parita, Herrera. March 4.
5. Semillas Superiores. Anton, Coclé. February 9.
6. Frutas Panamenas. San Andres, Chiriqui. March 1.

Since our time was limited, we visited only one of the honey bee operations: Rudas. Cogley, Punta Rincon and Punta Bucaro were not in operation. All others were visited. The selection of cases is biased toward the more successful recipients of COFINA loans. Only one of the enterprises we observed was later designated as in a high risk position: Hermanos Rudas.

COFINA executive reports were available for 10 of the loan-supported enterprises (see copies, Appendix M):

1. Industrias Apícolas.
2. Ernesto Berard
3. Apiarios Guerra.
4. Fertilizantes COAGRO
5. Miel San Sebastian
6. Sarigua.
7. Frutas Panamenas.
8. Apiarias Industriales.
9. Punta Rincon.
10. Punta Bucaro.

The material from the executive reports has been used to supplement our field observations where overlap occurs. In cases where we have executive reports but

no field data, a supplementary set of observations has been added at the end of this section.

1. Ernesto Berard, S. A.

This is a meat products factory, or packing plant, located in Volcan, Chiriqui. The amount of the loan approved by COFINA was \$102,500 to be used for the expansion of the plant. The funds were applied to the construction of a new building, equipment and working capital. The loan was approved in two parts: \$62,500 on July 2, 1979, and \$60,000 on December 19, 1980. Payment periods were set at 8 and 5 years respectively with interest at 12.5%. As of December 29, 1982, loan payments were \$3,232.45 in arrears and the legal status of the mortgage pledge as collateral was still pending.

According to the COFINA field office in David, the overall performance of this enterprise was good. The factory purchases butchered meat from suppliers in Concepcion, and sells most of its output in Davaid. Working at only 50% of capacity, it produces 8 types of products including hams and a variety of sausages, the most important of which are hot dogs. The plant presently employs 21 persons (17 permanent and 4 temporary). Before the expansion there were only three employees. Now are two administrators, one technician and the remainder are laborers.

The main problem which has faced Ernesto Berard is contamination of its products. The plant receives periodic health inspections and it has been found deficient. Health Ministry inspectors have assisted the company to improve its sanitation practises. The co-owner, who gave us this interview, affirmed that contamination has been reduced but not eliminated. The technician stated that sources of problem have been controlled at the plant, but difficulties remain because of transport of meat to the factory from Concepcion in open trucks.

At the time of our visit, COFINA was considering an additional loan application to purchase refrigerated trucks. If the contamination problem is solved, this enterprise appears promising. According to the COFINA field office (David), total sales of \$411,000 in 1981 were increased to almost \$600,000 in 1982. With proper marketing and sales strategies, the plant could expand its market area and soon work to full capacity.

To insure the viability and growth of this industry, we believe that further improvements can be made in (1) the control of cantamination at the plant

Fabricación de Embutidos

Ernesto Berard

Volcan, Chiriqui

Proyecto amplición de la fabrica

B/60,000 aprobado febrero de 1980

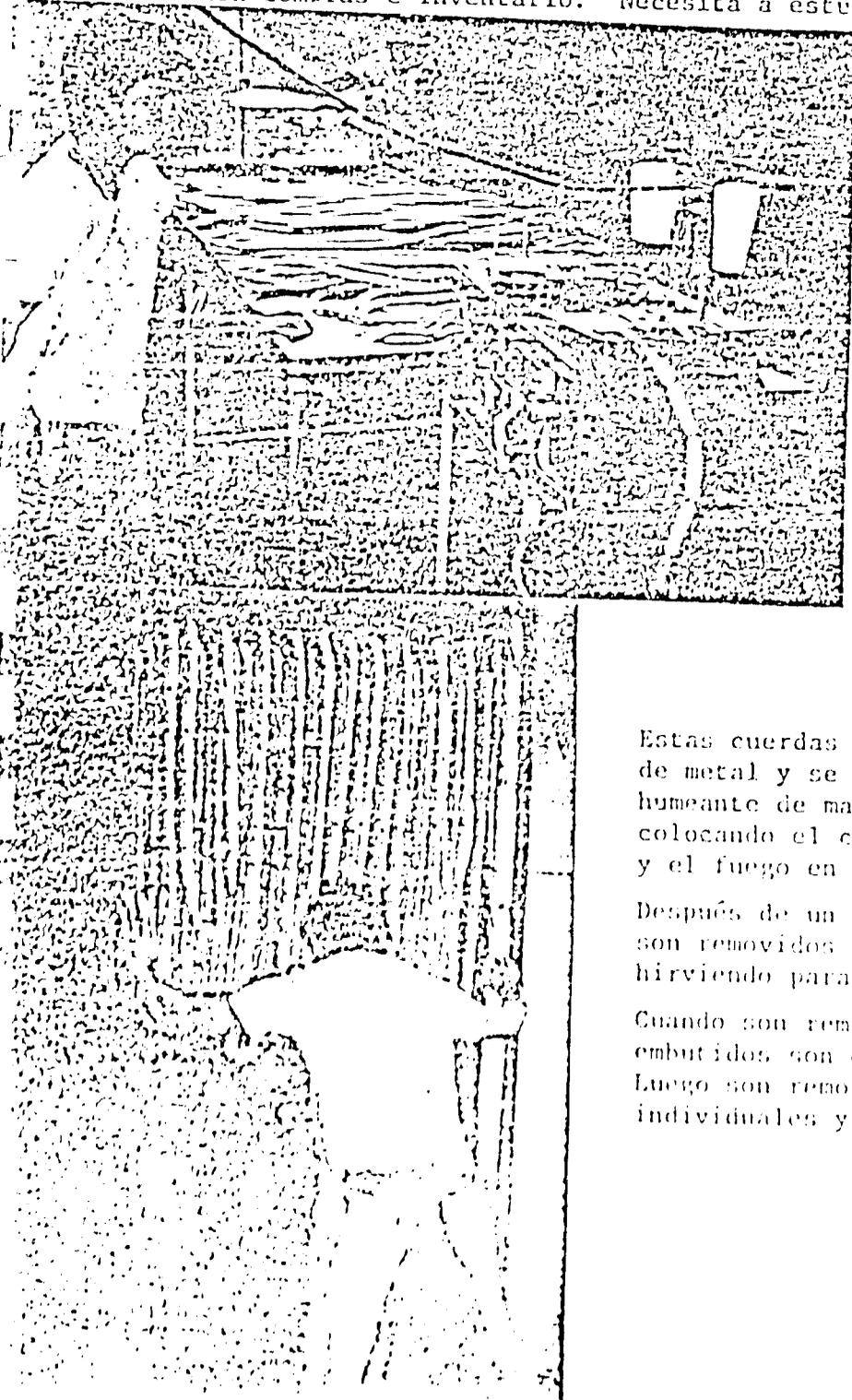
Equipos 40,000
Capital de Trabajar 20,000

Empleados

Plazo de amortización: 5 años incluye el período de gracia

Morosidad: B/3,232.45 al 29 de diciembre de 1982 (Incluye el otro prestamo de COFINS B/62,000.00).

Problemas actuales de la empresa: Alto grado de contaminación en la planta. Control de producción compras e inventario. Necesita a estudiar la estrategia de venta.



Confección de Embutidos en la Empresa Berards

La carne es remorida de los huesos manualmente.

La carne deshuesada es molida y condimentada.

La carne molida se coloca en una máquina con un pitón cubierta con el tubo plástico. La máquina empulsa la carne molida para embutir a rellene el tubo. (Esta máquina es operado por el obrero con el casco amarillo).

El tubo con la carne molida pasa por otra máquina que amana el tubo en intervalos de aproximadamente 5 pulgadas creado los embutidos individuales. (Esta máquina se observa al frente).

Estas cuerdas de embutidos se colocan en colgadores de metal y se insertan en horno alto con un fuego humeante de madera en el piso. (Observa el obrero colocando el colgador con los embutidos en el horno y el fuego en el piso del horno)

Después de un breve lapso en el horno, los embutidos son removidos y colcados en recipientes con agua hirviendo para completar su cocción.

Quando son removidos de los tanques de agua, los embutidos son colocados en cámaras de refrigeración. Luego son removidos y cortados en embutidos individuales y empaquetados para la venta

(handling methods could be improved), and (2) stimulation of sales outside the David-Concepcion area. The Berard enterprise aspires to penetrate the Panama City market. Appropriate technical assistance by experienced experts (perhaps from outside Panama) could make a substantial difference in an operation which already appears to be profitable. To the present time, no help has been received from either COFINA or MIDA.

Additional details of the Ernesto Berard company and its sausage production accompany the photographs on the preceding page. The sausage-stuffing, slicing and roasting operations are described in the photos and accompanying text.

2. Federacion de Cooperativas Agropecuarias (COAGRO)

This is the largest subloan in the URBE portfolio and it was approved only after extensive review by both COFINA and USAID. The URBE contribution to the financing of this \$1,100,000 project is \$500,000, loaned at 12.5% for 9 years. As of December 14, 1982 the payments were behind schedule by \$23,331.05. Funds for this project were used to build a modern fertilizer mixing plant near Aguadulce, Cocolé.

This was conceived as a capital intensive enterprise since it is highly mechanized. The ratio of investment to employment generated is higher than the limit set by USAID for UBE agro-industries. However, it was considered acceptable because of the savings from import substitution and the potential reduction in costs to the farmers. The plant is owned and operated by COAGRO, an umbrella organization for 32 agricultural cooperatives with a total membership of about 10,000 farmers.

The tour of the plant was quite impressive (see photos on following two pages taken outside and within the plant). Specially designed technology is employed to produce a half-million sacks of fertilizer per year. Consumers are private farms (60%), members of the cooperatives (35%) and the government (5%). However, at present the plant operates at only 40% of its rated capacity.

The manager, Eng. Aurelio Chung (who has been with the plant since its construction stage), says that this is not completely unexpected since demand tends to be cyclical in nature. However, sales have been severely damaged by the recent decline in Panama's sugar production. During March, a 2,000 ton contract from a sugar company was cancelled. Since the sugar industry is COAGRO's

PROYECTO URBE-COFINA
FERTILIZANTES COAGRO, R.L.

Fabricación de abonos y plaguicidas

Federación de Cooperativas Agropecuarias

David Sánchez

B/500,000 aprobado (URBE) mayo de 1980

B/1,000,000 aprobado (COFINA)

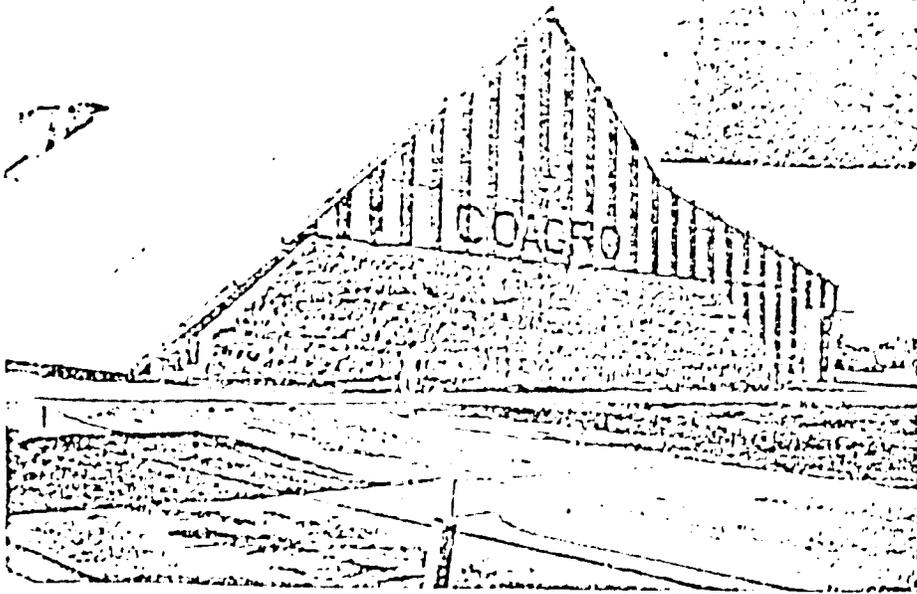
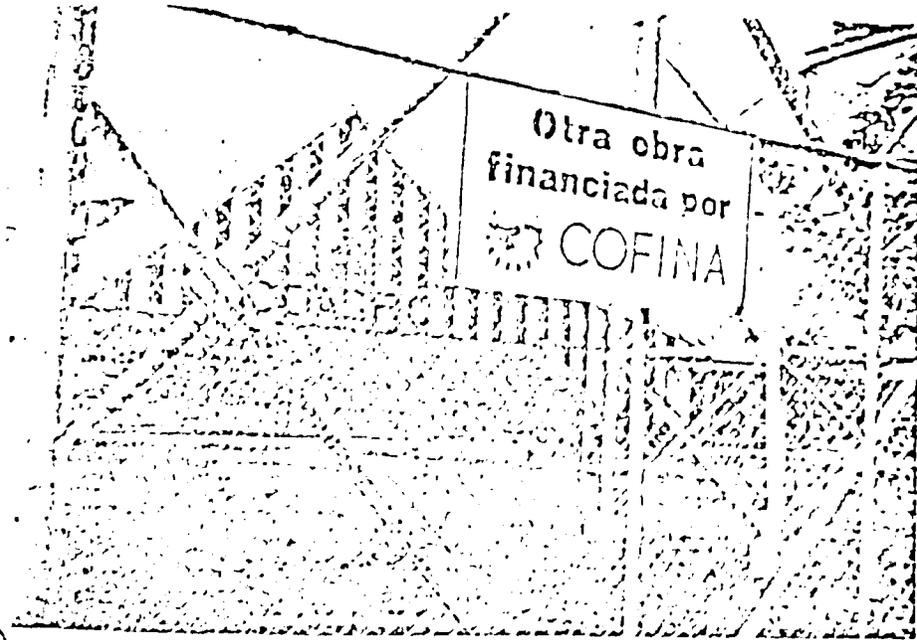
Propósito del Financiamiento: equipo, construcción y capital de trabajo
Empleados 16 (directos) Empleados indirectos 12

Plazo de amortización 9 años incluye el período de gracia.

Norosidad: B/23,331.05 (Información al 14 de diciembre de 1982)

El negocio marcha muy bien. Hay problemas de administración de los cooperativos.

El edificio de COAGRO,
Los Angeles, Aguadulce,
Coclé

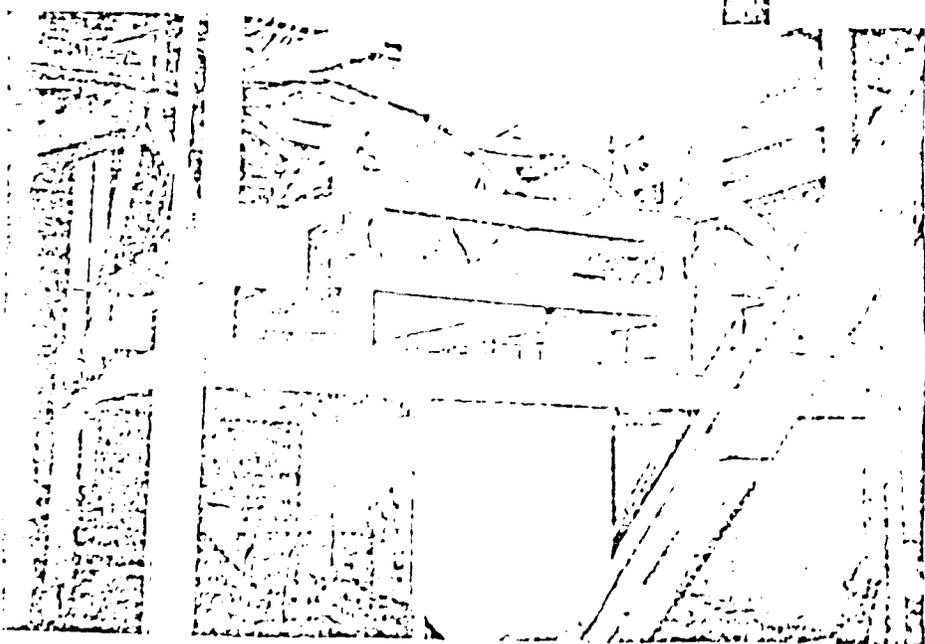


El director de la planta de
fertilizante de COAGRO,
Ing. Aurelio Chung.

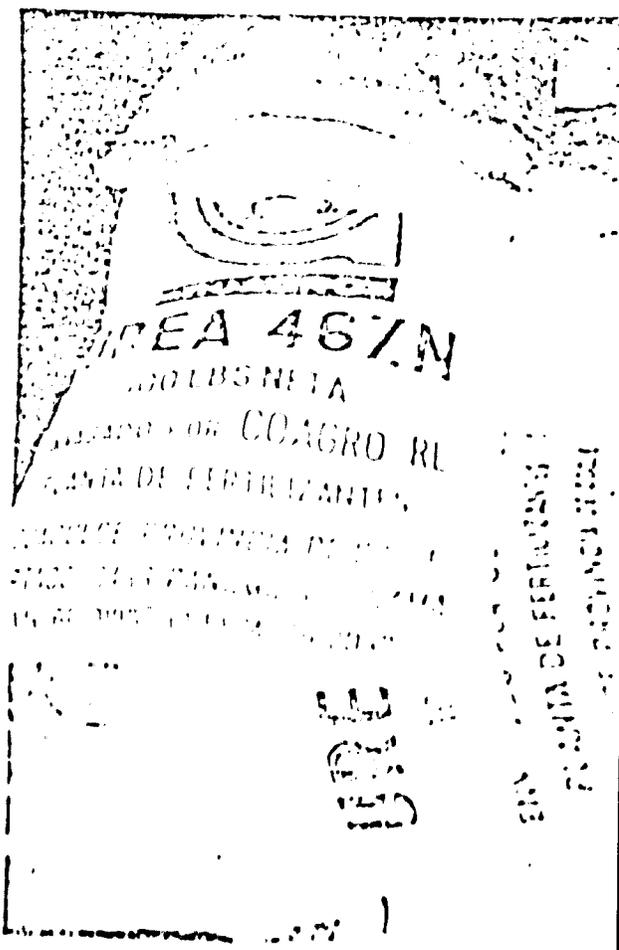




La montaña de elementos químicos en la parte posterior de los funcionarios son mezclados cuidadosamente utilizando una computadora y controles electrónicos en esta máquina abajo.



Esta máquina envasa la mezcla en bobinas especiales que luego son vendidas a los productores.



ESTADO DE FERRETERIA
DE FERTILIZANTE

largest purchaser of fertilizer, COAGRO operators are increasingly concerned. The prospects for a viable sugar industry in Panama are dim at present.

On the financial side, the manager is disturbed about the 12.5% interest rate charged by COFINA. He feels that this is insupportable and would like to renegotiate the loan for a lower figure. The project generates 21 permanent jobs. There are six in administration and 15 in plant operations. Between April and July, an additional four temporary employees are added. The project creates substantial levels of indirect employment also. Ten times during the year, two shifts of 30 workers are hired for 3-4 days to load, unload and transport about 2,800 tons of raw materials from the port of Aguadulce to the plant.

The latter point underscores the fact that all agricultural chemicals used in fertilizer production are imported. Additional technology is employed by IDIAP in testing soil samples and prescribing specific fertilizer mixtures and crop conditions. Technical soundness and quality production seem to be the obvious strengths of the COAGRO operation. Technical assistants would seem to be adequate for the present. A more effective marketing strategy is needed to increase present level of plant utilization. This problem may become increasingly serious if Panamanian agriculture continues to decline.

3. Hermanos Rudas, S. A.

This is one of several honey production operations financed by COFINA and it is not doing well. His approved COFINA loan is for \$133,350 at 12.5% for a term of ten years. Rather curiously, there are two other honey production loans granted by COFINA in exactly the same amount (\$133,350 to Miel San Sebastian and Apiarlos Industriales).

Alfonso Rudas, the proprietor has requested only \$63,654 of this amount and will not claim further disbursements. As of March, 1983, no significant repayments of the loan had been made. He had requested a deferral of his obligation to COFINA until 1984, but it was denied. So far no legal action has been taken against him.

Aside from lack of markets, a problem which plagues all the honey producers who have received COFINA credit, the major problem of this business is lack of adequate management. Operations are obviously disorganized. Facilities are in poor condition. Sanitation and quality control are non-existent and administration is generally poor. The owner takes no regular inventory of his operations

Producción de Miel de Abeja para la Exportación



Hermanos Rudas, S.A.

Alfonso Rudas

B/133.350.00 aprobado mayo de 1980

Propósito del Financiamiento:
maquinaria y equipo y capital de
trabajo.

Empleados 11

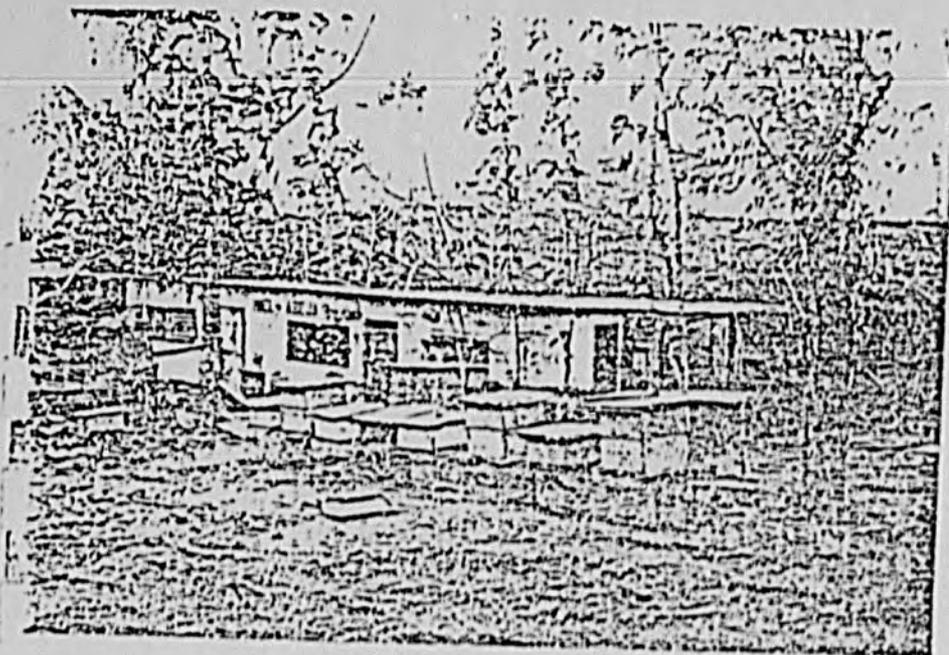
Plazo de amortización 10 años incluye
el período de gracia.

Morosidad: B/12.521.10

El negocio no marcha acuerdo con lo
programado.

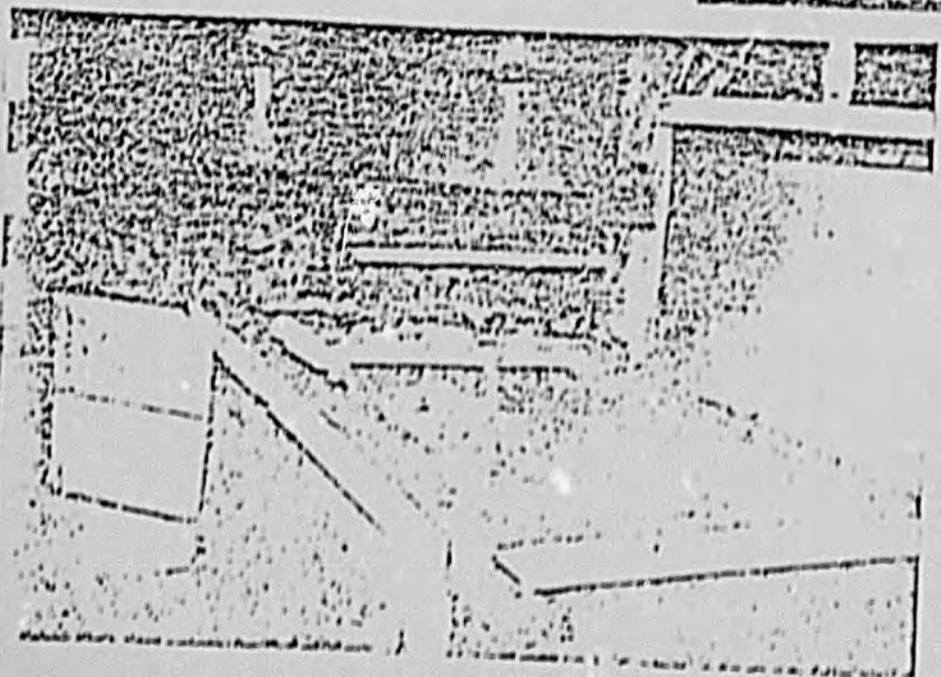
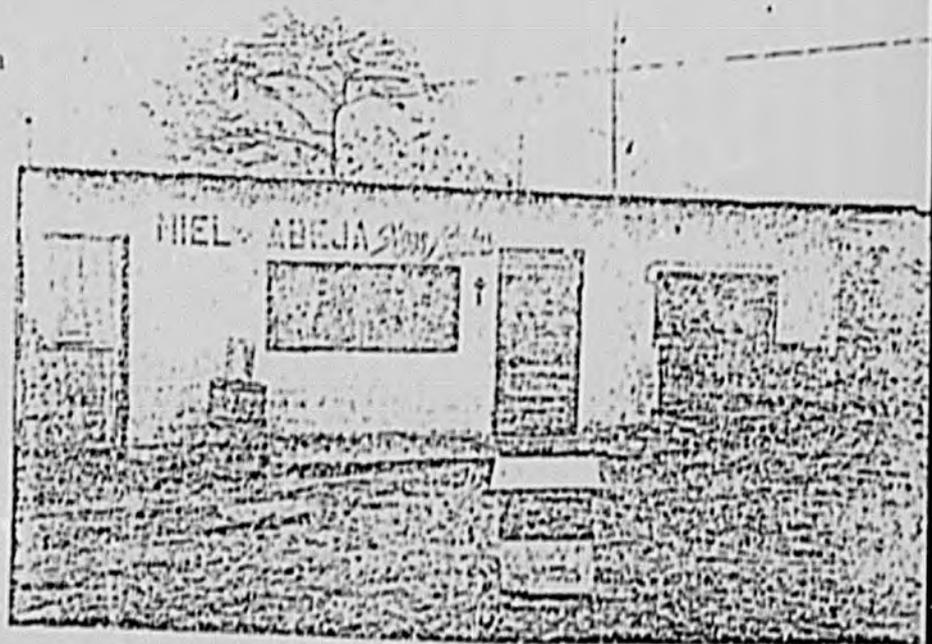
Debido a la imposibilidad de exportar
miel en estos momentos el Sr. Rudas
se dedica a la fabricación de sillas
escolares para el Ministerio de
Educación.





El préstamo se realizó para ampliar la operación, que ya contaba con 400 colmenas, con 300 colmenas adicionales. Solamente las pocas colmenas que aparecen en las fotos, están localizadas en este área. El Sr. Rudas nos aseguró que las otras colmenas están esparcidas por toda la provincia.

La sequía le ha traído problemas a causa de la escasez de plantas en la etapa de floración. Era necesario que el Sr. Rudas colocara un recipiente con miel en un cuarto para que las abejas entraran y se alimentaran.



Los barriles rojos al fondo contiene miel no vendida.

and seems to lack knowledge of simple accounting and bookkeeping practices.

Beyond a few general expenditures reported verbally, there seems to have been no record of the uses made of loan funds. It is unclear that the funds were used for the purposes programmed. Doubt is deepened by an apparent shift in the proprietor's activities from bee-keeping to a furniture making operation supported by a contract from the Ministry of Education (see photographs and text on the preceding two pages).

At present, according to Mr. Rudas, he has only 450 beehives and does not expect to reach the programmed total of 750 in 1983. COFINA's field representative believes that he has only about 200. In any case, from the 1982 harvest (about 30 drums, 55 gallons each) no honey has been sold. There are no prospects beyond some preliminary discussions with a buyer in Costa Rica.

This project is also weak in terms of employment generation. Besides five family members who work in the business, there are only three additional laborers (one permanent, two temporary). To offset what must be a highly critical report and positive observation should be added. It was quite evident to the evaluation team that Mr. Rudas understands bee-keeping and has been engaged in the business (probably on a very small scale) for years.

He fails to understand the difference between conducting such operations on a local neighborhood marketing basis and a truly commercial enterprise with expectations of export sales. He has apparently received no technical assistance and no business education. It should be obvious to any visitor to his place of business (which is also his residence) that he is in need of both.

The marketing problem of Mr. Rudas is very typical among COFINA projects based on the assumption of export markets. Project studies assert the potential for export but nothing is undertaken to assist with the placement of specific products abroad. Most entrepreneurs have neither the resources, the contacts or the sales ability to conduct marketing activities in other countries by themselves. The future of agro-industry in Panama probably depends on the support of effective marketing efforts, perhaps with the participation of national level organizations formed for this purpose.

The honey producers funded by COFINA appear to be at odds with another constraint written into the project paper: that they should not enter areas of agro-industry where other producers had unutilized capacity. A quick perusal

of supermarket shelves in Panama City should be sufficient to convince anyone that there is a substantial number of producers operating in the same areas where the COFINA supported bee-keepers are trying to operate. This suggests that, failing to export their products, they are unable to get a share of the domestic market.

4. Sarigua, S. A.

This business is one of two shrimp producers in which URBE loan funds are invested by COFINA. The operation consists of capturing young shrimp found in estuaries and raising them to marketable size in artificial ponds under closely monitored conditions. The URBE portion of this COFINA loan (\$344,936.61) is \$55,000, lent at 12.5% interest over 5 years. As of March, 1983, loan repayments were \$42,838.44 in arrears (the project is still in its grace period and only interest payments are being collected). Sarigua employs 7 persons (2 technicians and 5 laborers) in the field. Total employment reported to COFINA's office in Los Santos is 15.

The company has had both technical and financial problems. Shrimp production has been poor both in quality and quantity. To be profitable, COFINA representatives assert that production must be increased by at least 50%. The low output has caused serious cash flow problems for the company. In the field, Sarigua technicians explained to us that their water control system which determines the degree of salinity in the tanks (where salt and fresh water are mixed) had been damaged by the breakage of a flume.

More important, however, is the lack of seed shrimp in the estuaries adjacent to Parita. There is no hatchery or commercial source of seed shrimp in Panama. Another shrimp producer in Veraguas, interviewed at the feria in Sona, made the same complaint to the evaluation team, asking if USAID could provide technical assistance with this problem. Since shrimp is a product which appears to have an assured overseas market, the production problems appear to be worth inquiry.

In 1981, COFINA agreed to refinance this company but required that it be given more direct participation in management. At present, COFINA supervises all flows of revenue and expenditures, and participates in meetings of the board of directors. At some point, COFINA had considered making Sarigua shares

DATOS DEL PRESTAMO AGROINDUSTRIAL

PROYECTO URBE-COFINA

SARIGUA, S. A.

Cría de Camarones en Estanques

Samuel Pérez Batista

Parita, Provincia de Herrera

B/55,000 aprobado septiembre de 1980 (URBE)
B/344,396.61 aprobado (COFINA)

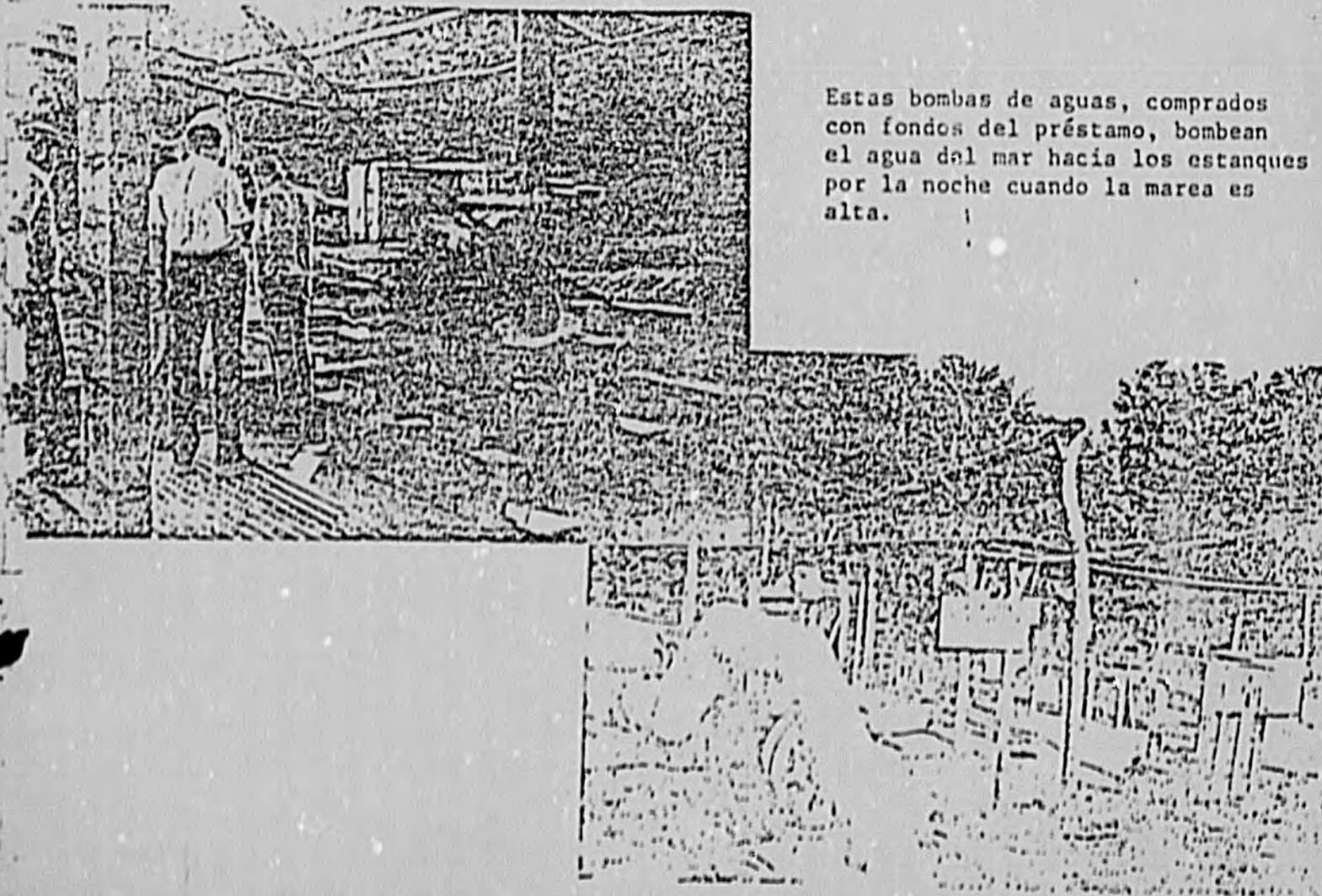
Propósito del Financiamiento: construcción, equipo y capital de trabajo.

Empleados 9

Plazo de amortización 5 años incluye el período de gracia

Morosidad: B/42,838.44 y en 1982 se les refinanció la deuda.

"El estado del proyecto actualmente no presenta problemas de tipo técnico previéndose a corto plazo el despegue definitivo en cuanto a producción. Opino que se le debe seguir dando el apoyo logístico, no sin embargo el paternalismo adoptado por los promotores."

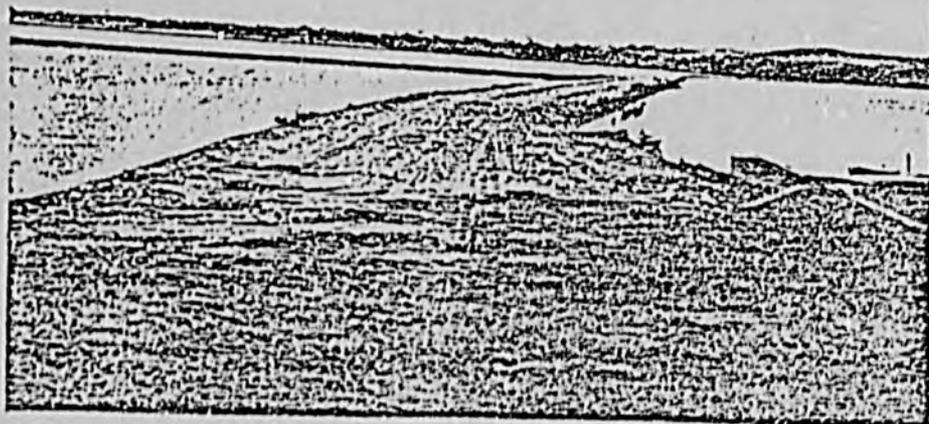


Estas bombas de aguas, comprados con fondos del préstamo, bombean el agua del mar hacia los estanques por la noche cuando la marea es alta.

Este proyecto de producción de camarones cubre un área de 48 hectáreas con 13 estanques artificiales de agua salobre. Algunos de éstos se ilustran en las fotos.

Las larvas de los camarones son pescadas en alta mar y se colocan en los estanques para completar su crecimiento. Cada estanque contiene camarones de más o menos la misma edad. Estas ya están listas para la cosecha.

Se realizan 2 1/2 cosechas al año en cada estanque.



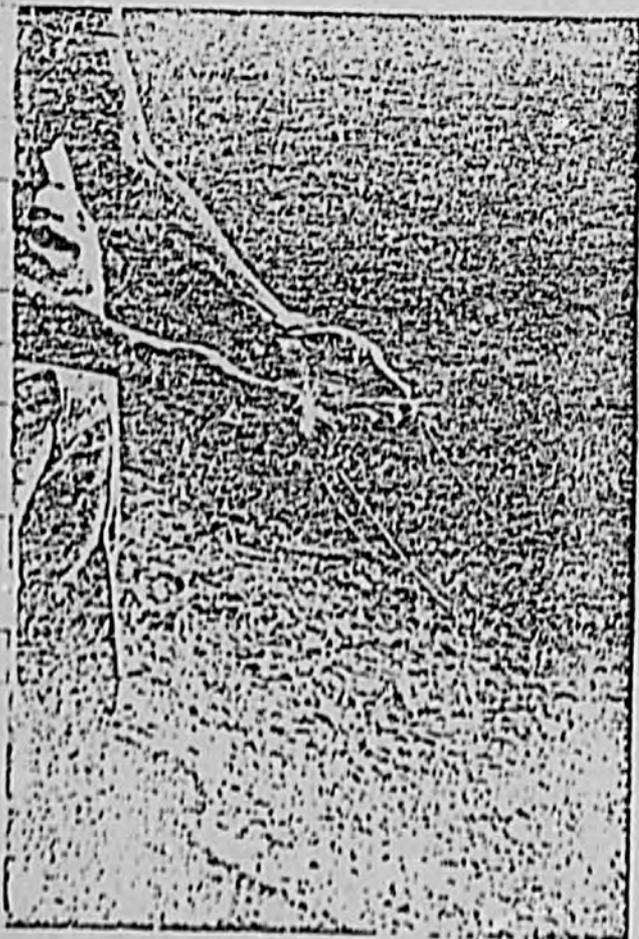
Los camarones se alimentan con una mezcla de granos y conchas trituradas. Llegan a la madurez en aproximadamente 10 a 120 días.

Estos camarones son protegidos las 24 horas del día de los ladrones: humanos, aves y cangrejos.



Para cosecharlos, se vacían los estanques y los camarones son atrapados en redes. Aproximadamente de 400 a 450 libras de camarones por hectárea se cosechan anualmente. Se requiere una cosecha de 600 libras por hectárea por año para cubrir los costos y obtener una ganancia.

Esta empresa podría tener una mayor producción si estuvieran en capacidad de producir sus propias larvas en vez de depender de las pescas en alta mar.



available to the public, but it has not yet taken place. While the future of this enterprise is uncertain at present, COFINA seems to have assumed a commitment to its survival.

The layout, management and technical supervision of the Sarigua shrimp enterprise are quite impressive. It appears to have had the benefit of good project design and adequate technical assistance in dealing with immediate problems of quality control and field operations. As with the marketing problems encountered by the honey producers, it appears unlikely that procurement of seed shrimp can be resolved within Panama. International resources probably must be tapped and expensive research may be needed. Within Panama, MIDA may be able to provide some assistance through IDIAP---perhaps by contracting with expatriate consultants.

Further details of the Sarigua operation appear in the photo layout, with accompanying text, appearing on the preceding pages. The pictures document that some of the employment generated by the project take the form of security. The tanks are guarded on a 24-hour basis because of the value of the crop.

5. Semillas Superiores, S. A.

This is a commercial rice seed processing plant located at Anton, Coclé. It involves cleaning, selecting and packaging high quality rice seed for distribution throughout Panama. The source of the seed is Columbia and Costa Rica. All classes of seed are certified by MIDA. Seeds are planted and tested on farms operated by Semillas Superiores at a distance of 12 kilometers from the Anton, while the seeds themselves are imported, the sacks and transportation are procured locally. All seeds are sold within Panama and the primary benefit is in the improvement of rice varieties. Tests to determine whether suitable varieties of seed corn and sorghum can be produced are now in progress.

Although certification of its rice seed is not expected until 1984, this enterprise has been operating with relative success. The URBE loan of \$196,427 at 12.5% interest for 7 years was used to construct a building, purchase equipment (a dryer was a large item) and also for working capital. As of December 31, 1982, loan repayments were \$42,446.88 in arrears. However, during our February 9 visit, the accountant reported that payments were up to date.

The project appears to have operated successfully from the beginning, although not without problems. In a December 9, 1982 letter to COFINA, the

owners maintained that current costs were much higher than those which had been estimated in the project study. Initial cash flow problems were attributed to the excessive length of time required by COFINA to process the loan. Funds only became available 25 months after the date of application. Despite this, first year operations were impressive as seed products received wide acceptance and total sales exceeded the volume which had been programmed.

During the second year the financial situation of the company improved. Sales were strong and the end-of-year audit showed a profit for 1982. At present the company has plans for additional financing to double its production. However, the personnel interviewed expressed some dissatisfaction with COFINA. They asserted that few visits had been made to the plant since the loan was completed. For expansion credit, the company believes it can get better terms by applying for an industrial loan from the Banco Nacional de Panama. It was repeated that no technical or financial services had been received from COFINA.

Semillas Superiores employs 11 persons at the plant (5 permanent and 6 temporary), and about 15-20 workers in the rice fields. During harvest, the number of workers in the field may be as high as 40. So far as the evaluation team could determine during its brief visit, this is a well-designed and efficiently operated business filling a definite need in Panamanian agriculture. As in the case of Ernesto Berard, however, the promoters of this enterprise have been in business for a number of years (3). The amount of COFINA investment is 37% and the client's investment is 63% of the amount expended.

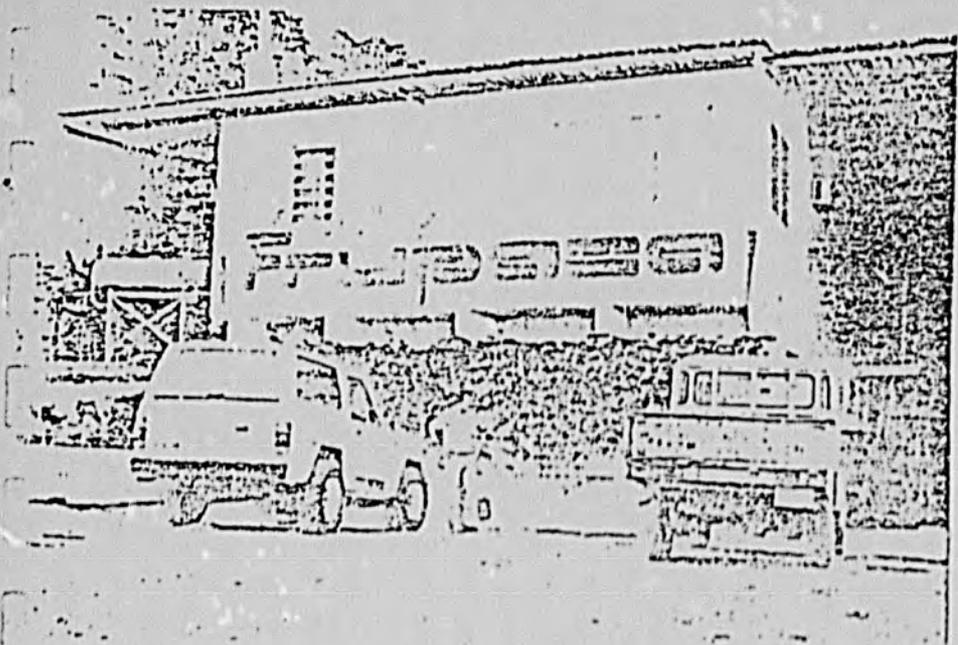
6. Frutas Panamenas, S. A. (FRUPASA)

This project, located at San Andres in the uplands of Chiriqui, produces passion fruit (maracuyá) and extracts and processes the juice commercially. It is supposed to be an export-oriented industry. The URBE sub-loan of \$186,940 is part of a larger investment package of over a million dollars involving six different loans from various sources. COFINA is the largest lender with an exposure of \$728,370.

Because of its many legal and financial complexities, this has been a difficult project to evaluate. At present, the plant is being operated on an experimental basis and its real potential is unknown since it is only being operated at 40% of capacity. The legal status of mortgages and other collateral is still

PROYECTO URBE-COFINA
FRUTAS PANAMEÑAS, S.A (FRUPASA)

80



Producción de jugo de maracuyá
para exportación

Ingemar Lundberg

San Andres, Chiriquí

B/186,940.00 todo. Tres prestamos

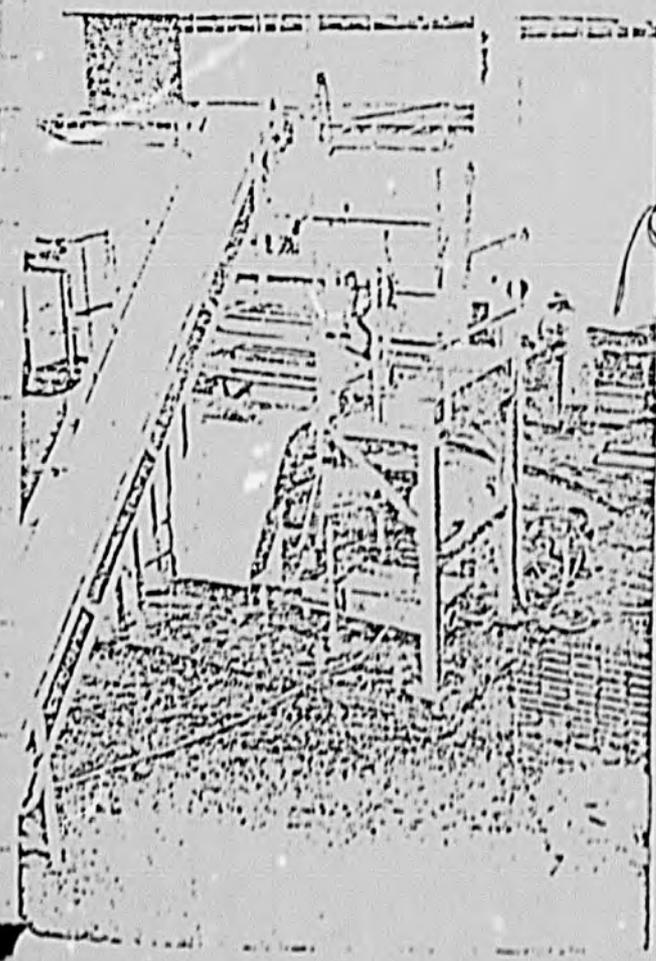
- | | |
|-----------------------|---------|
| 1) Edificio | 135,600 |
| 2) Capital de trabajo | 36,530 |
| 3) Capital de trabajo | 14,810 |

Aprobado 1981

Empleados 63

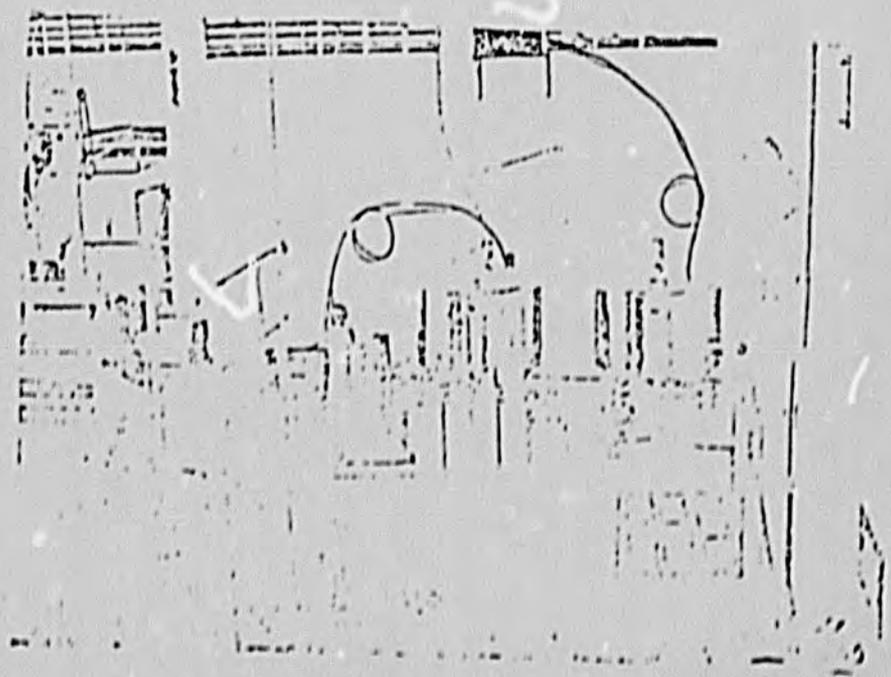
- | | |
|-----------------------|-----------|
| Plazo de amortización | 1) 7 años |
| | 2) 4 años |
| | 3) 3 años |

Morosidad: B/64,716.13 a nov. de 1981



El fruto es conducido por el transportados y
descargado en un triturador donde se le
extrae el jugo.

El jugo, a traves de tubos plásticos, es
llevado a los tanques redondos para continuar
con su procesamiento y donde se le añade
azucar.



Esta planta opera solamente
durante tres mañanas por semana
debido a varios problemas,
incluso de ataques micro-
biológico en las plantaciones.

unresolved, and the firm's cash flow shows a serious liquidity problem. As of November, 1982, FRUPASA's payments were \$64,716.13 in arrears. The last payment was made May 14, 1982.

On the technical side problems have also developed. The farm of 70 hectares which is operated by the company has suffered a fungus infestation. Fruit is also purchased on contracts with 60 small farmers on the outside who operate from 3 to 15 hectares each. The infestation has been combatted successfully and technical personnel in charge of the plant appear to be quite efficient. Although their only product is fruit juice, they are looking forward to the preparation of extracts, preserves, and concentrates.

The employment impact of FRUPASA is broad. There are 25 employees at the plant (5 technicians and 20 laborers), and 70 on the plantation. Most of the fruit is purchased from the contract growers mentioned above. At full capacity this enterprise could contribute significantly to the economy of the region. From the standpoint of the URBE Project design, FRUPASA (like Ernesto Berard) seems to be a perfect industry: it has backward linkages to agriculture, utilizes local labor, and provides a quality product which adds substantially to the value of the raw materials utilized.

However, also like Ernesto Berard, FRUPASA has a marketing problem. Evidence that a substantial amount of maracuya (like honey) is being produced for the local Panamanian market can be obtained at any grocery in Panama City. Even when supermarkets are out of milk, they offer many varieties of maracuya juice in their refrigerated dairy display cases. Preliminary efforts by FRUPASA to capture a local market share appear to be unsuccessful. The availability of an export market, therefore, appears to be crucial.

A preliminary contact was made in California but it seems to have been a poorly designed effort. Once again, as in the case of honey-producers and the shrimp farming enterprises, some international contact would seem to be needed if fruit production is going to prosper. As with other projects in the URBE program, it appears that FRUPASA has not received any help from MIDA-COFINA with reference to its marketing problems or technical difficulties. While the project is technically well-designed, it obviously cannot become profitable while operating at 40% of capacity.

Further details of FRUPASA's operation appear in the photos on the preceding page.

The foregoing six accounts represent the sum of observations obtained by the evaluation team from field visits to COFINA-supported agro-industries which had benefitted from URBE Project financing. However, executive reports (Informes Ejecutivos) were shared with us by COFINA. These are prepared for internal distribution and have not been independently verified; however, they reflect the perspective obtained by the sponsor toward these projects and are useful for that purpose. Certainly, COFINA would not serve its own interests by presenting these enterprises in a negative position.

The following six brief statements are based on the Informes Ejecutivos which appear in Appendix M.

7. Industria Apícola (INAPASA)

The proprietress of this enterprise is known among the office staff as "La Abeja Reina". Her enterprise was the first bee-keeping venture funded by COFINA with a commitment of \$148,000 in 1979. The loan is for seven years at 12.5%. The unpaid balance on this account (\$199,761) is one of the largest in the COFINA portfolio. The promoter had received an earlier loan of \$53,153 from BDA for the same project which is also in default and under legal action. It appears that some of the collateral pledged to COFINA has been attached by BDA.

The status of the project is not known because the proprietress fails to receive follow-up visits. COFINA has taken legal action to foreclose this enterprise. A judge in Panama appointed a temporary administrator for the property on February 25, 1983. There appears to be a serious question concerning the uses of loan funds by the operator of this project.

8. Apiarios Guerra, S. A.

Like INAPASA, this bee-keeping venture does business from Boquete in the province of Chiriquí. With \$80,010 in URBE funding, it is one of the smaller COFINA agro-industrial loans, with a term of five years at 12.5% interest. As in the case of INAPASA, this enterprise had a previous BDA loan. It was refinanced with COFINA funding, however, which is different from the INAPASA case.

The enterprise is in production but is experiencing financial difficulty. It has never made a payment to COFINA on its loan. Its level of delinquency at present is \$31,992. The executive report notes that the proprietors of this business do not understand beekeeping and have no business background. They were to have operated 1,000 beehives under this project but have only 254 at present.

Apparently, the bees contracted a disease colorfully designated "Loque Americano".

Because they are not knowledgeable in the business, they have only obtained a harvest of six gallons per hive, yielding a total harvest of 14 tons. At the current price of \$825 per ton, their gross for the year will be only \$11,550. The promoters, says the report, have no knowledge of administration, "and no idea of their financial status, status of profit and loss, control of inventory or other aspects of administration."

The report concludes by noting that the mortgages intended to secure the loan were not registered in the loan agreement. The report concludes that if the status of the mortgages can be clarified so that collateral can be attached, then legal action is recommended. It was observed by officials in David that "La Abeja Reina" was recruited as the technical advisor to the operators of this enterprise. Her business, like theirs, was based in Boquete.

9. Miel San Sebastian

This is another honey producing project, this time located in Ocu, Herrera, with a loan of \$133,350 from URBE resources. The loan is for ten years at 12.5% interest. Most of the investment (\$113,395) is for working capital. The project has had financial problems and they are not able to sell the product. The company has a huge delinquency of \$194,011. Furthermore, the intended pledge of collateral in the form of mortgages has not been secured by COFINA. The company has sold some honey this year and has a letter of credit for \$40,000, payable on delivery to the shipping firm. They have promised delivery to the ship on February 20, 1983. The credit official recommended that COFINA wait until February 20 before taking further action since the promotor has promised to make a payment when he cashes the letter of credit.

This project is one of many where the collateral pledged was evidently in the form of goods or equipment to be acquired from the loan. This arrangement, while fairly common among lenders at concessional rates in Panama, creates problems when the project experiences financial difficulties and it is necessary to take legal action. It appears that COFINA, all too frequently, has failed to secure mortgages on the equipment or goods after delivery. One gets the impression from COFINA that they would like to initiate proceedings against Miel San Sebastian but couldn't recover anything if they did.

10. Apiarios Industriales, S. A.

This is the last and most recent of the bee-keeping operations. It is located in Remedios, Chiriqui, and has the same amount of URBE financial support as Miel San Sebastian: \$133,350. The loan is repayable over ten years at 12.5%. According to COFINA, this is the only one of the honey-makers who is doing well. Their unpaid balance is only \$9, 583.

The company observed that its scheduled loan payment was in December of each year. They had no money at this time because the harvest of honey begins in December and continues until April. They requested a revised program date located in the month of May. There have been technical problems but COFINA expects that the project will reach its objective of 2,000 hives during the coming year.

An accompanying technical report notes that APIEPA presently has 988 hives in production and will harvest 80.7 tons. The income is estimated at \$66,577 for the year. This certainly compares favorably with the figures given for Apiarios Guerra above. Apparently, they have no marketing problem.

11. Punta Rincón, S. A.

This is a shrimp farming project located at San Lorenzo, Chiriqui. It received a loan of \$214,703 from URBE funds, for a period of six years at LIBOR (London Interbank Offerers' Rate) plus 2 1/2 points. The reasons for this rather high commercial interest rate are not explained. Their level of delinquency is \$84,606.

The report notes that the project is far behind in relation to its schedule. COFINA doubts the capacity of the promotor to follow through. He attempted to get additional financing from BNP but was refused. Unlike other projects, the mortgage guarantias for this loan appear to be valid. It is suggested that COFINA should intervene legally to recover its investment. The project has never become operational, although no reasons are given.

12. Punta Bucaro, S. A.

This fishing project was located in Los Santos, Los Santos. It received financial commitment of \$99,512 from URBE. The project never became operational. Loan funds were mismanaged and the company has many creditors. The project has been foreclosed and a judgement from the court is awaited. Since the mortgage guarantees were not executed, there does not seem to be much chance for

COFINA to recover its money. Although we saw eight outboard motors on the office floor at the COFINA regional headquarters in Los Santos. They had been recently recovered from the entrepreneur. COFINA hopes to reclaim enough of the project to locate it with another promotor.

In a final note on the project status of COFINA's agro-industrial loan portfolio, current information on reimbursement requests transmitted to USAID by COFINA is appropriate. In September, 1982, in connection with the Status Report on Audit Recommendations, USAID reported that the total amount reimbursed to COFINA was \$1,225,074 (see Appendix A). By May 16, 1983, after the passage of eight months and a substantial amount of encouragement, COFINA had requested reimbursement for \$1,345,355 (see Appendix H). This latest data appears as Table 11 opposite.

Performance of COFINA Agro-Industries: Conclusions

The following generalizations have been supported by data introduced in this chapter:

1. No COFINA project presently in operation was approved more recently than March 16, 1981 (Table 8).
2. The total amount of funding advanced by COFINA to these clients averages \$258,256. The URBE portion of these loans averages only \$155,764, or 60% of the total (Table 8).
3. Where the average value of URBE agro-industrial loans is \$155,764, the average delinquency on repayments (morosidad) is \$66,857 (Table 9).
4. Despite designation by COFINA as the "active" list, four of the thirteen projects are inoperative or in process of foreclosure (Table 9)
5. Assuming that the project design intended to fund 22 projects at an average level of \$145,500, and generate 320-640 jobs (see p. 63) at an investment of \$5,000 to \$10,000 per job, we may examine the COFINA accomplishment. The project design requires 15 to 30 jobs per industry; thus far, COFINA has provided 20.5 (Table 10), but at a cost of \$14,220 invested for each person employed.

If the losses from failed enterprises are kept in the numerator (all URBE funds disbursed) while the persons who have lost their jobs in these enterprises are subtracted from the denominator (all persons presently at work), then the cost per job could reach a very high figure over the next few months.

6. Despite substantial intervention by USAID and MIPPE to secure further action on reimbursement requests, the position of COFINA in May had not improved significantly over the previous September (Table 11).

Table 11

PROYECTO URBE/AID
COMPONENTE DE AGROINDUSTRIAS
DETALLE REEMBOLSOS

NUMERO	FECHA DE SOLICITUD	SOLICITADO	PAGADO	RECHAZADO	11.2%	CLIENTE
1	5-03-81	500,000.00	500,000.00	-	-	Federación de Cooperativa Agropecuaria de Panamá
2	20-11-81	479,731.98	407,886.82	71,845.16	-	
3	8-07-82	76,423.63	67,910.61	-	8,483.02	Semillas Superiores, S. A.
4	18-08-82	57,785.00	46,895.00	8,890.00	-	Sarigua, S. A.
5	5-07-82	84,167.30	74,814.73	-	9,342.57	Apiarios Industriales, S. A.
6	6-08-82	32,209.00	12,409.55	18,250.00	1,549.45	Hermanos Rojas, S.A.
7	6-08-82	39,264.00	28,929.47	6,722.41	3,612.12	Punto Rincón, S. A.
8	18-08-82	47,621.00	42,335.07	-	5,285.93	Miel San S. A.
9	23-08-82	110,448.24	27,919.36	88,042.89	3,485.99	Frutas Panamenses, S. A.
10	22-09-82	39,496.66	34,181.34	1,047.46	4,267.86	Apiarios Guerra, S. A.
11	28-10-82	19,200.00	19,200.00	-	-	Apiarios Guerra, S. A.
12	-	50,753.52	45,983.77	-	5,799.75	
13	-	10,427.56	9,259.67	-	1,167.89	
14	-	25,111.12	25,590.49	-	3,227.63	
TOTALS:		1,586,371.01	1,305,355.88	194,797.12	61,221.21	

Fuente: Administración de Cartera
Gerencia de Operaciones
COPIA.

Submitted May 16, 1983

The review of enterprises which resulted from field visits, interviews with COFINA regional office personnel, and perusal of executive reports was the most productive portion of the evaluation. Summarizing the facts presented in the preceding section of this chapter, we have prepared Table 12 opposite which places each of the thirteen enterprises in a four-unit classification.

Class A enterprises in Table 12 require nothing more than favorable world economic conditions and a sprinkling of good luck. They will repay their loans and probably display significant economic growth. Only COAGRO in this blue ribbon group of agro-industries has a serious problem: under-utilized capacity. We believe that this is correctly attributed to the world market in commercial crops. While it is beyond intervention or control, it has not seriously threatened the survival of the enterprise.

Are there common characteristics among Class A enterprises which may be the subject of some generalizations about agro-industrial success? We believe so. All three Class A firms are large-scale producers. All are technically sound with good business and financial management. And, above all, each has a marketing arrangement which disposes of its products. COAGRO makes use of its network of farm cooperatives and major plantations. Semillas Superiores has a national network of distributors. APISPA was able to dispose of its entire harvest in 1982 to a single contractor (Compania BEGGI).

Class B enterprises in Table 12 are also technically sound enterprises with good business and financial management. Unlike Class A firms, all are distressed by serious levels of underutilized or unused capacity. These producers are unable to dispose of their products adequately. Berard needs broader penetration in the domestic market. Sarigua and FRUPASA need to gain access to the export trade. And their problems are probably not as simple as the conclusion of appropriate marketing arrangements. To export shrimp or fruit products, a higher level of processing with additional technology will probably be required. This may be true also for Berard if he is to "export" meat products to Panama City.

It is at this point in the pattern of proposed agro-industrial development that technical assistance and market research, together, must be focused on the problems of particular industries. And at this point, the evaluation

Table 12

COFINA'S AGRO-INDUSTRIAL PROJECTS: SURVIVAL POTENTIAL

Class A: Profitable enterprises with appropriate technology, sound business management, and good repayment records.

Federacion Cooperativas Agropecuarias (COAGRO)

Semillas Superiores

Apiarias Industriales (APISPA)

Class B: Potentially profitable enterprises with appropriate technology, sound business management, and acceptable repayment records. At present, these enterprises are far from reaching their potential.

Ernesto Berard

Sarigua

Frutales Panamenas (FRUPASA)

Class C: Unprofitable enterprises with serious management and technical problems and substantial indebtedness. At present, these enterprises are descending toward failure and legal action.

Apiarios Guerra

Miel San Sebastian

Hermanos Ruelas

Class D: Unprofitable or inoperative enterprises which never became productive, and which have accumulated substantial delinquent accounts. At present, these projects have been written off by COFINA as not salvageable. Legal action has been taken against them or is planned.

Industrias Apicolas

Jesus Cogley

Punta Rincon

Punta Bucaro

team must regret the failure of COFINA-MIDA administrators to make more effective use of the \$120,000 originally budgeted for studies of specific agro-industries and their marketing opportunities (see pp. 47, 52-53). Instead, facing an expiration date in less than three months, MIDA remained in March, 1983, with \$105,000 unexpended. And the Class B agro-industries in Table 12 remain in jeopardy for lack of information these studies might have provided.

There is an invisible line to be drawn between Class A-B and Class C-D enterprises in Table 12. The Class A-B group includes the survivors, present and prospective. Below them, in the Class C-D group, we are examining a mortality table. These industries consist of the moribund (Class C) and the deceased (Class D). But there is a significant difference between the two groups. Several of the Class C honey-producers might be salvaged with substantial doses of basic technical assistance (for which there is no need in Classes A and B).

The Class C entrepreneurs are unskilled in basic business operations and in the technology of honey production. They have accumulated substantial levels of delinquency. The attitude taken in conversation by COFINA officials is that they are already beyond intervention. However, little if any advice or assistance has been provided to them by their COFINA-MIDA sponsors. It is among these proprietors that COFINA's knowledge of business administration and MIDA's capacity for conveying production and marketing information would have been well placed.

Once again, the evaluation team must regret the failure of COFINA and MIDA to honor their commitments to provide this support with allocations of regular personnel time as called for in the project design. It was unrealistic to expect that consultants, such as David Ruiz and Augusto Rios, would be able to fill the void in this area while conducting feasibility studies for applicants and contributing to the design of a national agro-industrial policy..

The Class D group has been properly written off by COFINA. It consists of incompetents and, in several cases, unethical businessmen. It would be a waste of good money to pursue these people by other than legal means. Perhaps, we do an injustice to Jesus Plinio Cogley with these harsh remarks, since he was not included either in the field study or in COFINA executive reports. If so, then we have made it up by a charitable attitude toward at least one member of the Class C category, for whom these adjectives seem to be appropriate.

It seems inevitable, given the substantial number of moribund and deceased members of the list in Table 12, to raise a final issue concerning COFINA review procedures. What kind of project study would have examined the prospects of the Class C-D enterprises and resulted in their being approved by both Technical Committee and Credit Committee? Does the fault lie with the technicians who prepared the studies? Unless they deliberately intended to deceive, this appears unlikely. It seems more reasonable to conclude that the Technical Committee and the Credit Committee passed these ill-prepared proprietors with ill-designed agro-industries because they were the only applicants available.

And this returns our discussion to the point of origin at the beginning of this chapter. Why do the numbers of so-called approvals on the various lists circulated by COFINA (see Appendix A, H and I) keep changing? Why have no new agro-industries been added to the active list since March, 1981? And finally, why does COFINA keep promising to deliver a new list of projects "under active consideration" that never materializes (Appendix D, H)?

The answer must be given in two parts. First the failure of MIDA to develop its agro-industrial policy and perform specific industry studies has left COFINA with no guidance in its recruitment efforts. Second, the incredible failure rate they have experienced by accepting applications from self-selected entrepreneurs has undoubtedly resulted in near-paralysis with respect to acceptance of new proposals.

But this does not explain the revolving lists of approvals which never contain the same named industries over intervals of several months. We have no absolute answer to this but wish to point to COFINA's apparent possession of several loan accounts from which agro-industrial funds may be advanced. There is, for example, the case of Queneria Dallys which appeared on several lists of ERB/ESAB approvals, then was withdrawn only to appear as a COFINA-supported project in the 1982 Annual Report.

It may be that COFINA has regularly pursued the policy of juggling the assignment of clients from one loan fund to another for reasons of internal loan fund management. If so, it may also have been the case that more attractive prospects were assigned to other industrial loan accounts. It seems improbable that the collection of losers which appears in Table 12 could have been assembled by chance alone. Are the winners receiving support from other sources?

There is no conclusive test of this hypothesis, but some inferences may be developed from the data assembled in this chapter. If COFINA has reserved the better clients for support from loan funds other than those provided by USAID through Project URBE, then we might expect that URBE funds would cover a smaller proportion of the exposure in Class A-B categories of Table 12, and a larger proportion of the exposure in Class C-D categories.

We have tested this proposition in Table 13. opposite, with rather surprising results. The hypothesis is confirmed in several ways. In terms of the total loan commitment, 72% of the value of the portfolio approved by COFINA (\$3,357,592) is assigned to the "safe" loans in the Class A-B category; only 28% has been placed with the high mortality Class C-D group. When we turn to the URBE portion of the portfolio, however, we find that only 58% of the total URBE commitment (\$2,024,930) is located in Class A-B loans; 42% is found among Class C-D enterprises.

When we examine the portions of loan commitments covered with USAID funds class by class, the differences are even more startling. In the Class A-B group, only 48.5% of the total value of these loans is assigned to Project URBE finances. In the Class C-D group, however, 90.4% of the total value has been paid from the Project URBE account. The proportions of each category assigned to URBE are presented in Table 13.

This demonstration does not "prove" that COFINA has followed a deliberate policy of assigning large proportions of risky agro-industries to the Project URBE account. But the outcome is the same as if this practise had been pursued. The result inevitably will be that the failure rate among URBE-financed loans will be much greater than the 10% "acceptable" level defined in the project paper. In fact, 42% of the value of the URBE agro-industries financed to the present date is in serious danger of default.

Inevitably, there appears to be a linkage between the large proportion of URBE funds located in high risk projects and the reimbursement issue. The agro-industries in the C-D class are prone to mismanagement and misdirection of expenditures to unauthorized purposes. Small wonder then that a substantial proportion of these expenditures do not provide the basis for valid reimbursement requests.

Table 13

DISTRIBUTION OF LOAN SUPPORT BETWEEN COFINA AND PROJECT URBE BY CLASS

	<u>Name of Agro-Industry</u>	<u>COFINA Loan Total</u>	<u>URBE Loan Amount</u>	<u>Loan % URBE</u>
Class A	COAGRO	\$1,100,000	\$ 500,000	
	Semillas	220,953	196,427	
	APISPA	<u>150,000</u>	<u>133,350</u>	
	Subtotal	\$1,480,953	\$ 829,777	56.40
Class B	Ernesto Berard	\$ 122,500	\$ 102,500	
	Sarigua	95,050	55,000	
	FRUPASA	<u>728,370</u>	<u>186,940</u>	
	Subtotal	\$ 945,960	\$ 344,440	36.41
Class C	Apiarias Guerra	\$ 90,000	\$ 80,010	
	Miel San Sebastian	150,000	133,350	
	Hermanos Rudas	<u>150,000</u>	<u>133,350</u>	
	Subtotal	\$ 390,000	\$ 346,710	88.90
Class D	INAPASA	\$ 151,200	\$ 148,000	
	Jesus Cogley	47,000	41,783	
	Punta Bucaro	110,963	99,512	
	Punta Rincon	<u>241,516</u>	<u>214,708</u>	
	Subtotal	\$ 550,679	\$ 504,003	91.50
	TOTAL	\$3,357,592	\$2,024,930	60.31

Handwritten signature

CHAPTER V

PROJECT URBE OBJECTIVES AND COFINA AGRO-INDUSTRIAL ACHIEVEMENTS:

Conclusions

Executive Summary

Project URBE was initiated with a \$10 million USAID loan on August 3, 1978 to finance a multisectoral integrated area development program in Panama's Western Region. The overall objective was to strengthen the economy of the regions served by two urban growth centers, David and Chitre-Los Santos by a combination of infrastructure and socioeconomic projects. The infrastructure projects included industrial parks (2), transportation terminals (2), sports and cultural facilities, and a housing program primarily for the benefit of middle-income households whose professional and technical skills were deemed essential to sustained economic growth.

The socioeconomic programs consisted of a small business loan fund to be administered by the Ministry of Commerce and Industry, and an agroindustrial credit program to be administered by COFINA. Both were intended to generate employment and expand the range of goods and services available in the Western Region. The COFINA program, in addition, was to stimulate the production of agricultural raw materials which could be processed for export to markets outside Panama. The COFINA agro-industrial credit program is the subject of this report.

1. Agro-industrial Program Goals and Guidelines.

The intention was to dispense \$3.2 million in USAID loan funds to finance approximately 22 projects at an average value of \$150,000. It was expected that direct employment stimulated by this investment would range from 120 to 640 jobs; an average investment of \$5,000 per employee was advised, with a ceiling of no more than \$10,000 to be permitted.

The agro-industrial enterprises would fulfill the overall project objective by providing employment which would retain residents within the region and reduce the flow of migrants to Panama City. Just as important, they would effect backward linkages to agriculture and implement the government Plan for Agro-Industrial Development, a product of MIDA's Agro-Industrial Directorate believed by project planners to have been completed in 1978.

Loans up to \$500,000 were to be provided to individual projects at 12.5% interest for a maximum project life of fifteen years. Projects were to be consistent with national policy and meet the viability criteria in COFINA's guidelines for the preparation of project studies (see Appendix K). Technical assistance with production and guidance with business management were to be provided by the staff members of MIDA and COFINA, respectively. Evidence of an adequate domestic or export market was required.

Agro-industrial projects were to choose raw materials for which production by smallholders can be expanded; they should not compete with existing industries with unused capacity. Enterprises to be funded by COFINA should not be eligible for commercial loans. However, promoters should have adequate business experience and acceptable credit ratings.

An additional fund of \$190,000 was provided for special technical assistance. COFINA was to receive \$70,000 for loan promotion while MIDA obtained the balance, \$120,000 for a series of special studies of particular agro-industries which might be developed during the life of the project: meats, vegetable oil, cheese-making and other milk products, industrial use of sugar derivatives, and animal feeds.

At the beginning of the project period, it was believed that COFINA had already identified a portfolio of prospective applicants for funding whose projects had a value of \$6.3 million (see Table 1). Therefore, the project design assumes that selectivity among an oversupply of prospective enterprises is necessary. The criteria for exclusion have been reviewed in the foregoing paragraphs.

COFINA, the administrative agency, was established in 1975, and experienced a steady pattern of growth in annual loan commitments through 1981 (see p. 7). This growth was reflected in the establishment of regional offices (David, Colon, Chitre-Los Santos) and the growth of personnel (Table 3). The capital intensive nature of COFINA's investment pattern is indicated by the substantial costs per job generated (\$54,000 is the average figure in Table 6).

COFINA's predilection for showpiece projects capable of attracting international publicity was well known during the 1970's. These included the Hotel Marriott, the development of Contadora and the trans-isthmian pipeline. Failure of several enterprises on this scale have resulted in heavy losses. Critics observed that focusing on these showpieces diverted solid work and concentrated

effort from smaller agro-industrial projects such as those to be financed by Project URBE.

Like other government agencies, COFINA has suffered from rapid and massive personnel turnover. The problem appears to have been worse in COFINA than in other agencies and may be a reflection of its diminishing stature within the government. We noted (p. 14) that none of the persons identified as regional office staff in the 1981 Annual Report were in these positions when we visited them in February-March, 1983!

These ominous portents signify the problems which were encountered by the agro-industrial credit program financed by URBE. On April 11, 1983, with six weeks remaining before the project termination date, COFINA placed a news story in La Prensa (a Panama City newspaper) announcing that it was still in possession of \$1.8 million of URBE funds for agro-industrial lending and warning that funds would be lost unless committed before May 31, 1983 (Table 5)! Promoters of suitable projects were encouraged to contact COFINA immediately.

In view of its laggard performance, USAID/Panama was deeply involved in a review of this component when the evaluation team began its inquiry in January. USAID's interest was also motivated by the need to satisfy recommendations concerning COFINA included in the Audit Report submitted by the Regional Inspector General on March 19, 1982. Much the background data used in this report was developed by USAID and MIPPE personnel in connection with the Audit Report. On the other hand, most of the field data and original research contributed by the evaluation team found its way into the USAID reprogramming effort required to justify a one-year extension of the PACD of May 31.

2. Administrative Structure.

The overall coordination of the URBE Project was the responsibility of the Ministry of Planning and Economic Policy. Its organization for this purpose is set forth in Table 7 (p. 16). Unfortunately, MIPPE interpreted its role as that of monitor rather than manager. A Liaison structure was set up with MIPPE personnel assigned to each participating government agency, including COFINA. However, they seem to have interpreted their function as gathering information to transmit to USAID for the preparation of its quarterly project reports.

One of the most serious failures in the implementation of the project design was the reluctance of MIPPE to utilize its position to negotiate among the

ministries to actually integrate the components in the sense envisioned by the project design. According to MIPPE personnel, the source of all failures experienced in Project URBE was the inability to conclude contracts for the \$1 million worth of technical assistance to be provided to all participants. However, the consultancies to be budgeted for COFINA-MIDA were not central to its role as lender and technical overseer. Both agencies were already experienced in the roles assigned to them.

The National Agro-Industrial Policy which was to guide COFINA's investments was a product of MIDA's Agro-Industrial Directorate. Technical assistance and participation in feasibility studies was to have been provided by MIDA's permanent staff. Business administration assistance, likewise, was to come from COFINA's permanent personnel resources.

MIPPE was negligent, moreover, even its reduced role as program monitor. The evaluation team was completely unable to obtain or rely upon data from this agency on many aspects of Project URBE, but most particularly with reference to the COFINA component. For example, Carlos Morales, MIPPE's project manager through 1982, prepared a final report from his own files on the state of the project in December, 1982, claiming that there were 19 COFINA loans financed and in operation representing an expenditure of \$2.5 million. The evaluation team discovered that in February, 1983, there were in fact 13 COFINA loans in operation valued at \$2.0 million. Morales and his staff were the resource upon which USAID was to rely for its information!

The shortfall experienced in the COFINA loan program was not the only failure in Project URBE. Neither the industrial parks nor the transport terminals were anywhere near completion during the first quarter of 1983. Only 20% of the housing program budget had been expended. USAID's administrators decided to revise their management role by partitioning the integrated area development design and distributing components among the appropriate divisions of the agency (see p. 18).

Neither MIPPE nor USAID adhered to the administrative role proposed for it in the project design. The most substantial loss resulting from the reorganization which occurred was the regional development concept itself. There have been no serious efforts exerted to coordinate the components of the URBE design to achieve mutual reinforcement and cross-project multiplier effects.

3. Information Sources for the Agro-Industry Evaluation.

The evaluation team undertook to review and provide an assessment of the achievements of COFINA-MIDA based on the following information sources: (1) project documents; (2) interviews with project personnel (USAID, MIPPE, COFINA and MIDA); (3) a field investigation of a selected set of COFINA-supported enterprises.

We assumed that complete project files would be available at both MIPPE and USAID for this purpose. Our disappointment with MIPPE was profound (see pp. 20-21) because of the presence of fulltime staff allegedly assigned to this activity. There were neither records, reports nor first-hand field observations available to us from this source.

Within USAID, the only trend data which presumed to follow the URBE Project components over time were contained in the Quarterly Reports. These proved to be not only inadequate but frequently inaccurate (see pp. 22-24). Neither the amounts of loan funds committed nor the number of projects approved was consistent from one quarter to the next in the COFINA sections of these reports (see notes abstracted on pp. 23-24 above).

We later learned that the source of these inaccuracies was COFINA. There was no attempt at consistency among the many lists of approved projects and the amounts expended on them from quarter to quarter in their official documents. Compare, for example, the three lists provided by COFINA in September and November, 1982 and February 1983 (Appendix I).

These inconsistencies came to our attention through perusal of the records assembled in the several Status Reports on Audit Recommendations (see Appendix A, B, C, and D). Further documentation (and additional variants) were introduced in the several reprogramming proposals prepared by MIPPE in February, 1982, March, 1983 and May, 1983 (Appendix C, G, and H).

However, while these inconsistent accounts of varying projects and amounts passed through the hands of both MIPPE and USAID officials for several years, they were never questioned by representatives of either agency. COFINA played the same game with its lists of projects "under active consideration", presented to MIPPE and USAID as "evidence" of its intent and capability to dispose of remaining project funds in short order. Each successive list, beginning with September, 1982 (Appendix B) and continuing with January, 1983 (Appendix D, Attachment #7) and March, 1983 (Appendix G) and May, 1983 (Appendix H) reports

different enterprises and different amounts. Occasionally, time schedules are attached indicating proposed dates of approval. Neither dates, nor names nor amounts had any predictive value during the interval (January-June) over which the evaluation team maintained its surveillance.

USAID's awareness of the lack of validity in these COFINA declarations of intent are contained in several of the Reprogramming Documents prepared by the Mission's staff during the spring (see p. 29). Members of the evaluation team who met with USAID personnel during March-April sought to convince them that COFINA's performance record and the precarious status of many of the funded projects did not warrant continued financial support for additional agro-industries even if some of the "promised projects" could be realized. It was recommended, instead, that COFINA's uncommitted resources be reassigned to the Ministry of Commerce and Industry's small business loan program which, when compared with COFINA's efforts, was a magnificent achievement.

However, USAID staff decided to accept verbal assurances from COFINA management personnel that "all was well" and new loan commitments would be produced according to the latest schedule (Appendix H). On that slender evidence, no reprogramming was attempted and the PACD was merely extended for another year according to the terms of the Action Memorandum of May 30, 1983 (Appendix E). See also p. 30 above.

At this late date it is of primarily historical interest, but MIPPE documents from the first year of the project capture the flavor and substance of the multisectoral design, the individual (and interlocking) responsibilities of each agency, and the function of the Coordinating Committee (see p. 17, 32-34). To our knowledge, the Coordinating Committee has held two meetings during the life of the project. The first year report is attached (Appendix F).

Documents acquired from COFINA which proved to be useful were few in number (see pp. 36-38) but important, especially the Informes Ejecutivos on ten current projects (see Appendix M). Interviews with personnel from the various agencies involved with the COFINA project are described above (see pp. 38-40). The evaluation team's original data sources are discussed also (p. 40) but are presented in full in Chapter IV: Loan Performance.

The evaluation team was less than satisfied with the quality and quantity of documentary data available on COFINA's activities after five years of program operation. As noted in our conclusions (pp. 40-41), "There is no record of any one in authority taking note of the fact that COFINA failed to approve a new loan more recently than March, 1981." At least, this was true until the excitement was stirred up concerning the impending expiration date in the first quarter of 1983. And even then, no one drew attention to this specific point. Other data, conspicuous by its absence, is listed on p. 41.

4. COFINA's Performance as Loan Administrator.

The COFINA-MIDA joint responsibility for the agro-industrial loan program included (1) establishment of agro-industrial policy and priorities for specific industries; (2) establishment and conduct of application and review procedures; (3) provision of supervision and technical assistance to loan-supported enterprises.

A. Policy and Priorities.

The URBE Project designers assumed that a comprehensive national policy was in existence at the time the loan agreement was prepared (see quote, p. 43). But it was not. Neither were priorities determining choices among specific industries. The minutes of the inter-agency meeting of January 25, 1983 (see excerpts, p. 45, and Appendix D, Attachment #4 for complete text) convince the evaluation team that neither policy nor priorities are available at the present time. Although a working draft of the policy statement may have been prepared, we were not able to locate it.

With reference to studies of specific agro-industries which were to be prepared in connection with determining priorities, the picture is also murky. At the January 25 inter-agency meeting (Appendix D, Attachment #4), Eng. Guillen of MIDA's Agro-Industrial Directorate affirmed that IDIAP had completed approximately \$20,000 worth of research on specific industries (see p. 47): soya milk, maranon, and other fruit trees.

At the January meeting, despite the impending expiration date for the project, he proposed to program an additional \$105,300 for five specific projects and seminars, and an additional contract with IDIAP. No contracts have as yet been prepared for any of these studies to our knowledge, however. Furthermore, there are no copies in circulation of the research purported to have been completed by IDIAP.

Finally, the evaluation team fails to understand the purpose in providing contracts, at this late date, for the conduct of this research. The point of the activity was to provide guidance to COFINA in developing its loan program and to determine which pre-feasibility studies should be performed in order to recruit entrepreneurs into specific enterprises. If completed, these studies would have developed technical expertise within MIDA which might have been used for advising loan recipients.

Granted that a one-year extension has been provided for spending the URBE budget, contracting the MIDA studies is without purpose. They could not be completed in time for COFINA's use during this extension of the project period. Like the nebulous national agro-industrial policy, whatever the results, they must come under the heading of too little, too late.

B. COFINA's Application and Review Procedures.

Information on this subject was scant. COFINA keeps no record of the date on which a client files his application. Our scattered observations indicated that the range of time consumed between application and disbursement was seven months (Miel San Sebastian) to 26 months (Semillas Superiores). The Audit Report required COFINA to expedite the review process, perhaps in the belief that this was responsible for the failure of a new project to be activated since March, 1981.

The application form and guide for preparation of project studies employed by COFINA appear as Appendix J and K. They were not modified in the course of compliance with the Audit Report. However, COFINA offered a new time schedule for clearing the hurdles pertaining to loan approval (see Appendix B), claiming that only 96 days would be required. This document was presented on May 16, 1983. We have no information on its validity, however a number of promises were made concerning revised review procedures and reassignment of personnel to expedite the process (see p. 49). As noted on p. 50, however, the time frame offered by COFINA for its proposed review of new projects during coming months seems to require four to six months.

COFINA's application and review procedures also include promotion and information distribution throughout the Western Region to recruit prospective applicants. The January 25, 1983 inter-agency meeting contains a description of efforts initiated in December, 1982. A newspaper announcement of the same date appears as Appendix D, Attachment #6. As with policy and priorities, promotion seems

to have taken place at the end of the project rather than at the beginning. Extravagant claims were made for the success of this December promotion at the January 25 meeting and it was alleged to have produced 12 new applications. However, this euphoria had collapsed by the time the February 22 Status Report on the Audit Report was prepared; only four of the 12 were still considered as possibilities (Appendix D).

We note elsewhere (pp. 52-53) that \$70,000 was to be made available to COFINA to be used for promotion. This budget item appears to have been added to the MIDA research appropriation, where, like the bulk of the \$120,000 allocated for special studies, it remained unused.

C. Supervision and Technical Assistance.

Two consultants were retained beginning in May, 1981, for a number of purposes. Engineers David Ruiz and Augusto Rios were used in preparing project studies and in monitoring of those already funded, in addition they prepared drafts of documents for MIDA's National Agro-Industrial Plan. However, they failed to offer technical assistance to anyone, despite their competence (see pp. 50-51). Approximately \$70,000 was budgeted for their services, and this probably represents the transfer of funds originally intended for COFINA's promotional use.

Despite their involvement in feasibility studies, none of the projects on which they worked has ever been funded. The policy documents they prepared remain unfinished. The technical assistance they might have provided remains undelivered. To our knowledge, the technical assistance supposed to be provided by MIDA's regular staff failed to materialize; the same for advice on business administration to be offered by COFINA.

The activities performed by the persons retained for possible technical assistance services, like the policy, priorities, special studies, and promotion activities described in this section, were in reverse order. The consultants, Ruiz and Rios, were retained after the date of the last approved loan (March, 1981). While their work appears to have been of high quality it failed to address either (1) the need to get more applications into the pipeline, or (2) the need to provide support to failing enterprises (see Chapter IV).

5. Performance of Loan Supported Agro-Industries.

The data on project performance comes from two sources: a set of information forms prepared by COFINA on 13 active projects (See Appendix L), and our field inquiries conducted from February 9 to March 4. Our first set of

conclusions concerning these 13 enterprises is presented in Tables 8-11, based on the information sheets and summarized on p. 85:

1. No COFINA project presently in operation was approved more recently than March 16, 1981 (Table 8).
2. The total funding advanced to these clients averaged \$258,256. But the URBE portion of these loans averaged only \$155,764, or 60% of the total (Table 8),
3. The average amount of delinquency (morosidad) on the thirteen projects is \$66,857 (Table 9). Four of the projects are inoperative and in process of repossession.
4. The average number of employees generated per operative project is 20.5. This falls within the target range of 15-30 per enterprise.

However, the investment per job is \$14,220---well above the proposed ceiling of \$10,000 invested per job. Nonetheless, this is a substantial improvement over COFINA's previous level of investment: \$54,000 per job produced (Tables 6, 10).

5. Despite substantial intervention by USAID personnel, the level of reimbursement requested by COFINA had failed to improve substantially. In September, 1982, the total reimbursed to COFINA stood at \$1,225,074 (see Appendix A). By May 16, 1983, COFINA had requested reimbursement of \$1,345,355 (see Table 11).

The review of enterprises which resulted from field visits, interviews with COFINA personnel, and perusal of executive reports (Appendix M) was the most productive part of the evaluation. The descriptive data resulting from this review is presented in detail on pp. 65-85 and it must be read in the form presented. A few summary observations can be offered on the entire set of studies, however.

The URBE projects have good geographical distribution. Six of the 13 are in Chiriqui ; 7 are divided between Los Santos, Cocle, Herrera and Veraguas. They are located at sites which are frequently a considerable distance from either growth centers or service centers, however. They are asymmetrically concentrated in several industries: honey production for export (4 loans), shrimp farming (2 loans); neither of these demonstrate strong backward linkages to agriculture. Others comply with this requirement (see Table 8).

The wretched repayment record of funded projects (Table 9) supports COFINA's judgement that four of them (Nos. 1, 8, 12 and 13) should be foreclosed. It became apparent from further inquiry, however, that three more are being

considered for legal action (Nos. 3,5 and 6 in Table 9). If and when this action is completed, 7 of the 13 "active" projects will be eliminated from the list.

At the other extreme, three of the larger projects appear to be making distinguished records for profitability, repayment and production: COAGRO, Semillas Superiores and Apiarios Industriales. These industries are in need of nothing but favorable world economic conditions. Three others are in less secure status: Ernesto Berard, Sarigua and Frutales Panamenas. While technically sound and well managed, all three of these suffer substantial levels of unutilized capacity. This last group, according to our diagnosis, could be helped substantially by the special industry and market studies which were to have been performed by MIDA, but were not.

Below this group of six which is either safe or salvageable there are three unfortunate bee-keeping operations which are in moribund financial status, either unable to produce or to sell their products: Apiarios Guerra, Miel San Sebastian, and Hermanos Rudas. This group, according to our diagnosis could have been (and still might be) substantially benefitted by the kind of "hands on" technical assistance which MIDA and COFINA regular staff members were supposed to provide, but did not.

Finally, there are the four enterprises which have already passed into the hands of the law: Industrias Apicolas, Jesus Cogley, Punta Rincon and Punta Bucaro. These enterprises never became operative. Notes made by COFINA personnel indicate that they have no business experience and no financial or managerial skills. The same observations are made about several in the preceding group of moribund bee-keepers.

We are left with a searching question: Since these entrepreneurs inspire so little confidence in present COFINA personnel, how were their project studies ever approved? All seem to be obviously unqualified and to have never had much chance of success.

Our field studies and additional data have been organized in tabular form in Table 12. When data in Table 12 are compared with data in Table 8, a relationship emerges which is the point of our final observation: the better (Class A-B) projects appear to have lower proportions of URBE-USAID funding in their loans. The converse is also true. The poorer (Class C-D) projects appear to

have larger proportions of URBE participation in their total loans. This relationship was tested in Table 13 with surprising results: In the Class A-B group, only 48.5% of the funding comes from URBE; in the C-D group, 90.4% of the financing has been charged to the Project URBE account!

Finally, we noted that there appears to be a linkage between the large proportion of URBE funds in bad loans and the reimbursement issue. Loans in the C-D group have sometimes been mis-appropriated or used for purposes other than intended. It is not unexpected, then, that COFINA will have trouble producing valid claims for reimbursement for advances to this set of clients.

Conclusions: Objectives and Achievements

The objectives of the agro-industry program supported by Project URBE are capable of quick review: \$3.2 million was to be spent on credit advanced to 22 projects with an average value of \$150,000. They were expected to generate 320-640 jobs at a cost of \$5,000 to \$10,000 each, and to construct backward linkages to agriculture which would stimulate the production of raw materials.

At the end of the five year program period the record was as follows:

1. COFINA had loaned a total of \$3,357,592 for 13 projects.
2. Project URBE was charged with \$2,024,930 of this amount.
3. COFINA had claimed \$1,586,376 in reimbursement requests.
4. USAID had paid \$1,345,355 of this amount.

The bottom line is the important line. Almost \$2 million of the original \$3.2 million remained unreimbursed at the expiration date of Project URBE. It remains to be seen how much of that sum can be validly expended during the 12-month extension granted to COFINA on May 31, 1983.

Only 225 jobs were produced at an average cost of \$14,220.

Backward linkages to agriculture were achieved in significant quantity by only four of the projects: COAGRO, Semillas Superiores, Ernesto Berard, and FRUPASA. The bee-keeping and shrimp projects don't meet this criterion, and there are no other survivors. Only one of these (COAGRO) is located in or near a growth or service center.

Some of the other directives presented in pp. 2-6 above deserve a final comment. Contrary to project design, a number of the entrepreneurs receiving support who now appear in Class C-D (Table 12) were inexperienced. It seems

unlikely that bee-keeping could have been part of the national agro-industrial plan or a very high priority; nonetheless, it was numerically the most important recipient of COFINA support. Clearly, the demonstration that a market exists for the product, required by the project paper, does not apply in this case. We also suggest that there is substantial unutilized capacity for honey production elsewhere in Panama and no need for COFINA to create further competition in this industry.

A number of the promoters who received COFINA loans and URBE funding were able to obtain credit from commercial sources or other agencies. Many had already done so at the time they applied to COFINA. Strict adherence to the project design would have rendered them ineligible. However, enforcement of this rule would have also eliminated some of the better projects.

A USAID official, associated with URBE since the project's inception, has repeated an important observation a number of times to the evaluation team: "Project URBE was intended to test a concept; it was not intended to accomplish substantial economic improvement in the Western Region". The concept may be interpreted either broadly or narrowly.

A broad interpretation would examine the role of COFINA's agro-industries in connection with other project components: transport terminals, industrial parks, housing projects and small business loans. It was suggested on pp. 15-17 above how they all might have been integrated and mutually reinforcing elements in a comprehensive development design.

The test of this concept produced unqualified negative results. The other components, or many of them, remained only in the planning stage or were just begun at the end of the five-year period. Furthermore, neither the Coordinating Committee nor MIPPE nor the USAID Project Team survived the experience in tact. During the final year of the project, MIPPE's authority to control technical assistance contracts was eroded and other ministries were permitted to prepare their own contracts independently. The Coordinating Committee, which only met two times, never became a significant entity. And USAID administrators divided the project components within the Mission.

A narrow interpretation of the concept would confine itself to the role played by COFINA in creating and implementing Panama's agro-industrial development policy. If keystone industries had been identified and successful examples of them established, then the COFINA agro-industry program might have established

itself in a leadership role for for the development of rural resources in the Western Region.

Because of the failure to complete either policy or priority studies, and to relate the choice of loan-supported enterprises to them, this opportunity remains unrealized at present. Yet, the significant achievements of several individual loan-supported enterprises should not be lightly dismissed. Both COAGRO and Semillas Superiores have already succeeded in positively influencing the improvement of agriculture in Panama. And both are COFINA projects supported with Project URBE funds.

If the balance of the URBE agro-industrial support which now remains available for reallocation until June, 1984, can be assigned to equally significant enterprises, the record of the project could still be creditable. In that case, the narrower concept might be said to have passed the test.