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

PANAMA

PROJECT PAPER

PRIVATE SECTOR EXPORT FINANCING

AID/LAC/P-323

Loan Number:525-W-057
Project Number:525-0261

UNCLASSIFIED

AGENCY FOR INTERNATIONAL DEVELOPMENT

PROJECT DATA SHEET

1. TRANSACTION CODE: A (A = Add, C = Change, D = Delete) — Amendment Number: ______

DOCUMENT CODE: 3

2. COUNTRY/ENTITY: PANAMA

3. PROJECT NUMBER: 525-0261

4. BUREAU/OFFICE: Latin America/Caribbean LAC 05

5. PROJECT TITLE (maximum 40 characters): Private Sector Export Financing

6. PROJECT ASSISTANCE COMPLETION DATE (PACD): MM 09 DD 30 YY 91

7. ESTIMATED DATE OF OBLIGATION (Under 'B.' below, enter 1, 2, 3, or 4)

A. Initial FY 86 — B. Quarter 4 — C. Final FY 89

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

A. FUNDING SOURCE	FIRST FY 86 B. FX	C. L/C	D. Total	LIFE OF PROJECT E. FX	F. L/C	G. Total
AID Appropriated Total						
(Grant)	(1,000)	( )	(1,000)	(1,300)	( )	(1,300)
(Loan)	(6,006)	( )	(6,006)	(18,000)	( )	(18,000)
Other U.S. 1.						
Other U.S. 2.						
Host Country		2,500	2,500		4,500	4,500
Other Donor(s)						
TOTALS	7,006	2,500	9,506	19,300	4,500	23,800

9. SCHEDULE OF AID FUNDING ($000)

A. APPROPRIATION	B. PRIMARY PURPOSE CODE	C. PRIMARY TECH. CODE 1. Grant	C. 2. Loan	D. OBLIGATIONS TO DATE 1. Grant	D. 2. Loan	E. AMOUNT APPROVED THIS ACTION 1. Grant	E. 2. Loan	F. LIFE OF PROJECT 1. Grant	F. 2. Loan
(1) SDA	730	811	811	-	-	1,000	2,688	1,300	18,000
(2) ARDN	730		150			-	3,318		
(3)									
(4)									
TOTALS						1,000	6,006	1,300	18,000

10. SECONDARY TECHNICAL CODES (maximum 6 codes of 3 positions each): 840 | 930

11. SECONDARY PURPOSE CODE: 734

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

A. Code	INTR						
B. Amount	19,300						

13. PROJECT PURPOSE (maximum 480 characters)

To generate increased export earnings by substantially increasing private investment in manufacturing and agribusiness industries for exportable goods. A private sector development finance institution will be established as a viable instrument for providing medium and long-term development financing, technical assistance and advisory services to the export sector.

14. SCHEDULED EVALUATIONS

Interim MM 11 YY 87 | MM 06 YY 88 — Final MM 03 YY 91

15. SOURCE/ORIGIN OF GOODS AND SERVICES

[X] 000 [X] 941 [X] Local [ ] Other (Specify) ______

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

Approval of methods of implementation/financing:

D E Larson

Denton Larson, Controller

17. APPROVED BY

Signature: Ronald D. L

Title: Ronald D. Levin, Director

Date Signed: MM 08 DD 25 YY 86

18. DATE DOCUMENT RECEIVED IN AID/W, OR FOR AID/W DOCUMENTS, DATE OF DISTRIBUTION: MM DD YY

AID 1330-4 (8-79)

PROJECT AUTHORIZATION

Name of Country:	Panama
Name of Project:	Private Sector Export Financing
Number of Project:	525-0261
Loan Number:	525-W-057

1. Pursuant to Sections 103 and 106 of the Foreign Assistance Act of 1961, as amended, I hereby authorize the Private Sector Export Financing Project for Panama involving planned obligations of not to exceed Eighteen Million United States Dollars (US$18,000,000) in loan funds ("Loan") and One Million Three Hundred Thousand United States Dollars (US$1,300,000) in grant funds ("Grant") over a five (5) year period from date of authorization, subject to the availability of funds in accordance with the A.I.D. OYB/allotment process, to help in financing foreign exchange costs for the project. The planned life of the Project is sixty months (60) from the date of initial obligation.

2. The Project ("Project") consists of assistance to establish a private sector development institution (Financiera de Exportaciones, S.A., "FIDESA") which will provide medium and long-term financing, technical assistance and advisory services to the export sector of Panama. It includes a mechanism by which FIDESA and A.I.D. will share the risk of the loan portfolio. This will serve to:

a. Give A.I.D. a return on its loan which will be variable but be at or near U.S. treasury borrowing rates for instruments of similar maturity at the time that the Project Agreement is signed. The interest rate of the A.I.D. loan will be five per cent (5%) and an additional return to A.I.D. would depend upon FIDESA's financial performance.

b. Strengthen FIDESA and make it a more viable institution.

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

a. Interest Rate, Terms of Repayment and Windfall Payment to A.I.D.

(1) FIDESA shall repay the Loan to A.I.D. in U.S. Dollars within twenty (20) years from the date of first disbursement of the Loan, including a grace period of not to exceed ten (10) years. The Borrower shall pay to A.I.D. in U.S. Dollars interest from the date of first disbursement of the Loan at the rate of five (5) percent per annum on the outstanding disbursed balance of the Loan and on any due and unpaid interest accrued thereon.

(2) A mechanism will be established whereby A.I.D. and FIDESA share in the risk of the loans that are made. Depending upon FIDESA's yearly performance, A.I.D. could receive, in addition to interest payments, an additional windfall payment from FIDESA at the end of every year.

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

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

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

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

d. Conditions Precedent to Signing of the Project Agreement

Prior to signing the Project Agreement, FIDESA shall, except as A.I.D. may otherwise agree in writing, furnish to A.I.D., in form and substance satisfactory to A.I.D., evidence that:

(1) FIDESA is duly organized and incorporated under the laws of Panama.

(2) Capital has been subscribed to FIDESA in the amount of Four Million Five Hundred Thousand United States Dollars (US$4,500,000), and the first year capital in an amount acceptable to A.I.D. has been paid-in.

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

Prior to the first disbursement of the Assistance, or to the issuance by A.I.D. of documentation pursuant to which disbursement may be made, FIDESA will, except as A.I.D. may otherwise agree in writing, furnish to A.I.D., in form and substance satisfactory to A.I.D., the following:

(1) The names of its shareholders and the number of shares owned by each shareholder.

(2) A statement of FIDESA's procurement policy and procedures.

(3) Evidence that the Borrower can legally operate under the Laws of Panama as an intermediate finance institution.

f. Conditions Precedent to the Disbursement for Lending Activities (Loan)

Prior to the disbursement under the Loan, or to the issuance by A.I.D. of commitment documents under the Project Agreement pursuant to which disbursement may be made under the Loan, FIDESA will, except as A.I.D. may otherwise agree in writing, furnish to A.I.D., in form and substance satisfactory to A.I.D., the following:

(1) Evidence of FIDESA's Charter or Articles of Incorporation, By-Laws, the establishment of its Principal Office, and a statement of the organizational structure and staff including evidence that the Managing Director is employed and that FIDESA has employed adequate staff to carry out its operations.

(2) A Statement of Investment and Operational Policies of FIDESA, including specific lending and investment criteria, and the methodology for performing economic and financial analyses consistent with the terms and conditions contained in the Project Paper.

(3) A duly authorized detailed plan for (1) the periodic audit of sub-loans and investments and (2) a projected two-year operating strategy and budget for direct lending investments and/or other financial services.

(4) Evidence that an appropriate amount of the first year paid-in capital has been earmarked for administrative and operating expenses and the remaining amount has been utilized for investment purposes.

(5) Evidence that adequate procurement, payment verification and accounting procedures have been established.

(6) Evidence that no institutional investor owns more than twenty percent (20%) of total shares and that no individual investor owns more than one percent (1%) of total shares of FIDESA. A minimum of ten (10) percent of subscribed capital shares will be subscribed to by individual investors.

g. Conditions Precedent to Additional Disbursements for Lending Activities (Loan).

Prior to any additional disbursements under the Loan, or the issuance of commitment documents under the Project Agreement to which disbursement may be made in excess of U.S. $2.5 Million, $7.0 Million and $11.5 Million, FIDESA will, except as A.I.D. may otherwise agree in writing, furnish to A.I.D., in form and substance satisfactory to A.I.D.

(1) In Excess of $2.5 Million

(a) Evidence that U.S. $3.5 Million of the subscribed capital of FIDESA has been paid in and utilized for the purposes of the Project.

(b) Evidence that the unencumbered liquid assets of FIDESA have not exceeded U.S. $1.0 Million for any period exceeding 12 months.

(2) In Excess of $7.0 Million

(a) Evidence that U.S. $4.0 Million of the subscribed capital of FIDESA has been paid in and utilized for the purposes of the Project.

(b) Evidence that the unencumbered liquid assets of FIDESA have not exceeded U.S. $1.5 Million for any period exceeding 12 months.

(3) In Excess of $11.5 Million

(a) Evidence that U.S. $4.5 Million of the subscribed capital of FIDESA has been paid in and utilized for the purposes of the Project.

(b) Evidence that the unencumbered liquid assets of FIDESA have not exceeded U.S. $2.0 Million for any period exceeding 12 months.

g. Covenants

FIDESA shall covenant that, unless A.I.D. otherwise agrees in writing:

(1) It will not use Loan funds to pay administrative or operating expenses.

(2) It will not incur any indebtedness which would enjoy a position superior to the obligation incurred under the Loan.

(3) It will use Project reflow of funds in a manner which will achieve and promote the objectives of the Project.

(4) It will not lend to Government owned or operated enterprises or enterprises in which the Government has a participation.

(5) The Contract Advisor to the Managing Director of FISESA shall be a nonvoting member of the Board of Directors of FIDESA.

(6) It will obtain prior written USAID approval of the person selected to fill the Managing Director's position and any changes made in this position.

In addition, such other terms and conditions as A.I.D. may deem appropriate will be contained in the Project Agreement.

Ronald D. Levin
Director

Aug. 25, 1980
Date

(AMENDMENT No. 1)

Name of Country:	Panama
Name of Project:	Private Sector Export Financing
Number of Project:	525-0261
Loan Number:	525-W-057

1. Pursuant to Sections 103 and 106 of the Foreign Assistance Act of 1961, as amended, the Private Sector Export Financing Project for Panama was authorized on August 25, 1986 (the "Authorization"). The Authorization is hereby amended by deleting Section 3.g of the text in its entirety and substituting in lieu thereof the following:

g. Conditions Precedent to Additional Disbursements for Lending Activities (Loan). Prior to any additional disbursements under the Loan, or the issuance of commitment documents under the Project Agreement to which disbursement may be made in excess of U.S.$6.0 Million, $11.2 Million and $16.0 Million, FIDESA will, except as A.I.D. may otherwise agree in writing, furnish to A.I.D., in form and substance satisfactory to A.I.D.

(a) In Excess of $6.0 Million

(1) Evidence that U.S.$2.8 Million of the subscribed capital of FIDESA has been paid in and utilized for the purposes of the Project.

(2) Evidence that the unencumbered liquid assets of FIDESA have not exceeded U.S.$1.0 Million for any period exceeding 12 months.

(b) In Excess of $11.2 Million

(1) Evidence that U.S.$4.0 Million of the subscribed capital of FIDESA has been paid in and utilized for the purposes of the Project.

(2) Evidence that the unencumbered liquid assets of FIDESA have not exceeded U.S.$1.5 Million for any period exceeding 12 months.

(c) In Excess of $16.0 Million

(1) Evidence that U.S.$4.5 Million of the subscribed capital of FIDESA has been paid in and utilized for the purposes of the Project.

(2) Evidence that the unencumbered liquid assets of FIDESA have not exceeded U.S.$2.0 Million for any period exceeding 12 months.

2. Except as expressly modified or amended hereby, the Authorization remains in full force and effect.

Ronald D. Levin
Director

8/27/86
Date

6

INDEX

9

ANNEXES

I. DAEC Guidance/Approval Cable
II. Logical Framework
III. Statutory Checklist
IV. Borrowers Letter of Application
V. Environmental Threshold Decision
VI. First Year Implementation Plan
VII. Project Analyses
    A. Market Analysis/Economic Analysis
    B. Institutional Analysis
    C. Financial Analysis
VIII. Legal Opinion Regarding Incorporation
IX. LAAD Letter of Intent
X.* Financial Statement of the Major Shareholders
XI. The Banking System and other Sources of Funds
XII.* Resumes of the Key Organizers
XIII. Long-Term Technical Assistance
XIV. Training Plan
XV.* Letter of principles from the organizing group.
XVI. Reserve for Extraordinary Bad Debt
(This Annex is classified and is filed in the safe in the Director's Office)

*Annex is available in AID/Washington, LAC/DR, general (bulk) files and in USAID/Panama.

ABBREVIATIONS/ACRONYMS

A.I.D.	Agency for International Development
AID/W	Agency for International Development/Washington, D.C.
BANCOMER	Banco Comercial de Panamá
BDA	Banco de Desarrollo Agropecuario
BLADEX	Banco Latinoamericano de Exportaciones
BNP	Banco Nacional de Panamá
COFINA	Corporación Financiera Nacional
CP	Condition Precedent
DFI	Development Finance Institution
DISA	Desarrollo Industrial, S.A.
EOPS	End of Project Status
EXIMBANK	Export-Import Bank of Washington, D.C.
FAA	Foreign Assistance Act
FIDESA	Financiera De Exportaciones S.A.
GOP	Government of Panama
HB	Handbook
IBRD	International Bank for Reconstruction and Development
ICI	Intermediate Credit Institution
ICP	Investment Council of Panama Project
IDB	Inter-American Development Bank
IFC	International Finance Corporation
IMF	International Monetary Fund
INDESA	Investigación y Desarrollo, S.A.
IPCE	Panamanian Institute for Foreign Trade
IQC	Indefinite Quantity Contract
LAAD	Latin American Agribusiness Development Corporation
LAC/DR	Bureau of Latin American and the Caribbean, Development Resources
LDC	Lesser Developed Country
NBCCA	National Bipartisan Commission on Central America
PACD	Project Assistance Completion Date
PDPI	Product Development and Productivity Improvement Project
PID	Project Identification Document
PP	Project Paper
PPC	Bureau for Program and Policy Coordination
PRE	Bureau for Private Enterprise
U.S.	United States
USAID	United States Agency for International Development/Panama

I. SUMMARY AND RECOMMENDATIONS

A. Recommendations

The Senior Project Review Committee of USAID/Panama recommends the authorization of a US$18 million loan over a five year period and a US$1.3 million grant to the Financiera De Exportaciones, S.A. (FIDESA), a private export development financial institution in Panama.

B. Project Summary

Panama is experiencing serious economic problems. In the last few years, the growth of the economy has slowed considerably. External per capita public debt is one of the highest in the world. Unemployment is high and growing. The GOP is under great pressure to meet current expenditures. In the last decade, the growth of the public and service sectors, import substitution and foreign borrowing fueled the growth of the economy. This is no longer feasible. The domestic market offers little or no prospects for economic growth. This conclusion is implicit in the conditions outlined in the SAL II (Structural Adjustment Loan) Agreement with the International Bank for Reconstruction and Development (IBRD) which call for the reactivation of the private, industrial and agricultural sectors through deregulation of market activities and increased reliance upon free market forces in both domestic and world markets. Significant growth can occur only through the expansion of exports.

Success in export expansion, however, will require a number of structural adjustments and incentives. A major and necessary incentive is the availability of medium and long-term developmental credit. Panamanian investors currently do not have access to such credit. In the absence of any developmental finance agency, commercial banks are the only sources of finance available to the business community. While they occasionally provide longer term credit to good customers of long standing on commercial terms, they do not meet the needs of an expanding export oriented industrial sector which will require long term project-based financing. This project will satisfy that need.

The goal of the project is to increase economic growth and reduce unemployment. The purpose of the project is to generate increased exports by substantially increasing private investment in manufacturing and agribusiness industries for exportable goods. For this purpose, a private sector development finance institution will be established as a viable instrument for providing medium and long-term development financing, equity participation, technical assistance and advisory services to the export sector.

It is anticipated that FIDESA will have an outstanding loan portfolio of about US$23.8 million in year 5 and US$25.4 million in year 10 of its operation. It will have generated an estimated total of 85 individual loans by year 5 and 188 by year 10 representing total investments of about US$48 million and US$107 million in those years respectively.

The project will provide approximately 84 person-months of specialized technical assistance to ensure that appropriate banking services are provided in a timely fashion. To enhance the long-term capacity of FIDESA to provide adequate services, the project will provide approximately 20 person-months of specialized training in the area of project appraisal.

The Borrower/Grantee will be Financiera De Exportaciones, S.A. (FIDESA), a privately-owned development finance institution. Its core investors include some of the most important Panamanian private financial institutions, some of the country's prominent industrialists and members of the general public.

FIDESA is characterized by a broadly based equity structure. No institutional shareholder shall possess more than 20 percent and no individual more than 1 percent of the authorized common stock.

The capital of FIDESA will be US$4.5 million.

C. Project Issues

The issues presented in the PID Guidance/Approval Cable (Annex I) are addressed in various sections of the Project Paper. References to those sections are provided below.

1. Sensitivity Analysis. This is discussed in Section VI C. "Summary of the Financial Analysis". Also refer to State cable 32504 (1985) which reflects the discussions of the meeting of October 17, 1985, in the Administrator's office and the decision regarding the A.I.D. rate of interest and State cable 111803 (1986) which further clarifies the A.I.D. interest rate (Annex I.C).

2. Alternative to the Creation of a New Institution. This is discussed in Section III.D. "Project Alternatives".

3. Financial Viability and Mobilization of Additional Capital and Lending Resources. These are discussed in Section VI.C. "Summary of the Financial Analysis", and Section III E.6 (Growth Potential/Resource Mobilization).

4. Lending Environment and Demand for Project Funds. These are discussed in Section III.B. "Demand", and Section VI.A. "Summary of the Market Analysis".

5. Bank Ownership. This is discussed in Section III.E.2. "Ownership" and Section IV C.3. "Stockholders".

6. Sub-Lending Criteria. This is discussed in Section IV.D.2. "Lending Criteria"

7. Borrower 1st Year Capital Contribution to Be Paid in Prior to the Signing of an Agreement. This is discussed in Section VI.C. "Summary of the Financial Analysis", and Section VIII. "Conditions, Covenants and Negotiating Status".

8. Multipurpose Nature of the Institution. The fact that FIDESA will make loans to manufacturing and agribusiness projects does not make it a multipurpose institution. Appraisal of projects would follow the same norm. The technical assistance component of the project provides for the expertise to complement the staff of FIDESA (See Section IV.C.4. "Organization and Management").

9. Employment. This is discussed in Section VI.D. "Summary of Economic Analysis".

10. Detailed First Year Implementation Plan. This is presented in Annex VI.

D. Summary Findings

The Project Review Committee of USAID/Panama has reviewed all aspects of the proposed Private Sector Export Financing Project and finds that it is technically, financially, socially, economically and institutionally sound and feasible. The project also meets all other statutory criteria.

E. Project Development Group

1. USAID/Panama Project Team
Frank S. Skowronski, OPSD
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2. USAID/Panama Project Review Committee
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6. Commercial Banking Specialist
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II. BACKGROUND

A. Economic Setting

During the 1960s, Panama's GDP grew at an average annual rate of 8 percent in real terms; one of the highest rates of sustained economic growth of any country. However, the benefits of economic growth were concentrated in a relatively small segment of the population, and the social and economic infrastructure outside the metropolitan corridor remained at a relatively low level of development.

The administration which came into power in 1968 introduced major social reforms while attempting to sustain the rapid GDP growth experienced during the 1960s. Health and educational services were expanded and improved, roads were built and other physical infrastructure investments were made by state entities providing electricity, telephone service, and water. Private investment was encouraged, especially in the construction and service sectors. This investment was linked to an international transportation system based on the locational advantages provided by the Panama Canal. Legislation passed in 1970 paved the way for Panama's emergence as a major international banking center. Tourism was promoted through construction of a new airport and other infrastructure; and service exports were increased through rapid expansion of an international free trade zone and the growth of international reinsurance activities. Between 1968 and 1973, the GDP grew at an annual rate of 7.3 percent and basic needs indicators began to show significant improvements.

After 1973, however, a combination of external events and internal policy changes began to call into question the long-run sustainability of this pattern of growth. Sharply rising world petroleum prices, international inflation and recession, and the Panama Canal Treaty negotiations introduced greater risk and uncertainty into economic decision-making. As a consequence of the stagnant world economy, Canal and related activities became less dynamic. Domestic actions, reducing private sector confidence, included the effects of increased government regulation, particularly the imposition of a highly restrictive labor code and price and rent controls. The government's acquisition or creation of a number of state enterprises, a rapid increase in public sector employment and overall policy statements perceived to be anti-private enterprise added to the erosion of confidence. These internal and external factors contributed to the reduction of the annual rate of GDP growth to an average of 1.9 percent in the period 1973 through 1977.

The domestic political environment improved significantly after agreement was reached in 1977 on the terms of the Canal treaties; and it was further strengthened after the treaties were ratified. In addition, the government took steps to improve public finances by restricting current and capital expenditures, raising taxes, and halting the creation of new state enterprises. Under stabilization programs supported by the IMF, the budget deficit was reduced from 12 percent of the GDP in 1979 to 5 percent in 1980 and 1981. GDP increased by an annual average rate of 5.5 percent in the period 1977-81 but as a consequence of increased factor payments abroad and a negative terms of trade effect, national income per capita declined.

By 1982, Panama was feeling the impact of the world recession, particularly through declining tourism and Colon Free Zone activity resulting from sharp cutbacks in the income and trade of other Latin American countries. Real private investment fell after completion of the transisthmian oil pipeline in 1982. Political pressures brought about increases in public investment, much of it financed through additional external borrowing. This pushed the public sector deficit up to 11 percent of the GDP, nearly twice the amount stipulated under the GOP's stand-by arrangement with the IMF. This expansionary fiscal policy enabled the GDP to grow by 5.5 percent in 1982, offsetting the domestic effects of world recession. Strict austerity measures, combined with a still sluggish international economy, resulted in a stagnant GDP in 1983. If the value added by the transisthmian oil pipeline is excluded, GDP would have declined by over 5 percent. In 1984, GDP declined by 0.4 percent, while in 1985, GDP increased by 3.3 percent, mostly as the result of a resurgence of private sector activity, notably housing construction and higher sales at the Colon Free Zone.

Panama now faces two main economic problems. First, the external public debt is around 85 percent of GDP, and two-thirds of it is held by commercial banks. In late 1984, Panama, for the first time in its history, had to declare a moratorium on its external debt. Although an agreement was reached in the fall of 1985 with the creditor banks on the terms of a restructuring of the public debt, a number of the conditions for disbursing "fresh" money have not been met. The liquidity crisis of the government is having repercussions throughout the economy, directly because of its impact on the Banco Nacional de Panama, and indirectly, by the creation of uncertainties on the operations of foreign commercial banks.

Second, Panama faces a growing unemployment problem. Although unemployment remained stable in the 1970s and early 1980s, this was the result of an increase in secondary and higher education enrollments, lower retirement ages and increases in government employment levels (almost three fourths of new jobs created in the period were in the public sector). At this time, with those three possibilities exhausted, unemployment will increase rapidly unless there is a sharp resurgence in private sector economic activity, particularly for the production of labor intensive goods.

During the 1970s and early 1980s, the only dynamic private activity was in the service sector, including banking, the Colon Free Zone, Canal activities, oil transportation through the transisthmian pipeline, and the construction associated with those activities. Although the service sector will continue to dominate economic activity in Panama, it is not likely to have the same dynamism as in the past. Colon Free Zone activity depends almost exclusively on Latin America's growth of imports which will be low for the foreseeable future. The banking activity, overwhelmingly offshore, now has stiff competition from offshore banking centers in the United States. Canal and pipeline activities are close to their maximum output levels.

B. New Development Strategy

Around 1982, a group of senior GOP officials, mostly associated with the Ministry of Planning, began to seriously question the viability of long-term growth based largely on governmental spending and on service exports. The ability of the GOP to finance budget deficits was severely constrained because of the level of the public debt, as well as of the debt crisis in Latin America, while the traditional service exports had matured to an extent which made continued growth unlikely.

Export expansion of the goods sectors is now vital. World Bank macroeconomic projections show that continued reliance on the service sector alone will not generate sufficient growth to permit significant increases in real per capita consumption or to absorb the rising labor force, even under favorable international conditions. This requires a complete reversal of the current structure of incentives. The bias towards import substituting activities for a small protected market must be reversed, and exporting must be made at least as profitable as production for the domestic market. This can most easily be accomplished by a general opening of the economy to international competition, thereby permitting entrepreneurs to obtain raw materials and intermediate goods at close to international prices. Experience elsewhere, particularly in small economies with a powerful entrepot tradition to build upon, indicates that opening the economy is the best way to break out of the vicious circle of high cost and stagnation.

Given the market prospects for traditional exports, a significant proportion of export expansion must come from non-traditional exports. Non-traditional merchandise exports (defined as those exports which receive the Certificados de Abono Tributario, CATS), increased rapidly from US$10.3 million in 1973 to US$53.5 million in 1982, declining then to US$33.9 million in 1983, and increasing to US$44.9 million in 1984. From 1984 to 1985, exports of non-traditional products grew by 16 percent to US$52.2 million. The composition of non-traditional exports in 1985 was as follows: food, beverages and tobacco US$18.4 million (35.2 percent); textiles and leather US$19.2 million (36.8 percent); chemicals US$10.1 million (19.3 percent); metallic industry US$1.9 million (3.6 percent); and others US$2.6 million (5.0 percent).

Relatively modest changes in dollar volume will have a substantial impact on the absolute foreign exchange income and in the rate of growth for the export sector.

To become a successful export-oriented economy, however, it is not enough to restructure incentives. All the inefficiencies and sources of high cost which pervade the economy must be addressed, if the goods sectors are to compete internationally. The experience of successful exporters shows that cheap, reliable, basic public services, such as electricity, water and telecommunications, are a cornerstone of development strategy. In Panama, their cost must be brought down. Since this cannot be done by direct subsidies, due to fiscal constraints, it must be tackled through reducing the operating costs of the entities concerned. Similarly, the cost of export related services such as the ports and land transportation needs to be reduced. This can be achieved through improvements in infrastructure and equipment, increasing operating efficiency through concessions to the private sector under competitive conditions, and through institutional reforms aimed at ending restrictive practices which pass high costs onto the user.

Examples abound of the Panamanian economy having to pay very high prices for staple goods which inevitably add to upward cost pressures. Cement is produced domestically at over twice world costs and sold to the consumer at three times world prices. Farmers pay a high price for fertilizers and chemical pest controls. The ex-refinery price of most petroleum products is about a third above the other refineries in the Caribbean area. The high cost and inefficient agricultural and agroindustrial sectors, subsidized through a high support price policy, lead to upward pressure on urban wages, reinforcing labor market rigidities and high social security charges. Local industry, protected from outside competition, sells most of its products at prices well in excess of world levels. Ultimately, these costs can only be brought down through exposing the sectors concerned to international competition and substantially improving the productivity of Panamanian firms. Clearly this needs to be done gradually to minimize the disruptive impact on employment; however, it must be done if the economy is to become competitive. Panama can no longer afford the luxury of subsidizing these activities.

A change in the structure of incentives will result in a high demand for investment funds, both to increase the efficiency of existing industries and to fund new enterprises. If enough funds are not available, economic liberalization will fail, and Panama will not emerge from its present economic crisis.

To date, there have been some positive changes. A new Industrial Law has been enacted which gives strong incentives to those companies that export. There have been revisions to the Labor Code that are beneficial to small businesses as well as those companies involved in assembly-type operations. In addition, there have been reductions in port as well as transport charges. All of the above have contributed to make Panamanian products more competitive on the world market and to attract new industry into the country.

C. The Financial System

1. Commercial Banking

The Panamanian financial system is highly integrated with international financial markets. The U.S. dollar is the effective medium of exchange. As there are no capital controls, there is almost perfect capital mobility. In 1970, the passage of liberal banking legislation paved the way for Panama's emergence as an important offshore banking center. Today, there are 110 banks established in Panama, of which 70 offer full banking services to both domestic and foreign markets and 40 deal only with offshore operations. There are 15 representative offices as well. However, an estimated 95 percent of all domestic banking operations are carried out by eight banks.

Panama derives important benefits from its role as an international banking center. The direct benefits include employment creation, tax revenues, and expenditures in the local economy. Additionally, Panama, in the past, has been able to tap the international capital markets through the banking system to supplement domestic savings, and these external resources have been used to finance the public and private sector.

The ability of Panama to supplement its domestic savings by tapping the international capital markets is diminishing for two reasons. First, international bank lending to the public sector has been seriously curtailed. In the period 1983 to 1985, net disbursements by the commercial banks have been close to zero. Second, the fiscal crisis is also affecting the willingness of commercial banks to increase their exposure to the private sector in Panama. Although this is a recent occurrence, and is not yet confirmed by available data, foreign bankers in Panama confirm that they are attempting to match their Panamanian assets with Panamanian liabilities. This would involve attempts to increase their liabilities and to decrease their assets. As banks are "locked in" with the public sector, the reduction in assets will have to come from a reduction in loans outstanding to the private sector.

2. Development Banking

In Panama, there are four institutions which were established to provide medium- and long-term lending. These are:

a. Two units within the Banco Nacional de Panama (BNP); 1) the Banca Industrial, which finances small and medium size industries, using mostly resources provided by the Inter-American Development Bank (IDB), and 2) the Banca Agropecuaria which provides short-, medium- and long-term resources to agriculture.

b. DISA, a private industrial credit institution which received financial support from USAID and from the U.S. Export-Import Bank. DISA's development lending has been seriously curtailed because of a provision in its charter which sets a maximum loan interest rate of 9 percent. When DISA became operational in the mid 1960's the 9 percent interest rate was appropriate. However, as interest rates increased in the 1970's, lending at this level became unprofitable. Presently, DISA has reorganized itself into a holding company and has announced that it is withdrawing from development lending.

c. The Banco de Desarrollo Agropecuario (BDA), a government bank, lends to small and medium sized farmers primarily for agricultural production. Its resources come mainly from the GOP and from the Inter-American Development Bank. Recent recommendations by Privatization consultants call for absorption of its functions by BNP.

d. A fourth development bank, the Corporación Financiera Nacional (COFINA), also a government bank, was founded in 1975 and, for all practical purposes, ceased its operations in 1985. COFINA made numerous bad loans, and became decapitalized. Most of its loan portfolio now has been taken over by BNP.

Although Panama has a sophisticated financial system, it does not have adequate development banking institutions. The only institution that focusses on long-term lending to the manufacturing and industrial sectors is the BNP's Banca Industrial. However, it makes loans on a commercial basis rather than on project appraisal. Thus, there currently is no institution that makes real developmental loans to the manufacturing and industrial sectors in Panama. This includes the export sector; a sector that has been targeted for growth by the GOP.

A new Industrial Law has been passed which gives special incentives to those companies which export all or part of their product. The package includes a complete exoneration of income, export and sales taxes for an unlimited time period. With these incentives, a recent liberalization in the Labor Code and an overall reduction in protection to the domestic industries, the large majority of the new ventures in Panama are expected to be export-oriented. Making medium and long-term funding available to entrepreneurs who have viable projects but have had difficulty obtaining funding of this type will also stimulate the manufacturing sector and cause employment generation.

Thus, a prima facie case can be made for the need for medium and long-term lending in the export sector. The reason for this is twofold. First, there is no institution that does lending of this nature to export-oriented companies. Secondly, because of the new Industrial Incentives Law, there will be demand for the above-mentioned funds to finance plant and equipment costs.

Because of this anticipated demand, the Project Paper proposes to create an institution which will finance medium and long-term export development loans.

III. RATIONALE

A. Rationale Framework

This section raises sequentially, the critical concerns and considerations which had to be examined, to justify the need for this project, as well as its dimensions and its organizational, technical and financial configuration. The remaining sections under "Rationale" enlarge upon each of the critical concerns and considerations, and establish the prescriptive requirements of this project. The "Project Description" Section describes how the prescriptive requirements have been met in project design.

During the period 1982 - 1985, the GOP, representatives of the Panamanian private sector and USAID staff expressed concern that the absence of a functioning development finance institution (DFI) would severely impede the economic development of Panama. Inasmuch as such institutions are deemed essential to economic growth by practically all developing countries and by the major donor agencies, USAID concluded that the concerns be treated seriously. Investigations, inquiries, studies, and analyses were carried out sequentially to determine:

1. The availability of developmental credit in Panama. Developmental credit was defined as medium and long-term loans, made available to borrowers on the basis of the viability of the projects for which financing is sought.

2. The level and nature of demand for developmental credit.

3. The relationship of credit availability and credit demand to Panamanian economic policies and prospects.

Three conclusions emerged: (1) neither the banking system nor international agencies provided developmental credit to any significant degree; (2) there was convincing evidence of unsatisfied demand; and (3) developmental financing would make a major contribution to the success of new government policies which call for reorientation of Panamanian production from domestic to export markets, and for a reduction in protective tariffs.

In recognition of the potential importance of developmental finance to the growth and restructuring of the Panamanian economy, USAID concluded that it would support an appropriately designed development finance facility. A second series of inquiry, studies and analyses was undertaken to examine alternative mechanisms or institutional channels for provision of developmental credit.

Four possible alternatives were examined; the provision of specialized credit to the BNP, the funding of a rediscount facility, creation of a guarantee mechanism and the creation of a new specialized development institution. The first three proved to have serious drawbacks and were rejected as unsuitable for reasons outlined in Section III. D. The fourth, creation of a new development finance institution, was provisionally acceptable. It reflected a tried and tested formula widely used throughout the developing world.

However, USAID, aware of the unsatisfactory performance of previous developmental institutions in Panama, sought a project formulation which could reasonably be expected to operate successfully in the Panamanian environment.

A review of public financial development institutions which have and are operating in Panama showed that loans were being disbursed slowly and that there were inordinately long lead times between loan application and approval. For these reasons, the concept of this type of institution was discarded.

An analysis of private financial development institutions showed that they could make loans quickly to designated target groups while still maintaining prudent credit practices. For these reasons and in accordance with A.I.D. policy (see Section III.C.1.) USAID chose to support a privately owned financial institution.

Next, the desired characteristics of the new institution were defined and it was concluded that USAID's support would be predicated on the attainment of the following characteristics in the project design:

First, the juridical status of the organization must provide no impediment to its operation as a development lending institution, while providing appropriate legal protection to the stockholders and creditors. It may be incorporated under the banking or commercial statutes, depending upon the advantages or disadvantages of either option.

Second, ownership must be broadly based, and stockholders should include bankers, industrialists, and agro-industrialists.

Third, management of the highest available quality would be required, supplemented by external advisors and technicians of equal quality which will enable the institution to appraise development projects on their technical/financial merits.

Fourth, the services of the institution would be limited to project lending, equity participation, co-financing, and provision of permanent working capital to clients who have long-term project loans. Should the institution be formed under the banking laws, some commercial services (e.g. letters of credit and the issuance of the guarantees) could be provided to project borrowers.

Fifth, the institution would have to be sufficiently profitable to attract private investors, to insure its ability to mobilize new capital and to maintain a desirable growth pattern.

Sixth, operations of the institution must conform to standards and procedures which are acceptable to USAID and are pre-established in appropriate agreements and covenants.

Seventh, the financial resources mobilized would be commensurate with profitability and growth requirements and to the risks inherent in developmental lending.

B. Demand

The existence of demand for long-term project-based developmental lending was assumed by the IBRD and USAID when they funded COFINA and DISA respectively. Examination of past performance, the rhythm and extent of lending by COFINA during its operative years, and by DISA prior to its interest rate ceiling problems, indicates that there was a substantial level of demand for project-based long-term lending, and that the assumptions of USAID and the IBRD which led them to assist development banks in the past were correct. Conversations with private sector groups, the GOP and the IBRD, as well as passage of the new Industrial Law (which provides generous incentives to companies that export), lead USAID to the conclusion that there is considerable unmet demand for the type of lending proposed.

Since 1964, the IDB has provided the BNP with five loans for industrial credit totalling US$36 million. Presently the IDB is involved with its sixth loan to the BNP for US$15 million with BNP participation of US$10 million. Of this US$25 million, approximately US$15 million has been committed. It has been suggested that slow disbursements of the present tranche of the IDB line of industrial credit to the BNP may appear to be indicative of a lack of demand for long-term credit. In fact, disbursements of that line of credit appear to be affected far more by the commercial terms imposed, and, according to unsuccessful applicants, to preferential treatment which so frequently influences governmental lending practices.

The demand for project-based loans will depend largely on the terms offered by the credit institution. To the extent that it is also dependent on such factors as the success of GOP policies regarding labor rigidities, cost reductions and removal of trade restrictions, demand may be almost impossible to quantify in advance.

A list of projects has been compiled for consideration during the institution's first year of operation. These offered a potential loan portfolio of more than US$16 million. (Annex VII-A)

C. Relationship to USAID Strategy

The project complies with USAID policy directives and responds to USAID/Panama's strategy.

1. USAID Private Sector Policies

The A.I.D. Policy Paper, Private Enterprise Development of March 1985, mandates that A.I.D. resources be channelled through the private sector rather than the public sector when conditions make this possible. It stipulates that provision of financial capital to LDC private enterprises will be subject to the following conditions:

"a) When its purpose is to provide financial capital to a financial institution so that it can increase its current on-lending to a specific A.I.D. target group: In this case A.I.D.'s resources should be channelled only to development activities which are 1) consistent with A.I.D.'s country development strategy and 2) unable to attract the full amount of required financial capital from commercial sources. A.I.D. is willing to assume the risks associated with a country's political or economic situation, which may be impairing institutional access to commercial credit."

"The on-lending of the financial institution to the A.I.D. target group should be at LDC market determined terms (interest and repayment period). If interest rates or repayment periods are artificially set by the government, the rates agreed to under A.I.D. projects should be part of a planned effort to achieve market terms in the LDC's capital market. As a minimum, it should be at positive rates to prevent decapitalization and economic misallocation of resources."

"A.I.D. funds provided to financial institutions should avoid introducing government ministries or parastatals into the on-lending approval process where such involvement does not now exist. Furthermore, such projects should seek to extract government ministries and parastatals from the process if they are now so involved."

The project fully responds to these policies.

The project is fully consistent with explicit recommendations of the National Bipartisan Commission on Central America (NBCCA) which call for promotion of trade opportunities to increase foreign exchange earnings. It also responds directly to policy recommendations of the President's Task Force on International Private Enterprise; particularly the recommendation that USAID should "Increase substantially financial support to developing country businesses, particularly through the funding of intermediate credit institutions (ICI's) and encourage ICI's to provide equity funding as well as loans."

Further, the project provides support to the Panamanian business community for fuller participation in the U.S. market, which has been made accessible to them under policies and provisions of the Caribbean Basin Initiative.

2. The CDSS

The 1986 CDSS states that: USAID will assist and support a common strategy with the GOP and appropriate elements of the private sector: (1) to facilitate the transition of Panamanian producers and suppliers from total reliance on domestic and Central American markets to greater participation in world markets, and, (2) to assure wide dissemination of the direct and indirect benefits of such participation.

USAID strategy objectives respond to analyses carried out by the IBRD, the IDB and USAID; and complement the GOP policies and initiatives embodied in the IBRD Structural Adjustment Loan (SAL) and the related IMF Agreement. The Agreements call for a reversal of the policies of protectionism and for fiscal austerity on the part of the Government.

Paralleling the decision to put its fiscal house in order, the administration which assumed power in October 1984 initiated an economic growth policy based primarily on the stimulation of the private export sector. The Government's commitment to that policy is evidenced: (1) by the substitution of quantitative restrictions on imports by the imposition of ad valorem tariffs, (2) by the revision of export incentive laws, (3) by revision of the labor code, (4) by revision of the Industrial and Agricultural law, and (5) by the creation of the Panamanian Institute of Foreign Trade (IPCE) to promote and facilitate exports as a complement to the already active Investment Council of Panama (ICP), which promotes foreign investment in the country.

Much more, however, must be done to facilitate greater Panamanian participation in world markets. Provision must be made to bring about;

a. A substantial increase in the competitive position of firms operating in Panama.

b. Regular flow of market information to potential Panamanian suppliers/producers.

c. Ready access to adequate developmental finance.

d. GOP support of appropriate private sector initiatives through appropriate changes in the administration of regulatory services and promotion activities.

Major activities which advance the attainment of these conditions constitute the substance of USAID strategy. Projects which respond to the attainment of each of the four specific conditions are noted below.

The on-going Investment Council of Panama Project (ICP) (525-0239) and the proposed Product Development and Productivity Improvement Project (PDPI), in their market search function, will provide market information to the private sector and promote the entry of export oriented foreign firms into Panama. The PDPI, in its production-related function, will provide assistance to improve the productivity of Panamanian firms and assist those firms in the production of new products at competitive costs, as will the Agricultural Cooperative Marketing Project (525-0222), which assists agriculture coops in advancing commercial production for export and for domestic markets. This proposed Private Sector Export Financing Project, in conjunction with the recently initiated Small Business Development Project (525-0240), will provide the long term project financing required for production facilities. The Development Policy Studies Project (525-0250) supports the policy analysis capability of the GOP, and, in conjunction with continuing dialogue, will promote appropriate policy evolution. A planned project for reorienting the functions and processes of the Ministry of Commerce and Industry (MICI) will support appropriate administrative and regulatory changes in that Ministry and in the semi-autonomous agencies attached to it.

D. Project Alternatives

The search for an appropriate institution or mechanism for developmental lending began with an examination of COFINA, the Government development bank, and DISA, a privately owned development bank, which has been the recipient of two USAID loans. COFINA became inoperative because of mismanagement resulting in heavy losses. DISA was unsuccessful in its attempts to remove a Government imposed limitation on the interest charged to borrowers and was not functioning as a development bank. Further, its ownership pattern was so narrow and its lending practices so highly conservative that it would have to be reconstituted to meet USAID mandated characteristics. Both institutions were considered unsuitable.

This left the commercial banking system, and the BNP, which has long-term agricultural and industrial windows, as possible vehicles for developmental lending. The suitability of commercial banks and the BNP under various configurations was examined. Serious flaws, inherent in the institutions, precluded their use as effective channels for developmental lending.

1. Banco Nacional de Panama (BNP)

A.I.D. policy discourages the channeling of U.S. resources through government financial institutions. Nevertheless, given the generally favorable reputation of the BNP, it was thought appropriate to determine if that institution had special advantages which justify an exception to USAID policy.

The BNP, through its Industrial Banking Division had, since 1964, channeled IDB resources totalling US$36 million to the Panamanian industrial community. It is presently administering a US$15.0 million IDB loan; supplemented with US$10 million from its own resources. US$15 million has been committed to projects.

The relatively slow disbursement of the IDB funds has been attributable, in large part, to the commercial character of the BNP's approach to lending. Its credit policy for long-term loans requires full collateralization, an interest rate of 14 percent, a placement fee of 2.5 percent and a charge of 1.5 percent on undisbursed balances. This policy, coupled with lending practices which are sometimes influenced by political considerations, indicated that the BNP was less than the ideal instrument for developmental lending. No case could be made for a departure from A.I.D. policy.

2. Creation of A Rediscount Mechanism

A rediscount mechanism which would provide resources to the commercial banks from a central lending authority was examined in depth. This device was rejected because of the orientation of the commercial banks, their lending practices, their lack of expertise in development lending and the difficulties of acceptably allocating risks. Term lending is foreign to the institutional habits, attitudes, criteria and procedures of most commercial banks. Basically, commercial banks engage in short-term lending, finance goods for import-export trade and provide a wide range of commercial services.

In the 1970's, the stability of bank deposits permitted the commercial banks, world-wide, to increase their portfolios of long and medium-term credit. Except for the huge multinational banks which set up technical departments to carry out specialized lending activities, the bulk of commercial banks increased their long and medium-term portfolios in response to government directives or as a tactic to keep the accounts of major clients. However, it is the short-term financing that remains the main interest of the commercial banks because it is less risky; the amounts required are usually much larger than those of long-term financing; and it is more remunerative since it brings with it non-financial services such as transfers, guarantees, foreign exchange dealings, insurance, etc., which increase substantially the return on the money employed. Thus, for commercial banks, long-term financing is an activity of secondary importance whose use is to support their principal activity; short-term financing.

Commercial banks are primarily concerned with tangible security against their loans while development banks take a long-term view of a venture's financial prospects. The former make loans to firms with established financial records and excellent collateral, while the latter make commitments, often for a decade or more, based on project appraisal and backed, to some degree, by collateral of uncertain salability.

Developmental long-term lending rests on the viability of the project. This in turn depends on the technology that is going to be used, economic fluctuations, marketing, government policies, and management. These factors can be assessed only over a span of several years and require special expertise. The long time frame is largely unacceptable to traditional commercial banking, and the expertise required for such loan appraisal and implementation is not normally present in commercial bank staff or management. The acquisition of such expertise and readjustment of commercial bank practices would be very costly for individual banks, and would be tantamount to the establishment of a new institution within each of any participating commercial banks.

Rediscounting, while providing for liquidity, leaves the problem of appraisal to be resolved either by the commercial bank, or the rediscounting facility -- sometimes by both. Uncertainty, duplication and poor cost effectiveness can be expected. Obviously, building up project appraisal capability in the institution which does the rediscounting would be the preferable alternative, rather than to try to develop such capability in each of the commercial banks which use the rediscount facility. While development of such capability in the agency chosen to provide the rediscounting services is feasible, it offers no advantages over developing an identical capability in an institution which would do direct development lending.

Risk issues also enter into rediscounting considerations. If the rediscounting is based on the intermediary commercial bank paper, without recourse to the intermediate commercial bank, risk is transferred to the rediscounting authority. Prudent assumption of such risk would require additional project review and appraisal.

Should the rediscount authority have recourse, it would probably have to counter the well-observed tendency of commercial banks to redefine commercial loans in developmental terms, and to determine if the rediscounted loans are simply substitutions for loans which could have been made through standard commercial practices.

While rediscounting has, in many instances, proved to be a successful mechanism in so far as the extension of credit to small scale enterprises is concerned, to the best of USAID's knowledge, based upon an extensive review of the experience of A.I.D. and IBRD, this mechanism has not been used successfully for the extension of credit for the type of activities and the level of investment envisaged in the project.

To determine the feasibility and acceptability of a rediscount facility in Panama, USAID conducted a survey of commercial banks which could be expected to use such a facility. Included in the survey was one bank which reportedly had favored the creation of a rediscount facility. When asked under what conditions that bank would make development loans, which would be eligible for rediscounting, the manager replied that (1) the bank did not have qualified staff to do project appraisal and that it would require extensive technical assistance from the rediscount authority and (2) if the bank accepted the risk on loans, the loans would be made on commercial terms.

All other respondees replied similarly. The only exception was a major U.S. based bank which stated flatly that it was not interested at all, because it wanted to reduce, not increase, its exposure in Panama.

The survey revealed that (1) all the commercial banks considered themselves technically unqualified to make developmental loans, (2) they might undertake such lending if a subsidized technical facility were made available to them for loan appraisal and if risks were borne by the discounting authority and (3) if they were to take the risks, they would utilize the rediscount facility only as a source for commercial lending.

3. Creation of a Guarantee Fund

The feasibility of the creation of a fund which guarantees development loans made by commercial banks was explored and rejected. A guarantee fund, to be viable, requires that its risks be spread over an extensive portfolio. Given the relatively small number of development loans which can be absorbed by the Panamanian market, the long-term nature of the loans and their relatively large average size, the exposure of a fund used to guarantee them would be actuarially unacceptable. The provision of a project appraisal capability to the guarantee authority would result in the same inefficiencies and costs as a rediscount facility with no assurance that the risks would be reduced to an acceptable level.

E. Required Characteristics of the New Institution

Traditional development finance institutions (DFIs) have two characteristics which account for their proliferation throughout the developing world: (1) they specialize in industrial development, and (2) they concentrate primarily on long-term financing of industrial assets. From the early 1950s, the IBRD, frequently with the participation of A.I.D., has supported the establishment and growth of DFIs. The IBRD has assisted in the establishment of DFIs in Africa, Asia, Europe, the Middle East and Latin America and has provided over US$11 billion to 137 DFI's which in turn have financed US$50 billion in new projects and created 2.5 million new jobs. A.I.D. alone, in the period 1958 to 1968, provided 61 loans to 45 DFIs. The empirical evidence suggests that the DFI's have proven useful and have warranted continual support from the development donor community. The record of such institutions in Panama, however, was spotty, at best. It was therefore essential to draw on the experience of successful DFIs and on the lessons of the Panamanian DFI experience to design a new DFI which would perform successfully in the Panamanian economic and social ambience.

1. Public vs Private Institution

As noted in the discussion of the National Bank of Panama, (Section III.D.), USAID/Panama policy calls for use of private financial institutions as conduits for USAID development finance. Review of public and private alternatives substantiates the wisdom of that policy in Panama.

It has been concluded by USAID and the GOP that the failure of COFINA and the slow disbursements of the BNP were primarily due to the public ownership of these institutions. Lending activities of public institutions tend to be slow and cumbersome, are often influenced by political considerations and profits are not maximized. Private institutions, with their own funds at risk, are far more sensitive to the soundness of their loan investment. In fact, the Government and the IBRD, cognizant of the inherent problems in a publicly owned development credit institution, were seriously considering replacing COFINA with a privately owned organization with minority Government participation. However, this option was not supported by the private sector in Panama. They have continously stated that Government involvement in financial institutions results in Government intervention in the lending process. It is in the light of this experience in Panama that USAID opted for the establishment of a privately owned development institution.

It is useful to note that the cessation of operation of the privately owned DISA was related more to interest rate ceilings imposed on it by the GOP rather than as a result of ineffective management or lending practices. The enabling decree under which DISA was incorporated stipulated that the interest rate charged by that institution could not exceed 9 percent. The institution recommended in this proposed project will be formed under the Banking or Commercial Laws, and hence not subject to such limitations.

2. Ownership

The distribution of ownership in the proposed bank will influence both policies and practices as well as the public perception of those policies and practices. A broadly based ownership pattern will be required to preclude dominance of the institution by a small group of stockholders, and to insure that the institution is subject to continuous review by a suitable cross-section of the business community.

The ownership pattern must also provide for a broad sub-sectorial representation. In addition to the banking skills, which may be brought to the institution through bank ownership, we would expect industrialists, agriculturists, marine interests, and commercial interests, by their participation, to bring special skills to the organization. The ownership configuration needed is one which will yield a board of directors characterized by vision and creativeness, and tempered by prudent judgment, knowledge and pragmatism.

To assure a minimally acceptable diffusion of ownership, subscribers will be limited to the purchase of shares in accordance with the following guidelines:

a. Institutional investors - a maximum of 20 percent or $900,000. Individual investors - a maximum of 1 percent or $ 45,000.

b. Institutional investors will not be permitted to own more than 80 percent of outstanding shares; unless there are seven or more institutional subscribers, in which case, institutional investors may own up to 90 percent the shares.

After the initial subscription, which must be approved by USAID, the shares may be transferred by the shareholders as long as the holdings of any individual or institution do not exceed the limits set forth in Paragraph (a) above.

3. Management

Inadequate management and the loose definition of management responsibility have been identified as the major factors contributing to poor performance of DFIs. The new institution will secure the services of a top notch, full time manager who has worked in the banking sector. Given the fact that there is an ample supply of excellent commercial bank executives in Panama, it is likely that potentially successful managers could be recruited from the Panamanian labor market. However, he/she would require extensive training and first class technical assistance in development banking during the first years of his/her appointment.

The manager's effectiveness would be influenced by the quality of project analysis presented by technicians employed or contracted by the institution and his/her own ability to gauge the quality and relevance of the analysis. Therefore, the manager selected must be fully cognizant of analytic techniques or be rapidly trained in them. Further, the manager can operate effectively only if his/her authority and responsibilities are clearly defined and honored in practice. Clear guidelines will be formalized which will establish the relationship between the board of directors and the manager, especially in matters relating to loan approval procedures and standards. These will be established when the institution's operating guidelines are drawn up and USAID approves them.

USAID expects the institution to have a large portfolio of agroindustrial projects. To provide appropriate technical support for appraisal and implementation of such projects, an agroindustry specialist would be included in the management team.

4. Services

The services of the institution will be directed to non-traditional export industries and will focus on those projects which are viable but are of marginal interest to the commercial banks due to the lack of guarantees/collateral. To ensure this, the institution will incorporate a risk premium into the interest rate that will be charged. Because developmental lending has greater risk than commercial lending, interest rates will always be higher for development loans. This will discourage those businessmen who already have established lines of credit at commercial banks from applying for loans at the new institution.

The services offered will be limited to those traditionally provided by DFIs. However, the institution will offer certain commercial services to clients which are recipients of project loans. Those services, notably the provision of permanent working capital, will provide additional income to the institution and create a body of experience and knowledge in export transactions which will strengthen the institution in its role of promoting export-oriented projects.

5. Profitability

Profitability is a sine qua non of private enterprise. Rational private investors are unlikely to invest in any activity, no matter what social and economic benefits accrue from it, unless the activity promises an adequate return on investment. In fact, profitability is the single test of viability of a private enterprise project, and provides the basis for additional capital mobilization and growth.

To assure such viability and a reasonable return to the investors, the financial configuration of the project design would anticipate a return on equity of approximately 12 percent. This is modest by Panamanian standards, but is considered adequate and prudent for a project of this nature.

6. Growth Potential/Resource Mobilization

USAID funding is intended to facilitate the development of a DFI which will play an increasingly important role in financing Panamanian economic growth. Provisions for growth in assets and resource availability have been incorporated into the project design. To this end, the Project Agreement will stipulate that a sufficient percentage of earnings will be retained by the institution for a build-up of equity. The increased equity base, coupled with the profitability record of the institution, will establish the fiscal base for acquisition of additional resources from international lending agencies, both public and private. Towards the end of the project, technical assistance could be provided to strenghthen FIDESA's resource mobilization strategy.

Conservatively, the institution will be able to attract sufficient funds to replace the principal of the A.I.D. loan as it is repaid as well as borrow an additional US$4.5 million over a three year period starting in the tenth year of operation.

In addition, resources would be mobilized through co-financing arrangements, and the issuance of debentures. FIDESA may also expand its equity base through new stock issues. The risk-sharing provision of this project will facilitate FIDESA's ability to raise additional capital.

F. The USAID Financial Package

The loan/grant elements of the USAID support had to be designed to enable the new institution to acquire and maintain the required characteristics outlined in Section III.A. "Rationale Framework" and to operate effectively.

1. The Loan

The viability of the institution requires that it acquire and service a portfolio large enough to produce revenues which would cover the cost of money, administrative costs and provide for equity growth and dividends. A financial analysis indicated that a portfolio level of approximately US$23 million would meet these requirements.

The selection of the USAID loan amount was determined by balancing leverage requirements against the most reasonably prudent equity/loan ratio. A ratio of 1:4 was agreed upon. The application of this ratio yielded a loan element of US$18 million and an investor equity of US$4.5 million. An equity/loan ratio of 1:8 or 1:10 is commonly used as a basis for financing DFI's.

2. The Grant

Technical assistance and training in management and project analysis are considered to be elements which contribute to the development of a sophisticated and fully professionalized institution. Given the cost and revenue restrictions (See Annex VII.C) imposed on the new institution, there is no way it could absorb the additional costs entailed in such assistance and training. Further, such assistance contributes to the protection of USAID's programatic and fiscal interests. Grants to support such activities are provided in the project. Funding for USAID monitoring and evaluations is also included in the grant package to insure adequate implementation of the project. Grant funding totals US$1.3 million, an equivalent of 6 percent of the combined exposure of USAID and the investors.

3. Risk Sharing

Until recently, USAID policies permitted the extension of loans to development financial intermediaries (DFIs) at concessional interest rates. Those rates, usually set at 2 percent or 3 percent, allowed DFIs a large enough spread between borrowing and on-lending rates to absorb bad debt losses and to produce a positive revenue flow. New A.I.D. policy requires that Agency loans to DFIs carry an interest rate which reflects the cost of money to the U.S. Treasury. AID/W, however, decided that it was prepared to partially fund bad debt write-offs of the proposed new Panamanian institution. The justification for such "risk sharing" is to encourage the institution to be more aggressive in development lending and less conservative in its operations than would otherwise be the case.

In elaboration of a formula for risk sharing, two conditions had to be satisfied; the degree of risk sharing had to be of sufficient magnitude to encourage aggressive lending; but not of a magnitude which would provide excessive returns to the investors. Utilizing an illustrative model prepared by PRE/PPC as a guide which provided for a yearly retention of up to 5 percent of the A.I.D. loan to be used for bad debt write-offs, USAID prepared financial projections satisfying this condition. These satisfy the financial conditions established by AID/W, are acceptable to the prospective investors and will be included in the Project Agreement. (See Section VI.C for an explanation of the risk-sharing mechanism).

IV. PROJECT DESCRIPTION

A. Goal and Purpose

The goal of the project is to increase economic growth and reduce unemployment.

The purpose of the project is to generate increased export earnings by substantially increasing private investment in manufacturing and agribusiness industries for exportable goods. A private sector development finance institution will be established as a viable instrument for providing medium and long-term development financing, technical assistance, and advisory services to the export sector.

The Financiera De Exportaciones S.A. (FIDESA) will be a financial institution which will assist in the promotion of investment in export-oriented industries through the provision of medium- and long-term loans, equity participation, and technical assistance. The initial capital resources of FIDESA will consist of the US$4.5 million by private sector shareholders, US$18 million in USAID loan funds and US$1.3 million in USAID grant funds.

B. End of Project Status

1. FIDESA, a viable DFI capable of serving its client sectors, will be in full operation.

2. FIDESA will have a net loan portfolio of US$23 million.

3. Support services to client enterprises to assure the efficient management of their investment will be in place.

4. The reserve for extraordinary bad debt will be 2 percent of the net loan portfolio and contribute to FIDESA's ability to mobilize new capital.

5. Four staff members of FIDESA will be fully trained in the area of development banking.

6. The co-financing of loans with LAAD and other institutions will have been accomplished.

C. Organizational Status

1. Organizational Background

About three years ago, the Board of Directors of Desarrollo Industrial S.A. (DISA) approached USAID/Panama for a new loan in order to reactivate the development lending operation of that financial institution. DISA is a private industrial credit institution founded in 1964 by a group of prominent businessmen with paid-in capital of US$1.0 million. USAID and the U.S. Export-Import Bank (EXIMBANK) provided it with US$9.1 million and US$2.5 million respectively. The funds provided by USAID and the EXIMBANK have been repaid. In recent years, DISA has been inactive because the imposition of an interest rate ceiling on its loans by the Government was a disincentive to lending and it was more attractive to maintain deposits with higher yields.

For a variety of reasons, USAID/Panama felt there was no urgency to respond positively to DISA's request. The most important of these reasons were: (a) the presumed weak demand for investment credit due to the world wide recession, in particular the economic situation of Panama's trading partners in the western hemisphere, (b) the uncertainties regarding the future of COFINA and (c) the uncertainties regarding the approach of the new Government to the very serious economic problems. Furthermore, USAID/Panama believed that the institution receiving assistance should be much more broadly based than was the case with DISA.

In the intervening period, these issues have been clarified. Panama's trading partners are undergoing economic recovery. The GOP/IBRD efforts for the restructuring and revitalizing of COFINA failed. The Government now in office is aware that the most important contributing factor to economic recovery lies in policies and measures that would assist the promotion of non-traditional exports by the private sector. Also, in the continuing dialogue with DISA, it was made abundantly clear that USAID would not be interested in assistance to a financial institution in which there is overconcentration of ownership and which would engage in commercial banking operations not immediately related to investment for export promotion. Therefore, the Board of Directors of DISA was advised to investigate the possibilities of organizing a group of institutional and individual investors who would be prepared to invest about US$4.5 million in a new financial institution which would engage in project lending, equity participation, and technical and advisory services for the promotion of investment in export-oriented manufacturing and agribusiness enterprises. It was also strongly recommended that efforts be made to interest a foreign bank with a strong trading company subsidiary or a foreign trading company closely tied to a bank in becoming a major shareholder.

More than a year ago, it seemed that a group of investors acceptable to USAID had been organized. These were DISA, Grupo Nacional Pribanco, Grupo Melo, and the Latin American Agribusiness Development Corporation (LAAD). The shareholders of these institutions and other prospective individual shareholders represented prominent, successful and high networth individuals in the private sector in Panama engaged in manufacturing, agriculture, cattle breeding, trade, banking, insurance and various professions. However, further progress was not possible because the concessional rate of interest proposed by USAID/Panama was not acceptable to A.I.D. This important issue was not resolved until April, 1986.

In the meantime, some of the organizers of the institution lost interest and new prospective investors had to be approached. At present, DISA, Banco General (the largest private savings and loan bank in Panama) and BANCOMER are strongly interested in participating in this development credit institution.

2. <u>Legal Status</u>

The organizing group has incorporated itself as a "Sociedad Anónima". This is but one step which is necessary to insure that the legal character and type of institution to be created be most appropriate to the institution's objectives. The existing laws and regulations that control the various types of financial institutions constituted under the laws of Panama offer various licensing options which are further discussed in Section VI.B.1.

3. <u>Stockholders</u>

An organizing group, consisting of representatives of DISA, Banco General and BANCOMER, has proposed to play a quasi-underwriting role in the placement of stock. Each of the three institutions would acquire US$1.5 million of the required US$4.5 million capital. Each would in turn sell approximately US$0.5 million to US$0.6 million to its individual stockholders, to other institutions and to the public. A minimum of 10 percent of subscribed capital will be reserved for the public. At this time, a number of other banks have expressed interest in acquiring stock in FIDESA and are in discussion with representatives of the organizers.

A prospectus is being prepared. It will be circulated through major business organizations and through the press. Meanwhile, an informal canvassing of industrialists, agriculturists and others, who have previously expressed interest in this project, is being carried out.

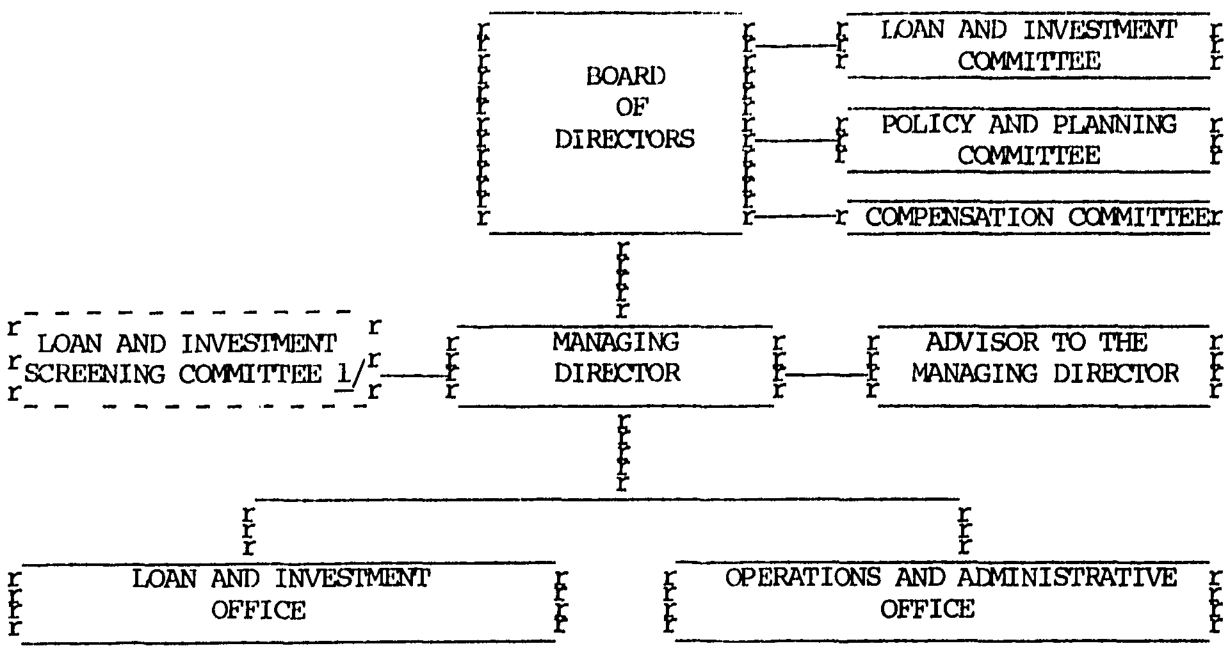
USAID will require that the ultimate stockholder mix conform to the formula set out in the Rationale, Section III.E.2. Although, justifiable minor adjustments may be accommodated, any significant variation from that formula will not be acceptable to USAID.

4. Organization and Management

Chart 1 shows the proposed organizational structure for the initial years of FIDESA. Annex VII B describes in detail the organizational functions of FIDESA. In the initial years of its operation, the institution will be staffed with a very small team of professionals and the minimum number of required support staff. It is envisaged that it would open its doors for business with a General Manager, two Loan Officers, (one, a specialist in agribusiness), and an Administrative/Operations Officer plus two secretaries and a messenger. Assuming that the operation of the institution reaches the level anticipated in the project by year 4, additional professional staff of two assistant loan officers will be hired. Temporary experts will be engaged to assist in the analysis of projects which involve specialized production techniques or otherwise raise special concerns. The grant component of the USAID assistance provides the necessary funds for the services of such experts. Also, in the initial years of its operation, the institution would need support both in establishing its policies and procedures as well as in project appraisal, loan documentation and project supervision. The project grant fund provides for the services of an advisor to the Managing Director to assist in all phases of the establishment of the institution until it has become fully operational. (For details, refer to Section IV.E.1.) An internationally recruited expert in development banking will assist and advise the Managing Director during the first four years of FIDESA's operations. The Advisor will be a non-voting member of the Board of Directors. The appointment of the Managing Director and the Chief Credit Officer of FIDESA will be subject to USAID approval.

CHART 1

PROPOSED FIDESA ORGANIZATION PLAN



D. Project Operation

1. Services Provided

The primary service to be provided by FIDESA will be financial. Additionally, FIDESA will be engaged in advisory technical services, structuring and arranging co-financing and the development of the local capital market.

FIDESA's financial and human resources are intended for the promotion of investment in export-oriented manufacturing and agribusiness enterprises. Project based medium- and long-term loans that have a significant economic impact on export of non-traditional goods and provide employment are the high priority targets of FIDESA. In this respect, FIDESA's resources will not compete but will complement the services now offered by existing financial institutions.

1/ This is a functional committee consisting of; the Managing Director, advisor to the Managing Director, the Sr. Credit Officer and any necessary consultants needed to evaluate a particular project.

a. Loans

FIDESA loans will be medium- and long-term. The former will be for a period of three to five years. The latter for up to seven years and in some cases may reach ten years. It is expected that all loans will have a grace period of at least one year, on the average two years but in only the exceptional cases three years.

FIDESA will provide permanent working capital only to its clients who are recipients of developmental loans and projects which it has already financed.

FIDESA will not lend to Government-owned and/or operated enterprises or enterprises in which the Government has a participation.

Loan terms and interest rates will vary with projects and risks involved. It is envisaged that the term of the loans would not be less than three years and average interest charged will be the commercial bank rate plus a risk premium. Risk premiums will add approximately 2 percent to the interest rates.

b. Equity

Another activity of FIDESA will be equity financing. Because of its close relationship with the banking and industrial sectors, FIDESA should be in a good position to identify prospective investors in projects submitted to it whose capital base needs to be strengthened. The extent of FIDESA equity participation will depend on; 1) the equity needs of an enterprise and the anticipated shortfall, and 2) the capital participation that FIDESA will be allowed to have in a single enterprise.

FIDESA will not take an equity position in a Government enterprise. It will not become responsible for the management of an enterprise. In the unlikely event that FIDESA does become a majority shareholder in an enterprise, every effort will be made to transfer the management of the enterprise to other shareholders.

c. Capital Market Development

The equity participation of FIDESA will, in the long run, contribute to the development of the local capital market. It is expected that once the project is implemented and its profitability proven, FIDESA would disengage itself by the sale of shares so that its resources could be used elsewhere.

d. Other Services

If FIDESA is not interested in financing a project and the Government has a special interest in its implementation, FIDESA may administer a Government loan for a fee. FIDESA will not assume any financial risk in such operations.

FIDESA will be able to issue guarantees for the financing of specific projects. By doing this, other financial institutions will be encouraged to lend funds for developmental purposes. In addition, it will be able to act as the financial agent for a client and thus take a lead role in obtaining financing for a particular project. This will involve combining short, medium and long-term funding along with the necessary guarantees from various financial institutions into a single package.

While it is not expected that it shall engage in project development <u>per se</u>, FIDESA, in its routine task of project review and appraisal, <u>will be</u> providing technical assistance to its clients. FIDESA will normally not undertake feasibility studies for clients. In cases where assistance is required for projects which are of special developmental interest, FIDESA will make consultants available which will assist in the preparation of a feasibility study and/or an evaluation of a project.

2. <u>Lending and Investment Criteria</u>

a. FIDESA's operations will be primarily directed toward export-oriented manufacturing and agricultural processing industries. It may lend also to other types of enterprises, including tourism and export-oriented commercial agriculture. In the event that FIDESA receives applications for a wide variety of projects, priority will be given to projects which have the following characteristics;

(1) Non-traditional export industries
(2) Labor intensive industries
(3) Natural resource industries
(4) Industries which contribute to balanced regional development
(5) Industries with the highest value added to the economy.

b. FIDESA will lend only on the basis of sound investment criteria and standards and will provide financial assistance only to those projects which are financially and economically sound and technically feasible. Special attention will be given to the ability of management and the profitability of the enterprise. Criteria affecting such lending will be incorporated into the by-laws of the institution.

c. FIDESA is intended to finance new enterprises, but it may also finance the expansion of existing enterprises when such expansion is for the purpose of developing or expanding exports.

d. FIDESA will not finance housing or the purchase of land or development of land for residential purposes.

e. FIDESA's minimum loan for any one project will be US$100,000.

f. FIDESA's maximum financial commitment to any single enterprise, in whatever form, including share capital or guarantee or any combination thereof, may not exceed 25 percent of the total of FIDESA's paid-in capital and retained earnings.

g. FIDESA will not commit to any single enterprise in the form of share capital more than 10 percent of FIDESA's paid-in capital and retained earnings except as otherwise agreed to by USAID in writing.

h. The aggregate equity investment of FIDESA at any time will not exceed 75 percent of its capital and retained earnings.

i. Unless USAID otherwise agrees to in writing, FIDESA's total commitment (in the form of loans, guarantees and stock participation) to a specific project will not exceed 80 percent of the total project cost, or US$1.5 million.

j. Exceptions may be made in regard to the restrictions enumerated in paragraphs (e) to (i) in cases where FIDESA is acting either as a depository-trustee, or on behalf of the Government as the administrator of funds earmarked for specific projects or when the obligations it has assumed vis-a-vis third parties are totally and unconditionally covered under the Government's guarantee.

k. Unless USAID otherwise agrees to in writing, FIDESA will not grant loans for the purpose of refinancing projects or enterprises.

l. FIDESA's interest rate on its loans will be based on the market rate for the type of project being financed, the terms of the loan, a risk premium and its own cost of funds.

m. In addition to interest, FIDESA will collect a once-only fee of up to 2 percent of the total loan proceeds payable at the time of the first disbursement on any medium (3-5 yr) and long-term (5 yrs and up) loans that it makes. The fee is intended to cover the cost of the studies and analysis made in connection with project appraisals.

n. As a general rule, the maximum term of a loan or guarantee will not exceed seven years. The grace period will normally be two years from the date of the loan contract. A loan or guarantee commitment shall remain in effect for a maximum of six months from the date of approval.

o. FIDESA will charge a fee for the issuance of guarantees, the size of which will depend on the nature of the project. In the normal course of events, this fee will not be less than 1.5 percent per annum of the amount of guarantee outstanding.

p. While FIDESA's approval of a loan will primarily be based on the feasibility of the particular project submitted for financing, FIDESA will require some collateral for all loans it grants which may be in the form of securities, mortgages, pledges, bonds and shares that have market value.

Due to the higher interest rates that will charged on loans made by FIDESA as compared to commercial banks, those potential borrowers that already have adequate collateral and lines of credit will be discouraged from using this facility.

q. All expenses such as legal fees, bank charges, commissions and the cost of analysis and studies other than those covered by normal FIDESA charges will be regarded as recoverable expenses during the loan application and contract period.

r. FIDESA loans will be subject to a standard commitment charge of 1 percent per annum on funds committed but not utilized or disbursed. It will be payable from the date of signature of the loan contract or from the fifteenth day following receipt by the borrower of written notice of FIDESA's decision to grant the loan, whichever is later.

s. When making equity investments, FIDESA will not take a controlling interest in any enterprise in which it has invested or other interest which would give it primary responsibility for management and it will not acquire more than 25 percent of the share capital of an enterprise. This does not mean that it may not insist on placing a representative with the right to be heard and to vote on the board of directors of the enterprises in which it holds shares or to which it has made loans not yet repaid or to which it has extended guarantees.

t. In accordance with normal banking practice, FIDESA will require that its borrowers obtain and maintain adequate insurance policies, to keep records and accounts in accordance with sound accounting practices and that they furnish such information on their operations and costs to FIDESA. FIDESA will incorporate language into its sub-loan agreements so that it has the right to inspect the enterprises it finances from time to time.

u. After review and approval by FIDESA and prior to finalization of a commitment to the client, loans, equity participation, guarantees or other commitments to a project individually or totally exceeding US$500,000 will be submitted to USAID for approval.

3. Business Plan

In the first four or five years of its operation, FIDESA should be able to build a substantial portfolio of loans and possibly a modest portfolio of equity participation. The project anticipates that the outstanding loan portfolio will increase from US$4.8 million in year 1 to US$23.8 million in year 5. The rapid build up of the loan portfolio is essential for generating sufficient income and profit after taxes so that by year 4 FIDESA would be self-sufficient and able to distribute dividends.

By the end of year 4 or 5, FIDESA will have utilized all its resources, i.e., its capital and the USAID loan. Therefore, the increase in its portfolio will be modest, depending on its retained earnings. However, at that point in time, FIDESA should have become a well established financial institution with access to other sources of funds from such institutions as IBRD, International Finance Corporation (IFC), IDB as well as the capital market. Conservatively, the financial projections do not assume any fresh sources of funds until year 11 when the repayment of the USAID loan starts. However, more realistically, FIDESA, through its efforts in project identification, should generate high quality demand and, having established its credit worthiness and professionalism in development financing, should be able to mobilize additional funds much earlier than assumed in this project paper.

Co-financing arrangements are expected to become a major activity of FIDESA and an important source of income. Commercial banks could be invited to participate in the project loans. Obligations to commercial banks would be repaid from the early maturities with or without FIDESA guarantee. IAAD has already expressed interest in co-financing projects with FIDESA. A close working relationship of FIDESA with a few commercial banks, Government institutions such as the ICP and IPCE, international financial institutions such as IFC, IDB, and BLADEX would be important in project identification and development as well as arranging co-financing, joint ventures, equity participation and technical assistance.

E. Technical Assistance, Training, Project Monitoring and Project Evaluation

1. Technical Assistance

The technical assistance component includes a contract advisor for the first four years of the project and advisory services for project development activities for five years. It has already been explained that while Panama is a major world banking center, development and investment banking skills are not readily available. Every effort will be made to employ competent individuals knowledgeable in development finance. However, in the initial years of its operation, the institution will need support in establishing its policies and procedures and in project appraisal, loan documentation and project supervision. The project provides for an advisor to the Managing Director who would assist in all phases of the establishment of the institution until it has become fully operational.

Obviously, requests for loans and equity investments would cover a wide spectrum of manufacturing and agribusiness activities. It would be unreasonable and wasteful to expect a new institution to have in-house expertise for the various kinds of projects it would have to review, appraise and recommend for loans. Furthermore, the costs of such services are usually high and beyond the financial capabilities of a new institution. Short term specialized technical assistance will be provided during the life of project, during which time the staff of the institution will be trained and have gained experience in development banking.

2. Training

Short-term training of 20 person-months will be provided for the staff of the institution in project development and appraisal. It is envisaged that they would participate in programs designed for this purpose by the World Bank, USAID, or academic institutions for intermittent periods of one to two months.

3. Project Monitoring

FIDESA will be monitored by the Private Sector Office of USAID/Panama. Additional staff to monitor this project is not required.

4. Evaluation

As described in Section VII.C. "Evaluation Plan", three comprehensive project evaluations will be carried out by independent consultants.

V. COSTS ESTIMATES AND FINANCIAL PLAN

The Financial Analysis in Section VI.C., backed up in greater detail by the balance sheet and profit and loss projections for 20 years in Annex VII.C., is based on such factors as expected demand, reasonable level of operations, equity capital, loan funding, bad debt, loan equity ratio, rate of interest chargeable to the clients, and dividend payments. On the strength of this analysis, it is recommended that FIDESA be established with a share capital of US$4.5 million to be paid-in over a 4-year period, and that an USAID loan of US$18.0 million be authorized, with grant funding of US$1.3 million to provide technical assistance, project monitoring and evaluation over the five-year life-of-project.

TABLE I: SUMMARY FINANCIAL PLAN 1/
(US$ in thousands)

	USAID	FIDESA	TOTAL
Year 1			
Loan	2,500	2,500	5,000
Grant	250	-	250
Total	2,750	2,500	5,250
Year 2			
Loan	4,500	1,000	5,500
Grant	350	-	350
Total	4,850	1,000	5,850
Year 3			
Loan	4,500	500	5,000
Grant	475	-	475
Total	4,975	500	5,475
Year 4			
Loan	6,500	500	7,000
Grant	175	-	175
Total	6,675	500	7,175
Year 5			
Loan	-	-	-
Grant	50	-	50
Total	50	-	50
All Years			
Loan	18,000	4,500	22,500
Grant	1,300	-	1,300
Total	19,300	4,500	23,800

1/ Expenditures.

TABLE II: SUMMARY FINANCIAL PLAN BY ACTIVITY COMPONENT 1/
(US$ in thousands)

COMPONENT	YEAR 1	2	3	4	5	TOTAL
A. Grant (USAID)						
1. Advisory Services	75	165	215	30	20	505
2. Training	25	30	40	5	-	100
3. Project Advisor	125	125	125	125		500
4. Evaluation	25	-	50	-	25	100
5. Inflation and Contingency	-	30	45	15	5	95
SUB-TOTAL	250	350	475	175	50	1,300
B. Loan (USAID)	2,500	4,500	4,500	6,500	-	18,000
C. Cap. FIDESA	2,500	1,000	500	500	-	4,500
TOTAL	5,250	5,850	5,475	7,175	50	23,800

VI. PROJECT ANALYSES

A. Summary Market Analysis

The Panamanian economy is showing signs of increased growth with GDP increasing by 3.3. percent from 1984 to 1985. In addition, stimulus is expected to come from the passage of a new Industrial Law, which gives excellent incentives to those companies that export, as well as the recent liberalization of the Labor Code.

Thus, an increase in demand for medium- and long term credit is expected. This demand will not be met because banks that offer credit of this type are reducing their exposure in Panama due to the country's high level of foreign debt and the large exposure that they already have in Government loans.

In addition, there is a complete lack of developmental lending in Panama. All potential loans are evaluated on the collateral and guarantees that a Borrower has and not on the project for which the loan will be used.

Thus a prima facie case can be made for the establishment of an institution which will provide medium- and long- term credit to qualified Borrowers in Panama.

1/ Expenditures.

In order to determine overall demand for the above-mentioned credit, USAID/Panama contracted with Investigación y Desarrollo, S.A. (INDESA) to carry out a demand study. The consultants' report is presented as Annex VII-A. In it, the consultants projected the main components of aggregate demand and supply factors for three scenarios. The base case assumes that manufacturing will grow at an annual real rate of 2 percent in the next 5 years and 3 percent in the following 10 years. Under the optimistic scenario, it assumes that manufacturing will grow at an annual real rate of 10 percent in the next 5 years and 12 percent in the following 10 years. Under the pessimistic scenario, it is assumed that manufacturing would grow at the constant annual real rate of 1 percent throughout the next 15 years. For investment outside manufacturing, (i.e. agribusiness, tourism and services for export) where there is an absence of statistical records, the consultants' projections are based on a survey of potential demand for funds for projects identified from prospective investors, various studies and commercial banks. The consultants made judgments regarding the probability of the implementation of these projects. Again, in the absence of statistics on the terms of lending, the consultants carried out a survey which concluded that 38 percent of bank loans are made up of medium- and long- term loans. These loans were deemed to be for fixed assets.

The study concludes that there will be a gap for medium- and long-term credit of US$142 million, US$767 million and US$83 million in the base, high-growth and low-growth cases respectively.

Due to changes in the law which are intended to promote exports, the use of historical data to project the growth in exports was meaningless. Instead, a list of potential export projects that FIDESA could finance was compiled by INDESA and is presented in Annex VII-A, Exhibit 2.5 - 2.8. This list shows a firm demand for medium- and long- term credit of US$16.3 million. In addition, there is an additional potential demand of US$62.4 million for projects that are still in the development stage.

The organizing group of FIDESA has also examined the demand for the above-mentioned credit. Their study concluded that there is a projected demand for medium and long-term credit in excess of the funds to be disbursed under the project (US$22.5 million).

B. Summary Institutional Analysis

1. Incorporation Strategy

Panamanian law allows a financial institution to be incorporated in several different ways. The two methods most commonly used if an institution is to be lending domestically (and which are preferred by the GOP), are to incorporate as a financiera with a general commercial license or as a commercial bank with a banking license.

The organizing group examined the two options and with the advice of legal counsel and the concurrence of USAID decided to incorporate as a financiera with a general commercial license. The reasons are as follows:

a. A financiera with a general commercial license will be able to make medium and long-term loans and take equity positions in companies without having to incur the heavy costs which are associated with a general banking license.

b. A financiera with a general commercial license is not required to set aside a contingency credit equal to 10 percent of its net loan portfolio. Thus a greater part of FIDESA's portfolio would be available for developmental purposes.

c. By law, financieras cannot take deposits. Thus, the developmental aspect of the institution could be more easily preserved than under a general license bank.

2. Organizational Structure and Staffing

A detailed discussion of FIDESA's organization and staffing is presented in Annex VII-B.

The organizational structure has been established so that it responds to FIDESA's operational objectives by;

a. Being able to evaluate proposed projects rapidly while still maintaining a system of checks and balances.

b. Establishing simple and clear task responsibilities.

c. Establishing a system whereby project evaluations are carried out prior to any lending decision without consideraing the financial strength of the applicant.

The staff of FIDESA will be small, well qualified and well trained. They will be supplemented by short-term specialized technical assistance available to them whenever needed to evaluate proposed projects.

Staff personnel will initially consist of a Managing Director, his/her advisor, two Loan Officers and an Administrative/Operations officer.

The ultimate authorities of FIDESA will be the shareholders who will elect a Board of Directors. This Board will consist of approximately 5 to 9 members, who will represent a cross-section of Panama's business interests; namely banking, agribusiness, and light industry.

The Managing Director will have had extensive experience in a merchant and/or investment bank and a record of successful project financing. He/she will have a working knowledge of the Panamanian banking and business environment.

Under the Managing Director will be two Loan and Investment Officers and an Operations and Administrative Officer.

The Loan Officer will analyze proposed projects and submit them to the Loan and Investment Screening Committee of the Board for approval.

One Loan and Investment Officer will specialize in the area of agribusiness and will evaluate all potential loans and investments that FIDESA might make in this area. The other Loan and Investment Officer will evaluate potential loans and investments in other manufacturing and processing industries.

The Operations and Administrative Officer will have had previous experience in the areas of accounting, management information systems, payroll, cash management, etc. He/She will be responsible for the operation and financial management of FIDESA.

Finally, the Advisor to the General Manager will have extensive experience in developmental lending. He will assist the Managing Director in the initial start-up operations of FIDESA, in developing credit policies, in evaluating potential projects to which to lend and will share his knowledge of development banking with the professional staff. He/She will also be a non-voting member of the Board of Directors.

C. Summary of the Financial Analysis

The full financial analysis is presented in Annex VII-C. and consists of a base case analysis and a sensitivity analysis of key variables.

The most crucial concern for private participants is sustainable profitability. It depends in large part on two variables; the level of operation and the cost of financial resources available to the institution.

At a very low level of operation, even with a very low cost of loan funds, the institution would not show a reasonable rate of return for the prospective investors. Furthermore, at such a level of operation, the institution would not have the desired economic impact. Conversely, at a very high level of operation, even with a relatively high cost of loan funds, the institution could show a reasonable rate of return. An attempt, however, to predicate the viability of the institution on a high volume of operation would be disastrous if demand to sustain such levels is not forthcoming.

The major requirements for the establishment of the proposed institution, therefore, are a realistic level of operation commensurate with demand, a prudent loan to equity ratio, the availability of loan funds at a cost that would result in a reasonable rate of return to the investors, and finally, the generation of sufficient resources so that the institution can sustain its operation subsequent to the repayment of the loan.

In making the necessary financial projections to satisfy the above requirements, a major inhibiting factor is the condition imposed by the current A.I.D. policy that the rate of interest of A.I.D. loans should be at or near the Treasury Department interest rate. This was the subject of extensive discussion at the time of PID approval. With the application of such a rate of interest, the financial viability of the project could not be maintained and, therefore, the project would offer little inducement to private investors. AID/W suggested a formula which required the borrower to pay an interest rate of 5 percent. The borrower, however, was required to allocate an additional 5 percent to a special loan loss reserve. In this way, funds which would have been earmarked for interest payment are instead used to underwrite part of the borrower's risk. The formula provides that if the special loan loss reserve is not fully expended from losses in any year and the reserve exceeds more than 2 percent of the Borrower's net loan portfolio, then one half of that excess will be paid to A.I.D.. However, that share ratio can be altered in response to major changes in lending rates. In making the risk-sharing concession, and thereby, improving the financial viability and profitability of the project, USAID recognizes the expectations of the Panamanian investors. This risk-sharing provision enables the project to provide adequate returns to investors at an acceptable level, which still precludes excessive profits.

The project was designed to include these provisions. The initial capital of the bank will be US$4.5 million and the USAID loan US$18 million; i.e. debt-equity ratio of 4:1. The share capital of the bank would be paid-in over a 4 year period and the project loan fund would be disbursed over this same time frame. In each year, the disbursement of the USAID loan would follow the increase in the paid-in capital of the bank and its disbursement to borrowers. The USAID loan would carry an interest rate of 5 percent per annum. The loan would be repaid in 20 years with a grace period of 10 years.

The write-offs for extraordinary bad debt would not occur until FIDESA had exhausted its normal bad debt reserve. That reserve level, which will be maintained by FIDESA from its own resources, will be consistent with prudent commercial practice. In this project, it will be established at a level equal to 1 percent of the dollar amount of new loans made each year. At the end of the year, any residual in this account will be carried over to the next year. Extraordinary bad debt expense has been assumed to be 1 percent of the dollar amount of new loans made each year.

It is assumed that when FIDESA makes its final payment of the A.I.D. loan, it will liquidate the "Reserve for Extraordinary Bad Debt". Proceeds from this reserve will be divided equally between A.I.D. and FIDESA.

The projections assume that the interest charged on loans will be 13 percent (which is approximately 2 points above those rates charged by commercial banks for 5 years loans) and that a 2 percent closing fee will be charged on all medium- and long- term loans that are made. For purposes of the projections, it is assumed that half of the loans made will be of a medium- and long- term nature with the remainder being for permanent working capital.

In year 1, the projections assume that a total of US$4.8 million in loans will be made. This is based on discussions with the organizing group who already have several potential projects that could be funded with FIDESA resources.

An analysis of the proforma financial statements of the base case shows that FIDESA would suffer a modest loss in the first year of operation but in subsequent years would register profits so that by year 4, it would be able to pay dividends and maintain an adequate level of retained earnings. Maximum dividends that could be declared are 60 percent of "Net Income After Taxes" for that year and would come from this line item. Retained earnings would be used to build up the capital base and thus insure self-sufficiency.

Sensitivity analyses that were performed on the base case show that FIDESA would be most sensitive to the interest rate charged to the borrower and the volume of operation.

The base case shows that FIDESA would have total assets of about US$25 million in year 10 of its operation. Retained earnings will be US$2.5 million. The debt/equity ratio would be about 2.7:1.

With the commencement of the repayment of the loan in year 11 and without the replenishment of the resources of the bank, there would be a decline in the volume of operations. Nevertheless, even under this assumption, the bank would have a sufficiently large portfolio to continue viable operations. However, more realistically, the project assumes that in year 11, and very possibly prior to that time, FIDESA --having established its sound business practices, a strong loan portfolio, its professionalism in development lending and, most importantly, its credit worthiness-- would mobilize additional resources from the market place, as well as from international and bilateral lending agencies. On a conservative basis, it has been assumed that FIDESA will have access to resources equal to the repayments of the initial USAID loan plus an additional US$4.5 million through year 20.

The assumptions for the financial projections of FIDESA in the second decade of its operation are the same as in the first, except that the cost of new funds to FIDESA would be 8 percent without a risk-sharing provision. Based on these assumptions, the bank would have a net loan portfolio of about US$33 million in year 20. Investors equity would amount to US$11 million. The debt to equity ratio would be about 2.1:1.

D. Summary of Economic Analysis

The services of the consulting firm Investigación y Desarrollo, S.A. (INDESA) were contracted to evaluate the economic impact of the project on gross investment, sales, value added, employment and balance of payments. Their full report is in Annex VII.D.

The evaluation of the impact of the operations of FIDESA was developed on the basis of the effects of the projects to be financed by it on selected economic variables. The underlying assumption was that those projects would only be executed if the resources provided by FIDESA were to be made available. In other words, the financing that FIDESA will offer will not replace those currently being offered by existing financial institutions. Therefore, the whole of the impact of such projects is to be attributed to the lending operations of FIDESA. It was also assumed that all the funds available for lending will be disbursed every year. The loan mix of FIDESA was assumed to be a diversified portfolio consistent with an attractive rate of return and with the key economic policy objectives such as the creation of employment, the generation of foreign exchange earnings and the additional growth of the national economy. The consultants used profiles of typical projects under each category of the mix in order to derive from them a series of aggregate coefficients which could be used to calculate the economic impact of the total lending operation.

1. Gross Investment

It is estimated that the project will generate a total gross investment in ten years of US$104.3 million. Investment reaches a maximum annual amount in year 4 of the projection and subsequently declines. This decline is due to the fact that loans made from the USAID funds are disbursed in the first four years, and afterwards new loans are made from reflows to FIDESA.

Gross Investment for selected years is as follows;

YEAR	TOTAL GROSS INVESTMENT US$ MILLIONS
1	5.23 1/
5	8.22
10	12.25

2. Sales

Sales have been computed on the basis of the above mentioned coefficients and the results for selected years are the following:

YEAR	TOTAL SALES IN US$ MILLIONS
1	8.7
5	76.5
10	174.6

3. Value Added

To compute value added, total costs of production and expenses were separated between payments to factors of production and intermediate purchases of goods and services. The results are:

YEAR	TOTAL VALUE ADDED IN US$ MILLIONS
1	4.0
5	35.2
10	80.7

1/ In the first year of operation, total gross investment will be somewhat higher as the organizing group will pay in $2.5 million in capital rather than the $1.5 million that was originally contemplated.

4. Employment and Payroll

The investment required per job is estimated at US$16,320. Given that loans represent 64.5 percent of the investment, it may be calculated that the projects induced by the institution will generate a total of 95 direct jobs for each US$1.0 million loaned.

The average annual new direct employment induced by the project in the 10 year period has been calculated to be 639 jobs.

Salaries were estimated to average US$4,644 per year. Thus, total salaries paid in year 1 would be on the order of US$1.5 million; reaching US$13 million in year 5 and US$30 million by year 10.

The demand for goods and services in the rest of the economy induced by the additional production from the new projects would generate in turn new or "indirect" employment. The estimate of indirect employment takes into account two main factors: a) total sales of goods and services for the economy as a whole -- US$9,891 per employee in 1984; and b) for the profile of new projects, it has been calculated that each US$1,000,000 in new sales will generate a demand of US$540,000 in goods and services from the rest of the economy. With these two coefficients, it was possible to calculate that each US$1,000,000 in total sales will generate indirect employment for 55 persons elsewhere in the economy.

Projected direct & indirect employment for selected years would be as follows:

YEAR	CUMULATIVE DIRECT EMPLOYMENT	CUMULATIVE INDIRECT EMPLOYMENT
1	320	480
5	2,808	4,213
10	6,391	9,582

By the end of year 10, total direct and indirect employment would exceed 15,000 new jobs.

5. Balance of Payments

The net external balance for the country is positive for all the years considered, even though there is a lag of two years between the time when the loans are made and the moment when exports begin. The net Balance of Payments effect for selected years is as follows:

YEAR	NET BALANCE OF PAYMENTS EFFECT (in U. S. Millions)
1	2.4
5	19.7
10	70.4

6. Conclusions

The measurement of the economic effect which the activities financed by FIDESA would generate are both positive and substantial in all the variables examined. The consultants concluded that FIDESA would have an important impact on the Panamanian economy in terms of gross investment, sales, value added, employment and balance of payments.

E. Social Soundness Analysis

1. Introduction

During the decade of 1960s, Panama's real GDP grew at the annual average rate of 8 percent, one of the highest rates of sustained economic growth in the world. The Government which took power with the military coup late in 1968 sought to introduce major social and economic reforms, while attempting simultaneously to sustain the rapid GDP growth experienced during the 1960s. The results of the Government's activist strategy have been mixed. On the positive side are important advances in social indicators. Infant mortality has been reduced to 25 per 1,000; access to potable water is close to 100 percent; the population growth rate has decreased; and Panama now has one of the best educational systems in Central America. Aggregate economic growth, although notably lower than in the 60's, has averaged 4.9 percent per year from the end of 1968 through 1984. Finally, a United Nations project on critical poverty indicates the distribution of income may have improved slightly since 1970.

However, these latter economic indicators mask serious problems. For example, although the officially reported unemployment rate has shown only slight increases, the official e:timates are widely questioned; and certain private sector spokesmen (not exclusively from the political opposition) insist that the true unemployment rate is between 15 percent and 20 percent. The official figures hide the true magnitude of Panama's emerging and growing unemployment problem. Unemployment has been affected by: (1) A massive program to increase school attendance and retention, especially at the secondary and university levels. As a result, the labor force participation rate of Panamanians between 10 and 24 years of age fell by 10 percent from 1970 to 1980; (2) reduction in the minimum retirement age from 65 to 55, so that the labor force participation rate of those 55 and older dropped by 10 percent in the decade, and; (3) during the decade of the 1970s, the increase in direct public sector employment (7.5 percent per year) accounted for approximately 75 percent of the increase in total employment in the economy. The rate of increase in public-sector employment has slowed somewhat in the first four years of the present decade (5.6 percent per year).

All three of these actions have contributed to Panama's current fiscal and foreign debt problem; and all three have run their course. It would be virtually impossible to increase school attendance again, or to further lower the retirement age. Furthermore, currently required fiscal restraints imply that public sector employment can no longer continue growing. Finally, Panama's demographic data indicate that the labor force will increase by 25 to 30 thousand persons each year in the immediate and medium-term future. Thus, unemployment is an immediate and growing problem for the Panamanian economy.

This situation is, of course, detrimental to the poor who suffer disproportionately from unemployment and shrinking social services budgets. Although economic recovery is necessary for the well-being of the entire population, it is critical for the restoration of a rate of economic growth sufficient to support a desirable level of social services. By directing essential resources to the producers and manufacturers of export products, the project will generate greater production for export, contributing thereby to overall economic recovery. From that will come more employment and added government revenues to maintain better social services.

2. Impact on the Beneficiaries

The objective of this project is to contribute to the reactivation of the Panamanian economy by providing the financial and managerial resources required for growth in the private sector. New investment will generate substantial increases in employment and wages due to the financing of new or expanded manufacturing and agribusiness industries.

The target population can be divided into three distinct categories of beneficiaries that will be reached by FIDESA's operations. The beneficiaries of the project would be (1) entrepreneur/investors, (2) unemployed or underemployed laborers; and (3) farmers. The proposed FIDESA sub-project activities will benefit the above target groups both directly and indirectly. Jobs will be created for unskilled and semi-skilled labor in industrial enterprises and in agribusiness operations as well as among farmers and farm workers who produce agricultural raw materials. Expanded investment opportunities will be offered to local companies and to new entrepreneurs or young businessmen who do not readily have access to capital.

The producers, processors, or manufacturers who benefit from this project will be those who can develop or have a comparative advantage for export marketing. By directing essential resources to the producers and manufacturers of exports, the project will generate both greater production and productivity thereby contributing to overall economic recovery and lower domestic prices. From that will come more employment, tax revenue and better social services.

3. Other Socio-Economic Benefits

Many of FIDESA's sub-projects will involve non-traditional product lines with backward linkages to the rural population. Agribusinesses, such as wood product industries, fisheries and leather product industries are heavily dependent on raw materials and other inputs from the rural sector. Rural employment and the quality of rural life are, therefore, directly linked to financing of agribusiness. On a parallel basis, direct feeder industries will expand, and related service industries such as transportation, warehousing, and others will be stimulated.

The Panamanian Government and society as a whole will also derive substantial direct and indirect benefits from the project due to the injection of an estimated US$100 million in new investment over the next ten years. The economy will be more balanced; GDP will rise, especially in the industrial sector; Government tax receipts are likely to increase; foreign exchange earnings will rise substantially; and private resources, now idle, may be channeled into productive activities.

VII. PROJECT IMPLEMENTATION

A. Project Management

1. Role of USAID

The Mission's Office of Private Sector Development (OPSD) will be responsible for monitoring the project. Project monitoring requires substantial technical knowledge in development banking procedures. Present OPSD staff has the appropriate qualifications. USAID and FIDESA personnel will work closely together during the initial stages of the project to insure that all Conditions Precedent are met and to provide any technical assistance which might be required for a smooth start-up.

Thereafter, guided by the implementation schedule and with the assistance of the Mission Controller, the OPSD will:

- review and forward for processing FIDESA requests for disbursements;
- review proposed sub-loans which require USAID approval;
- review and approve the appointment of the General Manager and the Senior Credit Officer of FIDESA as nominated by the Board of Directors;
- review and approve the contract that is drawn up for the General Manager;
- review and approve the operating budget of FIDESA;
- review FIDESA reports including the monthly operating statement and other related correspondence, taking action as needed;
- supervise project evaluation activities;
- monitor project activities, ensuring compliance with conditions and convenants of the Project Agreement, taking management action as necessary;
- make periodic visits to sub-project sites; and
- report on the project to Mission management and AID/W as appropriate.

To assist the OPSD in carrying out the above monitoring responsibilities, a Mission Project Support Committee will be formed. The Committee will consist of the OPSD Project Officer and representatives from the Office of Development Resources (ODR) and the Office of the Controller (CONT). A full-time Contract Advisor will be assigned to FIDESA for the first 4 years of the project. His/Her role, among others, will be to advise management of USAID procedures and assist in the evaluation of any loans that are made.

2. Responsibilities of FIDESA

FIDESA will be responsible for developing and installing all sublending management systems and procedures (after obtaining USAID's approval). FIDESA will also develop and formalize all lending and investment policies in accordance with the conditions of the USAID loan. 1/

Detailed internal management information requirements will be developed by FIDESA management. This information will include such items as; periodic delinquency reports, current valuations of collateral pledged to secure loans, proforma and historical financial statements of all borrowers, portfolio performance appraisals and cash flow projections. Prior to each direct loan disbursement, FIDESA's management must establish, to the satisfaction of its Board of Directors, that (1) the borrower will be able to service the debt, (2) that any collateral pledged is unencumbered and fairly valued, and (3) that the purpose of the loan is within the lending charter of FIDESA.

FIDESA will systematically supervise its loans and investments in order to monitor their performance and to provide any necessary back-up support. It will compile a set of key indices for each project and require the respective borrowers to supply that information periodically, preferably on a quarterly basis. The collected data will comprise not only financial indices but also information on fulfillment of other project evaluation criteria (i.e. employment generation) as appropriate in each case.

FIDESA will submit to USAID for review and approval detailed resumes of the candidates for the positions of General Manager and Credit Officer.

FIDESA will submit to USAID for review and approval the contract that will be drawn up between FIDESA and the General Manager.

FIDESA will submit to USAID for review and approval its appraisal reports for sub-loans, equity investments and any other obligations exceeding $500,000.

FIDESA's clients will be required to submit on a regular basis information deemed critical to the success of the projects being financed. This information, together with frequent personal contacts and membership on the boards of directors of client companies, will enable FIDESA to detect problems (and opportunities) in the early stages of development and to avoid costly surprises. As a result of the loan supervision activities, FIDESA will be in a position to assist its borrowers in developing their technical and managerial skills. Such "trouble shooting" services will allow the project to continue operating smoothly or to overcome specific bottlenecks which can occur in marketing, production or other areas.

1/ They will be formally submitted and approved as a Condition Precedent to disbursement of loan funds.

FIDESA will maintain a roster of consultants that its clients can draw upon in the event that specialized technical assistance is required.

In addition to quarterly progress reports covering all aspects of the project's activities, FIDESA will be required to submit annual audited statements prepared by an independent accounting firm, and monthly operating statements.

B. Implementation Schedule

The first year's implementation schedule is PERTed and shown in Annex VI. The following is a schedule of key project events during the life-of-project:

	Events	
1.	FIDESA Incorporated	May 1986
2.	Project Paper Approved	Aug. 1986
3.	General Manager hired	Aug. 1986
4.	Capital of US$4.5 million subscribed	Aug. 1986
5.	General License applied for	Aug. 1986
6.	US$2.5 million of subscribed capital paid-in to FIDESA & stockholders general assembly held	Aug. 1986
7.	Project Agreement Signed	Aug. 1986
8.	Organizational structure of FIDESA developed and approved	Sept. 1986
9.	Detailed plan for the periodic audit of sub-loans and investments developed	Sept. 1986
10.	General license obtained	Oct. 1986
11.	CP's to initial disbursement of Grant Funds met	Oct. 1986
12.	Two year operating strategy and budget for direct lending and/or other financial services developed	Oct. 1986
13.	Statement of lending, investment and operational policies of FIDESA developed	Oct. 1986
14.	Principal Office established	Oct. 1986
15.	Additional Staff hired and in place	Nov. 1986
16.	FIDESA opens for business	Nov. 1986
17.	First loan made (Paid-in capital)	Dec. 1986
18.	CP's to initial disbursement of loan funds met	Jan. 1987
19.	Contract Advisor to the General Manager hired and in place 1/	Jan. 1987
20.	CP's to disburse in excess of US$2.5 million met	June 1987
21	First evaluation performed	Nov. 1987
22.	Second evaluation performed	June 1988
23.	CP's to disburse in excess of US$7.0 million met	May 1989
24.	CP's to disburse in excess of US$11.5 million met	June 1989
25.	End of Project evaluation	March 1991
26.	P A C D	Sept. 1991

1/ Short-term Contract Advisor will already have been in place. He/She will have been brought in with PD&S funds.

C. Evaluation Plan

The project envisions three stages of development for FIDESA: 1) start-up, 2) expansion, and 3) self-sufficiency. USAID/Panama's commitment during the five year life-of-project is aimed at providing the financial resources necessary to bring this new institution through stages one and two. Evaluations will be a critical tool for the borrowers and USAID/Panama to enable timely and mutually beneficial adjustments to the project design.

FIDESA will establish an evaluation program as part of its on-going operations that will develop specific measurable indicators of its performance. This program will be used to provide periodic measurements of FIDESA's activities and baseline data for the mid-course and final project evaluation. An illustrative listing of these indicators would include: portfolio size, impact of subloans and investments on non-traditional exports, characteristics of client enterprises, various measures of subproject and portfolio macro-economic and social impact, the numbers of firms and export volume by productive sector and the impact on client enterprises.

First Evaluation

The first evaluation will be performed one year after the accomplishment of conditions precedent to contracting of technical assistance. This evaluation will focus primarily on implementation issues and the achievement of portfolio targets. Subjects of study will include:

FIDESA Institutional Analysis

- The functional organization of the institution
- The definition of authorities and responsibilities within the organization (including contractors)
- Adequacy of Contractor services
- Commitment of resources by the Board of Directors
- Administrative and financial systems
- The project appraisal and loan approval process
- Responsiveness of FIDESA to USAID policies and procedures
- Detailed financial statements
- The adequacy and level of development of the project data system for monitoring and future evaluation
- Compliance with lending criteria

USAID Panama Institutional Analysis

- Relationship with counterpart
- Project record keeping
- Informing and training counterpart personnel in conforming to USAID project administrative and financial procedures
- Turnaround time for approval of PILS, letters, voucher processing, internal reports, etc.

Investment Policy

- Project's influence on policy analysis
- Portfolio analysis (including projects under consideration)

Mid-Point Evaluation

The second formative evaluation is programmed for June 1988. At this point, FIDESA is expected to be fully functioning. The evaluation will again review the same points as covered in the first evaluation. It will examine progress towards the achievement of the project goal and purpose with special emphasis on self-sufficiency.

This part of the evaluation will examine the evolution of FIDESA and compare those findings with the project design. Important aspects of the analysis will include a portfolio review to show export earnings, job generation, gross capital investment, utilization of nationally produced inputs and other appropriate indicators. The information will be drawn from a data base to be developed in the first year of the project.

These analyses will be the basis for a joint USAID/Panama-FIDESA review of the policy and program design framework. The product of the evaluation review may be a redefinition of implementation guidelines for management within the existing project design, and if warranted, the recommendation of specific items for amendment in the project agreement.

Final Evaluation

The summative evaluation will be carried out during the last quarter of the project and will include three broad subjects: 1) a chronicle of project development which describes changes in the project setting, changes in project design, institutional evolution of FIDESA, and a look at the future for FIDESA without further donor assistance, 2) the participation of FIDESA in the Panamanian financial markets and its role in the promotion of export production, and 3) the economic impact of the project and level of achievement of project goals as measured by EOPS indicators.

D. ESTIMATED COSTS AND METHODS OF FINANCING

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

1. Loan Fund

Methods of Implementation	Methods of Financing	Approximate Amount
Borrower (B/G) FIDESA	Direct Reimbursement	$18,000,000

FIDESA will provide medium and long-term credit to export-oriented manufacturing and agribusiness enterprises. These credits will be disbursed in conformance with the terms and conditions set-forth in the Project Agreement.

FIDESA will submit a detailed yearly financial plan projecting its expenditure levels. Funds from paid-in capital and reflows will first be earmarked for operating expenses. Any remaining funds will be used in its loan and investment portfolio. Once projections show that FIDESA only has sufficient funds to continue normal operations for an additional 90 days, it will be entitled to submit vouchers to USAID for loans that it has disbursed and not yet charged to USAID. Thus, USAID disbursals will be based upon anticipated expenses and actual cash needs of FIDESA.

2. Technical Assistance Fund

Methods of Implementation	Methods of Financing	Approximate Amount
1) T.A. US	Direct Pay	$500,000
2) T.A. Institutional Cont (Evaluations)	Direct Pay	100,000
3) Training	Direct Pay	100,000
4) T.A. US/Local Hire Advisory Services Procurement	Direct Reimbursement	600,000
		$1,300,000

The planned methods of financing all fall within the three A.I.D. preferred methods.

3. Implementing and Financing Procedure:

a. As indicated in the above chart, USAID/Panama will contract and directly procure the following services;

(1) An advisor for the first four years will be provided.

(2) Under an Institutional Contract, outside consultants will be provided for three evaluations.

(3) Using PIO/Ps, short term training of approximately 20 months will be provided to FIDESA's staff for periods of 1 to 3 months in project development and appraisal.

(4) During the life-of-project, the Borrower (B/G) will be expected to contract with specialized advisory services for short-term technical assistance.

A Condition Precedent will be included in the Project Agreement stating that FIDESA will provide evidence, acceptable to USAID/Panama, that adequate procurement, payment verification and accounting procedures have been established.

The USAID/Panama Controller has reviewed and approved the detailed assessment of the Methods of Implementation and Financing for the activities included in this project paper as summarized above.

D E Larson
Denton E. Larson
Controller, USAID/Panama

6/24/86
Date

E. Procurement Procedures

1. General Procurement Policies

Procurements by FIDESA and its sub-projects with USAID loan funds will be made in conformance with AID procurement policies as described in AID's Handbook 1, Supplement B, Chapter 19, Intermediate Credit Institutions. The provisions of Handbook 11 will govern purchases made by FIDESA for its own account. The source and origin of all USAID Grant funded procurements will be from Code 000 of the AID Geographic Code Book. As a Condition Precedent to first disbursement, FIDESA will submit for USAID approval its procurement policy and procedures.

FIDESA management will have responsibility for monitoring sub-project procurement and regular reports will be rendered to USAID/Panama. FIDESA will advise its sub-borrowers of the restriction on loan-financed procurement and these purchases will be monitored. It will set up a special system to monitor sub-borrower loan-funded shelf-item procurement of Code 899 origin to assure that the price of any single unit does not exceed US$5,000 and that the total amount of shelf-item purchases made with the proceeds of sub-loans does not exceed US$250,000 unless a special waiver is granted. Detailed information on A.I.D. procurement policies will be transmitted to FIDESA in the initial Project Implementation Letter.

2. Technical Assistance Contracting Plan

As discussed in the Project Description (Section IV), an estimated 84 PM of technical assistance will be utilized by FIDESA during project implementation. Two types of consulting services will be required and are broadly described as specialized technical assistance for project and institutional development and technical assistance for project evaluation. Thus, investment banking firms, specialized consulting firms and independent consultants will be contracted as appropriate.

FIDESA will be responsible for the selection and contracting of the required consultants under the terms and conditions of their approved procurement procedures, with the exception of the Contract Advisor who will be selected by USAID with the concurrence of FIDESA. Given the range of technical expertise that will be required, there will be several methods of contracting for technical advisory services. It is anticipated that FIDESA will enter into a contractual arrangement with the International Executive Service Corps. (IESC) or other institutions and/or other persons in an effort to provide timely assistance in specific areas of expertise. In cases where FIDESA is unable to acquire needed expertise in a discrete area, it may choose to request USAID assistance in contracting for these services. USAID will then identify and select an appropriate firm among the existing A.I.D. Indefinite Quantity Contracts (IQCs) or other sources.

Project implementation will also require the procurement of an institutional contractor to perform the evaluations scheduled in the project design. USAID will issue a Request for Proposals (RFP) for these services and select the most responsive and responsible offeror.

3. Procurement Schedule

Procurement planning and implementation will begin prior to signing the Project Agreement. After USAID approval of FIDESA's procurement policy and procedures, the following schedule will dictate procurement actions;

Month	Activities
August 1986	Complete job description for: - Contract Advisor
August 1986	- Issue PIO/T for Contract Advisor
September 1986	- Advertise contract advisor position in Commerce Business Daily (CBD) and international periodicals.
November 1986	- Evaluation and selection of candidate.
January 1987	- Arrival of Contract Advisor
June 1987	- Preparation of Scope of Work for institutional contractor to perform three project evaluations
July 1987	- Issue PIO/T for institutional contractor - Advertise availability of RFP in CBD
September 1987	- Evaluate proposals.
October 1987	- Selection of contractor

4. Gray Amendment Considerations

In those cases where FIDESA requests USAID assistance in directly contracting for technical services, the Mission will, to the extent practicable, identify and select small, disadvantaged minority and/or women-owned firms that have the expertise in providing the desired technical services. The Mission will provide FIDESA with a directory of eligible organizations from which firms can be identified. It is anticipated that approximately 15 percent of the total budget for Advisory Services ($600,000) will be utilized for this purpose.

F. Training Plan

It is anticipated that the key individuals who will be hired by FIDESA will have extensive experience in commercial and merchant banking but limited experience in development banking.

In order to insure that FIDESA becomes a viable institution, detailed development banking knowledge will be transferred to key members of FIDESA staff. This will be in the form of short-term training so as to not disrupt FIDESA's operations. A total of 20 months of specialized training will be provided to the General Manager, the two Credit Officers and the Operations and Administrative Officer.

Training will take place at such institutions as the World Bank, Harvard and the American Bankers Association, and will be in the areas of investment appraisal and management, development lending, internal controls, credit policy and strategic planning.

Due to the technical nature of the training, cost per participant is estimated to be US$5,000 per month. Efforts will be made to schedule the training as early in the project's life as possible, as long as the operation of FIDESA is not unduly affected.

Proposed training dates and the training that will be given to each of the four individuals is shown in Annex XIV.

A detailed training schedule cannot be developed until the staff has been recruited and qualification deficiencies noted.

VIII. CONDITIONS, COVENANTS AND NEGOTIATING STATUS

The following are the Conditions and Covenants which are applicable to the FIDESA project;

A. Interest Rate and Terms of Repayment

The Borrower shall repay the Loan to A.I.D. in US Dollars within twenty (20) years from the date of first disbursement of the Loan, including a grace period of not to exceed ten (10) years. The Borrower shall pay to A.I.D. in US Dollars interest from the date of first disbursement of the Loan at the rate of five (5) percent per annum on the outstanding disbursed balance of the Loan and on any due and unpaid interest accrued thereon.

A.I.D. will receive a yearly payment from the "Special Account" earmarked for extraordinary bad debt that the Borrower has established. Payment to A.I.D. from this account is defined in Section J.2.

Within six months after FIDESA makes its last payment of the A.I.D. loan, it will close out the "Reserve for Extraordinary Bad Debt". Proceeds from this reserve will be divided equally between A.I.D. and FIDESA.

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

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

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

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

D. Conditions Precedent to Signing of the Project Agreement

Prior to signing the Project Agreement, the Borrower shall, except as A.I.D. may otherwise agree in writing, furnish to A.I.D. in form and substance satisfactory to A.I.D. evidence that:

1. The Borrower has been duly organized and incorporated under the laws of Panama.

2. Capital has been subscribed to the Borrower in the amount of Four Million Five Hundred Thousand United States Dollars (US$4,500,000) and Two Million Five Hundred Thousand United States Dollars (US$2,500,000) has been paid-in.

E. Conditions Precedent to Disbursement

Conditions Precedent to First Disbursement (Grant and Loan). Prior to the first disbursement of the Assistance, or to the issuance by A.I.D. of documentation pursuant to which disbursement may be made, FIDESA will, except as A.I.D. may otherwise agree in writing, furnish to A.I.D., in form and substance satisfactory to A.I.D., the following:

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

2. A statement of the names of the persons holding or acting in the office of FIDESA specified in Section 9.2, and a specimen signature of each person specified in such statement.

3. The names of its shareholders and the number of shares owned by each shareholder.

4. A statement of FIDESA's procurement policy and procedures.

5. Evidence that the Borrower can legally operate under the Laws of Panama as an intermediate finance institution.

F. Conditions Precedent to the Disbursement for Lending Activities (Loan)

Prior to the disbursement under the Loan, or to the issuance by A.I.D. of commitment documents under the Project Agreement pursuant to which disbursement will be made under the Loan, FIDESA will, except as A.I.D. may otherwise agree in writing, furnish to A.I.D. in form and substance satisfactory to A.I.D., the following:

1. Evidence of the FIDESA's Charter or Articles of Incorporation, By-Laws, the establishment of its Principal Office, and a statement of the organizational structure and staff including evidence that the Managing Director is employed and that FIDESA has employed adequate staff to carry out its operations.

2. A Statement of Investment and Operational Policies of FIDESA, including specific lending and investment criteria, and the methodology for performing economic and financial analyses consistent with the terms and conditions contained in the Project Paper.

3. A duly authorized detailed plan for (1) the periodic audit of sub-loans and investments and (2) a projected two-year operating strategy and budget for direct lending investments and/or other financial services.

4. Evidence that the U.S. $2.5 Million in paid-in capital has been earmarked for administrative and operating expenses and/or utilized for the purposes of the Project.

5. Evidence that no institutional investor owns more than 20 percent of total shares and that no individual investors owns more than 1 percent of total shares of FIDESA. A minimum of 10 percent of subscribed capital shares will be subscribed to by individual investors.

6. Evidence that adequate procurement, payment verification and accounting procedures have been established.

G. Conditions Precedent to Additional Disbursements for Lending Activities (Loan).

Prior to any additional disbursement under the Loan, or the issuance of commitment documents under the Project Agreement to which disbursement may be made in excess of US$2.5 Million, US$7.0 Million and US$11.5 Million, FIDESA will, except as A.I.D. may otherwise agree in writing, furnish to A.I.D. in form and substance satisfactory to A.I.D.

1. In Excess of US$2.5 Million

(a) Evidence that US$3.5 Million of the subscribed capital of FIDESA has been paid in and utilized for the purposes of the project.

(b) Evidence that the unencumbered liquid assets of FIDESA have not exceeded US$1.0 Million for any period exceeding 12 months.

2. In Excess of US$7.0 Million

(a) Evidence that US$4.0 Million of the subscribed capital of FIDESA has been paid in and utilized for the purposes of the Project.

(b) Evidence that the unencumbered liquid assets of FIDESA have not exceeded US$1.5 Million for any period exceeding 12 months.

3. In Excess of US$11.5 Million

(a) Evidence that US$4.5 Million of the subscribed capital of FIDESA has been paid in and utilized for the purposes of the Project.

(b) Evidence that the unencumbered liquid assets of FIDESA have not exceeded US$2.0 Million for any period exceeding 12 months.

H. Covenants

FIDESA shall covenant that, unless A.I.D. otherwise agrees in writing:

(a) It will not use Loan funds to pay administrative or operating expenses.

(b) It will not incur any indebtedness which would enjoy a position superior to the obligations incurred under the Loan.

(c) It will use Project reflow of funds in a manner which will achieve and promote the purposes and objectives of the Project.

(d) It will not lend to Government owned or operated enterprises or enterprises in which the Government has a participation.

(e) The Contract Advisor to the Managing Director of FIDESA shall be a non-voting member of the Board of Directors of FIDESA.

(f) It will obtain prior written USAID approval of the person selected to fill the Mananging Director's position and any changes made in this position.

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E.O. 12356: N/A
TAGS:
SUBJECT: SUBJECT: PANAMA PRIVATE SECTOR EXPORT FINANCING PROJECT (525-0261)

1. THE DAEC REVIEWED AND APPROVED THE SUBJECT PID ON JUNE 18, 1985. AID/W WILL REVIEW THE PP. GUIDANCE FOR PROJECT DEVELOPMENT IS PROVIDED PARAS 3 TO 13. THE ISSUE OF AID TERMS TO THE PROPOSED EXPORT DEVELOPMENT BANK (EDB) WAS NOT RESOLVED AT THE REVIEW. THIS ISSUE IS FURTHER DISCUSSED PARA 2, AND WILL BE SUBJECT OF SEPTEL.

2. TERMS OF A.I.D. LOAN. AS MISSION IS AWARE, THE FAA AND AGENCY GUIDELINES REQUIRE THAT AID LENDING TO PRIVATE INSTITUTIONS BE NEAR MARKET RATES. AGENCY GUIDELINES SPECIFY CONDITIONS UNDER WHICH CONCESSIONALITY MAY BE JUSTIFIED. AT THE REVIEW, IT WAS QUESTIONED WHETHER THE NEED FOR CONCESSIONALITY COULD NOT BE ELIMINATED BY RAISING INTEREST RATES TO THE BORROWERS AND PROVIDING THE A.I.D. LOAN AT THE APPROXIMATELY 7 PERCENT TREASURY BILL RATE AS REQUIRED BY A.I.D. POLICY. IT WAS AGREED THAT A SENSITIVITY ANALYSIS SHOULD BE CARRIED OUT TO GAUGE THE EFFECTS OF THE MAJOR FINANCIAL VARIABLES, I.E. AID LOAN TERMS, INTEREST RATES TO FINAL BORROWERS, AND BAD DEBTS, ON THE EDB'S FINANCIAL VIABILITY. PRELIMINARY WORK ON

THE SENSITIVITY ANALYSIS WAS CARRIED OUT PRIOR TO HIS RETURN TO POST BY MISSION REPRESENTATIVE, WITH ASSISTANCE OF LAC/DR/PS OFFICERS. ADDITIONAL ANALYSES CARRIED OUT BY USAID/P WERE RECEIVED ON JULY 22, AND ARE BEING REVIEWED BY LAC/DR.

LAC IS ACTIVELY DISCUSSING THE CONCESSIONALITY ISSUE WITH PPC AND WILL ADVISE RESULTS SEPTEL.

3. ALTERNATIVES TO CREATION OF A NEW INSTITUTION. AID POLICY FAVORS WORKING WITH EXISTING INSTITUTIONS OVER CREATING NEW ONES. THE PRINCIPAL ALTERNATIVE TO THE PROPOSED NEW INSTITUTION IS ONE OR MORE OF PANAMA'S COMMERCIAL BANKS. LAC UNDERSTANDS THAT, IN ORDER TO ACHIEVE THE PROJECT PURPOSE, THE FINANCIAL INTERMEDIARY OR INTERMEDIARIES MUST BE WILLING TO APPRAISE PROJECTS USING DEVELOPMENT FINANCE CRITERIA, AND, IN COMPARISON

54

COLLATERAL. THE LATTER WOULD BE COMPENSATED BY CHARGING A HIGHER INTEREST RATE THAN THAT CHARGED BY COMMERCIAL BANKS. MISSION REPRESENTATIVES ARGUED THAT GETTING PRIVATE BANKS TO CHANGE THEIR POLICIES FOR A SMALL PORTION OF THEIR LENDING ACTIVITY WOULD BE NEAR IMPOSSIBLE. ON THE OTHER HAND, THERE WAS NO ASSURANCE THAT THE PROPOSED NEW INSTITUTION WOULD FOLLOW POLICIES AND PRACTICES SIGNIFICANTLY DIFFERENT FROM THE COMMERCIAL BANKS. CONCERN WAS HEIGHTENED IN THIS REGARD BECAUSE MOST OF THE PROBABLE SHAREHOLDER GROUPS DISCUSSED AT THE REVIEW REPRESENT CONSERVATIVE FINANCIAL INTERESTS, AND BECAUSE IT WILL BE DIFFICULT TO FIND PANAMANIANS WITH THE RIGHT KIND OF DEVELOPMENT FINANCE UNDERSTANDING AND EXPERIENCE TO STAFF THE NEW INSTITUTION.

IT WAS CONCLUDED THAT THE ALTERNATIVE OF CHANNELING LONG TERM CREDIT THROUGH COMMERCIAL BANKS (THROUGH REDISCOUNT LINES OR OTHER MECHANISMS) NEEDS TO BE EXPLORED FURTHER. THE CENTRAL QUESTIONS ON WHICH ALTERNATIVE (EDB OR COMMERCIAL BANKS) BEST SUPPORTS THE PROJECT PURPOSE OF INCREASING EXPORTS OVER TIME ARE: THE DEGREE TO WHICH A NEW INSTITUTION WOULD, IN FACT, PROVIDE SIGNIFICANTLY HIGHER QUALITY AND MORE APPROPRIATE FINANCIAL SERVICES THAN EXISTING CHANNELS, AND WHETHER THIS IS LIKELY TO RESULT IN MORE EXPORT SALES OVER TIME (TAKING INTO ACCOUNT THE HIGHER RISK OF EVENTUAL FINANCIAL FAILURE OR BECOMING INOPERATIVE INHERENT IN WORKING THROUGH A NEW INSTITUTION).

LAC UNDERSTANDS THAT MISSION HAS DISCUSSED WITH PRIVATE BANKS THEIR INTEREST IN THE PROJECT, BUT THAT SPECIFIC PROPOSALS CONTAINING INDUCEMENTS TO PRIVATE BANK PARTICIPATION HAVE NOT BEEN ADVANCED BY EITHER THE MISSION OR THE BANKS. TO DEVELOP A BASIS FOR FURTHER ANALYSIS OF THIS ISSUE, IT IS SUGGESTED THAT THE MISSION DISCUSS SPECIFIC PROPOSALS, WHICH CONTAIN STRONG INCENTIVES TO ENCOURAGE PARTICIPATION, WITH THE MORE LIBERAL PRIVATE BANKS. THE PP SHOULD CONTAIN A DESCRIPTION OF THE PROPOSALS AND THE RESPONSES, AND THE BASIS FOR THE MISSION'S FINAL DECISION.

4. FINANCIAL VIABILITY. IF A NEW INSTITUTION IS RECOMMENDED, ITS FINANCIAL VIABILITY NEEDS TO BE CLEARLY DEMONSTRATED IN THE PP. THE CRITERIA OF FINANCIAL VIABILITY SHOULD BE WHETHER THE INTERMEDIARY WILL BE ABLE TO PAY REASONABLE DIVIDENDS TO SHAREHOLDERS, PAY BACK THE AID LOAN, AND STILL BE A GOING CONCERN AFTER THE AID LOAN IS PAID BACK. ADDITIONAL DISCUSSION OF THIS ISSUE WILL BE INCLUDED IN SEPTEL ADVISING OUTCOME OF CONCESSIONALITY ISSUE.

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CONCLUDED THAT THE LONG TERM SUCCESS OF THE IDB WOULD DEPEND HEAVILY ON ITS ABILITY TO MOBILIZE ADDITIONAL CAPITAL AND LENDING RESOURCES. IT IS SUGGESTED THAT THE IDB SHOULD AGREE TO DEVELOP AND IMPLEMENT A CAREFULLY CONCEIVED PLAN FOR RESOURCE MOBILIZATION. THE MISSION MAY WISH TO INCLUDE SIGNIFICANT TA IN RESOURCE MOBILIZATION AS A GRANT FUNDED ACTIVITY. IN ADDITION TO THE LOCAL CAPITAL MARKET, POSSIBLE SOURCES OF ADDITIONAL CAPITAL INCLUDE THE IDB AND WORLD BANK GROUP'S IFC. THE PP SHOULD INCLUDE A DESCRIPTION OF THE RESOURCE MOBILIZATION STRATEGY, AND A TIME PHASED PLAN FOR ITS IMPLEMENTATION. IF THE PLAN IS NOT DEVELOPED BY THE IDB, THE MISSION'S EXPECTATIONS FOR THE IDB'S STRATEGY SHOULD BE PRESENTED. MISSION MAY WISH TO CONSIDER MAKING FINAL TRANCHES OF THE AID LOAN DEPENDENT ON PROGRESS IN MOBILIZING ADDITIONAL NON-AID RESOURCES.

5. LENDING ENVIRONMENT. THE DEGREE TO WHICH THE POLICY ENVIRONMENT, ECONOMIC CONDITIONS, AND INVESTMENT CLIMATE ARE CONSTRAINTS TO SUCCESSFUL DEVELOPMENT OF A LONG TERM DEVELOPMENT-ORIENTED LENDING MECHANISM WAS DISCUSSED. THE PP SHOULD CONTAIN AN ANALYSIS OF THE DEGREE TO WHICH THE POLICY ENVIRONMENT, ECONOMIC CONDITIONS, AND INVESTMENT CLIMATE OFFER REASONABLE PROSPECTS FOR ESTABLISHING A PROFITABLE, PRIVATE SECTOR MEDIUM AND LONG-TERM LENDING MECHANISM BASED ON DEVELOPMENT CRITERIA, THE POLICY CHANGES NEEDED TO CREATE AN ECONOMIC CLIMATE MORE AMENABLE TO LENDING OF THIS TYPE, AND HOW THEY HAVE BEEN OR WILL BE ADDRESSED.

6. BANK OWNERSHIP. THE MISSION REPRESENTATIVE ADVISED THAT THE MISSION WILL ATTEMPT TO FIND FOUR OR FIVE INTERESTS (DISA STOCKHOLDERS, BANKS, INSURANCE COMPANIES, POSSIBLY A MAJOR U.S. CORPORATION) TO OWN THE IDB. CONCERN WAS EXPRESSED THAT IT COULD BE DIFFICULT TO FIND A MUTUALLY COMPATIBLE SET OF OWNERS, AND THAT OVER TIME BANK OWNERSHIP COULD FALL INTO THE HANDS OF ONE OR TWO OF THEM. IT WAS NOTED THAT DISA'S ORIGINAL PLANS WERE TO ENSURE WIDE PARTICIPATION, AND THAT IN THE LONG RUN, IT WAS UNSUCCESSFUL IN THIS REGARD. IT IS SUGGESTED THAT AID ATTEMPT TO RETAIN SOME CONTROL OVER SUBSEQUENT OWNERSHIP CHANGES. MISSION MAY WISH TO REQUIRE THAT IT APPROVE THE APPOINTMENT OF THE CEO. OWNERSHIP OF THE IDB SHOULD BE BROAD, SO THAT USG WILL NOT BE TOO CLOSELY IDENTIFIED WITH ANY ONE GROUP, WHICH WAS THE CASE WITH DISA.

7. DEMAND FOR PROJECT FUNDS BY SUB-BORROWERS. THE MISSION'S INTENTION TO EXAMINE CAREFULLY THE DEMAND FOR LONG-TERM DEVELOPMENTAL LOANS EARLY IN PP DEVELOPMENT IS SUPPORTED. CONCERN ABOUT LOAN DEMAND WAS HEIGHTENED BECAUSE OF SLOW MOVEMENT OF THE IDB/BNP INDUSTRIAL CREDIT LOAN, WHICH TO DATE HAS DISBURSED ONLY DOLS 2 MILLION OF THE DOLS 15 MILLION INDUSTRIAL CREDIT AVAILABLE. ACCORDING TO WASHINGTON IDB STAFF, THIS IS A SLOWER DISBURSEMENT PERIOD THAN NORMAL, AND THE LOAN MAY

20

APPARENTLY THE RESULT OF: (1) INVESTOR UNWILLINGNESS TO BORROW LONG-TERM FUNDS UNTIL THE GOP DEVELOPS AN INDUSTRIAL POLICY AND INVESTORS GAIN CONFIDENCE THAT GOP WILL SUPPORT THIS POLICY IN THE LONG-TERM, AND (2) POSSIBLY SATED DEMAND FOR MEDIUM-SIZED LOANS, GIVEN THE MANY PREVIOUS LOANS IDB HAS DISBURSED TO THIS GROUP. THE SLOW DISBURSEMENT OF IDB FUNDS MAY BE DUE NOT TO LACK OF FINANCING BUT RATHER LACK OF WELL-CONCEIVED PROJECTS. IN ANALYZING THE LOAN DEMAND, THE PP SHOULD EXPLORE HOW INVESTORS ARE GETTING CAPITAL NOW, THE REASONS FOR THE SLOW MOVEMENT OF IDB FUNDS, POTENTIAL OVERLAP WITH THE PROPOSED PROJECT, AND THE EFFECT OF THE APPARENT DEMAND ON THE LIKELIHOOD OF PROJECT SUCCESS.

THE MISSION'S DECISION TO NOT GO FORWARD WITH THE PROJECT UNLESS INDUSTRIAL POLICY CHANGES ARE MADE, OR A DEMAND STUDY INDICATES THERE IS SUFFICIENT DEMAND UNDER PRESENT CONDITIONS, IS ALSO SUPPORTED. IF, HOWEVER,

POLITICAL UNCERTAINTY HAS LED TO A TEMPORARY DECLINE IN A DEMAND FOR LONG-TERM LENDING, OR IF IT APPEARS THAT IDB HAS COVERED THE MARKET FOR LENDING OF THIS NATURE, THE MISSION MAY WANT TO CONSIDER REFORMULATING THE PROJECT TO PROVIDE TECHNICAL ASSISTANCE TO POTENTIAL EXPORT FIRMS IN DEVELOPING GOOD PROJECT IDEAS, AND PERHAPS CONSIDER A CREDIT ACTIVITY AT A LATER DATE.

E. SUBLENDING CRITERIA. THE PP SHOULD CONTAIN THE PROPOSED CRITERIA FOR SUB-LOAN APPROVAL AND BORROWER ELIGIBILITY. IN DESIGNING THIS ASPECT OF THE PROJECT, MISSION MAY WISH TO REVIEW THE CRITERIA USED IN THE COSTA RICA PRIVATE INVESTMENT CORPORATION (PIC) PROJECT. TO ENCOURAGE LENDING ON THE BASIS OF PROJECT ANALYSIS RATHER THAN ON THE STRENGTH OF COLLATERAL, THE CRITERIA SHOULD INSURE THAT THE EDB DOES NOT REJECT PROPOSALS SIMPLY BECAUSE OF INSUFFICIENT BORROWER COLLATERAL.

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AGREEMENT.

10. GOP GUARANTY. IT WAS CONCLUDED THAT A GOP GUARANTY OF LOAN REPAYMENT WOULD NOT BE NEEDED.

11. MULTI-PURPOSE NATURE OF INSTITUTION. SINCE THE FDB WILL PROVIDE LOANS TO BOTH MANUFACTURING AND AGRICULTURAL SECTORS, THE PP SHOULD DESCRIBE THE MEASURES THAT WILL BE TAKEN TO ENSURE THAT THE FDP PROVIDES QUALITY SERVICES TO FIRMS IN BOTH SECTORS.

12. EMPLOYMENT. THE PP SHOULD CONTAIN AN ANALYSIS OF THE DIRECT AND INDIRECT EMPLOYMENT EFFECTS OF THE PROJECT. THE COST PER JOB AS ESTIMATED IN THE PID IS VERY HIGH FOR A PROJECT WHOSE CHIEF BENEFIT TO AID'S TARGET POPULATION WILL BE EMPLOYMENT. MEASURES SHOULD BE TAKEN TO MAXIMIZE EMPLOYMENT BENEFITS IN THIS PROJECT, TO ENCOURAGE LENDING TO LABOR-INTENSIVE FIRMS AND SECTORS AND TO THOSE WITH HIGH EMPLOYMENT MULTIPLIER EFFECTS

13. DETAILED FIRST YEAR IMPLEMENTATION PLAN. MISSION IS ADVISED THAT LAC/DR WILL NOW BE REVIEWING THE IMPLEMENTATION PROGRESS OF NEWLY AUTHORIZED PROJECTS AS PART OF THE SEMI-ANNUAL PIPELINE REVIEW. TO PERMIT INFORMED DISCUSSION, PLEASE INCLUDE DETAILED FIRST YEAR IMPLEMENTATION PLAN IN PP, AND INCLUDE DISCUSSION OF ACHIEVEMENT OF EACH PLANNED ACTIVITY IN SEMI-ANNUAL PROJECT STATUS REPORTS. SHULTZ

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E.O. 12356: N/A
TAGS:
SUBJECT: PRIVATE SECTOR EXPORT FINANCING PROJECT (525-0261)

1. A MEETING WAS HELD OCTOBER 17 IN THE ADMINISTRATOR'S OFFICE TO DISCUSS THE INTEREST RATE QUESTION AND RELATED ISSUES WHICH HAVE DELAYED PROJECT DEVELOPMENT. PARTICIPANTS INCLUDED M. PETER MCPHERSON; MALCOLM BUTLER; LEW READE, PRE; ALLISON HERRICK, PPC; AND RON LEVIN.

2. MR. BUTLER SAID LAC WAS PREPARED TO APPLY THE PPC MODEL SUGGESTED BY R. DERHAM, PPC, AS ELABORATED IN A COMPUTER ANALYSIS OF PROJECTED BANK FINANCES PREPARED BY PRE CONSULTANT MAURY CLAEYS. THAT MODEL EMBODIES: A TEN PERCENT RATE OF INTEREST ON AID'S LOAN TO THE PRIVATEEXPORT BANK, AND A PROCEDURE WHEREBY AID SHARES SOME OF THE RISKS AND RELATED COSTS OF BAD DEBTS ON LOANS TO BANK CUSTOMERS. A SPECIAL LOAN LOSS RESERVE FUND WOULD BE ESTABLISHED TO FINANCE HALF OF BAD DEBTS ABOVE THOSE BORNE BY THE BANK'S REGULAR LOAN LOSS RESERVE. THE SPECIAL LOAN LOSS RESERVE FUND WOULD BE CAPITALIZED OUT OF LOAN INTEREST PAID TO AID BY THE EXPORT BANK; HALF THE INTEREST PAID WOULD GO INTO THE FUND INITIALLY. IN APPLYING THIS MODEL DURING PP DEVELOPMENT AND NEGOTIATION WITH INVESTORS, THE AID MISSION MAY HAVE TO ADJUST MODEL ASSUMPTIONS AND MARGINS SLIGHTLY BUT THE PRINCIPLE OF THE RESERVE AND LIMITED SHARING OF LOSS BY THE U.S. SHOULD BE RETAINED.

3. R. LEVIN EXPLAINED THE IMPORTANCE TO THE AID MISSION OF RESOLVING THE INTERNAL AID DEBATE ON THE INTEREST RATE ISSUE. POTENTIAL INVESTORS IN PANAMA, WHO NEED TO RAISE DOLS 4.5 MILLION IN LOCAL EQUITY, HAVE BEEN WAITING FOR OVER A YEAR FOR AID TO DECIDE THE TERMS OF THE AID LOAN. FOR FINAL PROJECT DESIGN, THE MISSION NEEDS TO BE ABLE TO FINALIZE ITS FINANCIAL PROJECTIONS AND TO DISCUSS THEM WITH THE INVESTOR GROUP. THE MISSION FEELS IT SHOULD NOT MOVE TO FINAL PP PREPARATION, INVOLVING DETAILED PLANNING WITH POTENTIAL PRIVATE INVESTORS, IF BASIC AID POLICY ISSUES ARE UNRESOLVED.

4. A. HERRICK NOTED THREE PPC CONCERNS: 1) THE INTEREST

59

RATE; 2) THE RISK SHARING CONCEPT; AND 3) THE NEED TO AVOID EXCESSIVE RETURNS TO INVESTORS THAT COULD JEOPARDIZE BANK CAPITALIZATION. IT WAS AGREED THAT THE FIRST TWO CONCERNS WERE RESOLVED BY LAC'S ACCEPTANCE OF THE PPC MODEL.

5. A) THE ISSUE ABOUT RETURNS TO INVESTORS GENERATED MORE DISCUSSION. LEVIN POINTED OUT THAT RETURNS MUST BE COMMENSURATE WITH RATES OF RETURN TO INVESTMENT IN PANAMA; HE NOTED THE IMPOSSIBILITY OF CALCULATING PRECISELY THE RATES AND TIMING OF INVESTOR RETURNS REQUIRED TO ATTRACT PRIVATE INVESTMENT INTO THE PROJECT. LEVIN CLARIFIED THAT THE AID MISSION PLANS TO RE-EXAMINE THE RETURNS ON COMPARABLE INVESTMENT IN PANAMA AND, USING THE PPC MODEL, TO FORMULATE THE MISSION'S OFFER TO THE INVESTORS ACCORDINGLY. IT IS HOPED THAT THE OFFER WILL BE SUITABLE TO THE POTENTIAL INVESTORS, BUT IF THE TERMS OFFERED TURN OUT TO BE UNACCEPTABLE, THEN AID WILL NOT MAKE A COUNTER-OFFER AND WILL DROP THE PROJECT.

B) TO PROTECT CAPITALIZATION OF THE BANK, IT WAS AGREED THAT DIVIDENDS TO INVESTORS COULD NOT BE PAID OUT OF CAPITAL. DIVIDENDS MUST BE QUOTE EARNED OUT UNQUOTE OF NET PROFITS FROM OPERATIONS; DIVIDENDS CAN BE SUITABLY RESTRICTED DURING THE EARLY YEARS TO ASSURE ADEQUATE CONTINUED CAPITALIZATION OF THE BANK. COMMENT: WHILE THE MODEL DOES NOT CALL FOR PAYMENTS TO OWNERS FROM CAPITAL, THIS DECISION NOT TO MAKE PAYMENTS FROM CAPITAL NOW BECOMES MORE EXPLICIT. END COMMENT. THE SUBJECT

SHOULD BE TREATED EXPLICITLY IN THE PP AND IN THE MISSION'S PLANS AND DISCUSSIONS WITH POTENTIAL INVESTORS.

6. WITH GENERAL AGREEMENT ON RESOLUTION OF THE THREE PPC ISSUES, IT WAS DECIDED TO DELEGATE PP APPROVAL AUTHORITY TO THE MISSION -- TO FACILITATE PROJECT PLANNING AND DEVELOPMENT. SHULTZ

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ACTION: USAID-2 INFO: DCM ECON CHRON

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PP RUEHZP
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ZNR UUUUU ZZH
P 101752Z APR 86
FM SECSTATE WASHDC
TO AMEMBASSY PANAMA PRIORITY 2104
BT
UNCLAS STATE 111803

LOC: 2834/5/6
10 APR 86   175
CN: 56740
CHRG: AID
DIST: AID

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E.O. 12356: N/A
TAGS:
SUBJECT:
PRIVATE SECTOR EXPORT FINANCING PROJECT
(525-0261)

REFERENCE: STATE 325041(1985)

OFF	ACT	INF
DIR		✓
DEP		✓
ODP		✓
ODR		✓
CONT		
EXO		
RLA		
RCO		
AGR		
PSD	✓	
ENG		
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1. (A) FOR PURPOSES OF STRUCTURING AID'S LOAN TO THE PROPOSED EXPORT BANK, REFTEL APPROVED USE OF A MODEL THAT PROVIDED FOR A NOMINAL RATE OF INTEREST CLOSE TO THE U.S. TREASURY BORROWING RATE AT THE TIME ON INSTRUMENTS OF SIMILAR MATURITY (10 PERCENT IN THE REFTEL EXAMPLE). THE MODEL CONTEMPLATED THAT HALF THE NOMINAL INTEREST PAYMENTS BY THE EXPORT BANK (5 PERCENT IN THE REFTEL EXAMPLE) WOULD BE PAID TO AID AND THE OTHER HALF WOULD BE PLACED IN A SPECIAL BAD DEBT RESERVE. ANY EXCESS FUNDS IN THE SPECIAL RESERVE, NOT NEEDED FOR BAD DEBT SERVICE, WOULD LATER BE SHARED WITH AID. BY THIS MECANISM, THE BANK AND AID WOULD SHARE SOME OF THE BAD DEBT RISK, THEREBY REDUCING BANK RISKS AND RELATED COSTS, AND INCREASING PROSPECTS FOR PROFITABLE BANK OPERATIONS AND LOCAL INVESTOR PARTICIPATION.

B) APPLICATION OF THIS MODEL, WITH THE ILLUSTRATIVE FIGURES, WOULD MEAN A VARIABLE RETURN TO AID ON THE LOAN OF BETWEEN 5 PERCENT AND 7.5 PERCENT ANNUALLY, DEPENDING ON HOW MUCH THE SPECIAL RESERVE IS ACTUALLY USED TO FINANCE BAD DEBTS.

2. THE AA/LAC HAS APPROVED AN ACTION MEMORANDUM CLARIFYING THAT THE MISSION CAN USE AN INTEREST RATE OF FIVE PERCENT IN THE LOAN AGREEMENT WITH PROVISIONS FOR ADDITIONAL PAYMENTS TO AID FROM THE SPECIAL BAD DEBT RESERVE.

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3. THE PROJECT AGREEMENT SHOULD ALSO INCLUDE THE MAIN PROVISIONS FOR ESTABLISHMENT AND USE OF THE SPECIAL BAD DEBT RESERVE AND FOR PAYMENT TO AID AND TO THE BANK OF EXCESS FUNDS IN THE RESERVE.

4. THE PROJECT AUTHORIZATION SHOULD INCLUDE A BRIEF STATEMENT OF THE INTENT OR RATIONALE BEHIND THE USE OF A

61

VARIABLE RATE OF REPAYMENT TO AID AND A SPECIAL BAD DEBT RESERVE. FYI THE ACTION MEMORANDUM TO THE AA/LAC CONTAINS LANGUAGE THAT MAY BE HELPFUL IN THIS RESPECT. A COPY IS BEING FORWARDED TO THE MISSION. END FYI.

5. THE PAYMENTS TO AID FROM THE EXCESS OR SURPLUS IN THE SPECIAL BAD DEBT RESERVE MAY NOT BE REFERRED TO AS QUOTE INTEREST UNQUOTE IN ANY FORM BUT MAY BE CALLED ANYTHING ELSE APPROPRIATE, FOR EXAMPLE, QUOTE PAYMENTS FROM THE SPECIAL BAD DEBT RESERVE UNQUOTE OR QUOTE PAYMENTS FROM EXCESS (OR SURPLUS) IN THE SPECIAL BAD DEBT RESERVE UNQUOTE.

6. REGARDING THE IMPACT OF FALLING TREASURY BORROWING RATES ON AID'S LOAN TERMS, THE MISSION MAY NEGOTIATE A HIGHER OR LOWER PROPORTIONAL PAYOUT TO THE BANK'S CAPITAL FROM EXCESS FUNDS IN THE SPECIAL BAD DEBT RESERVE IF NECESSARY FOR THE BANK'S FINANCIAL VIABILITY. IN KEEPING WITH CONGRESSIONAL INTENT, THE OVERALL RATE OF RETURN TO AID SHOULD BE, TO THE EXTENT PRACTICAL, AT OR NEAR THE APPROPRIATE U.S. TREASURY RATE.

7. DURING DISCUSSION IN AID/W 06 THE TERMS OF THE AID LOAN, SOME RELATED SUGGESTIONS AROSE THAT ARE PRESENTED BELOW FOR MISSION CONSIDERATION:

QUIDATION OF SPECIAL BAD DEBT RESERVE: THE PROJECT PAPER AND THE LOAN AGREEMENT SHOULD MAKE PROVISION FOR CLOSE OUT OR LIQUIDATION OF THE SPECIAL BAD DEBT RESERVE WHEN THE AID LOAN HAS BEEN REPAID OR AT OTHER APPROPRIATE TIME. THE CONCERN IS THAT AID RECEIVE ITS DESIGNATED PORTION OF THE LIQUIDATED RESERVE.

(B) LOAN DELINQUENCY AUDITS: AS A PRECAUTION TO PROTECT THE BANK'S VIABILITY AND TO MAXIMIZE REPAYMENTS TO AID, THE MISSION SHOULD CONSIDER REQUIRING AN OUTSIDE AUDIT OF OVERDUE LOANS IF THE BANK'S LOAN COLLECTION RATE FALLS BELOW A CERTAIN TRIGGER LEVEL, FOR EXAMPLE 90 PERCENT OF PAYMENTS DUE AND/OR OTHER POINT AT WHICH THE SPECIAL BAD DEBT RESERVE IS ACTIVATED TO FINANCE BAD DEBT. IF SUCH AN AUDIT IS UNDERTAKEN, NEW LENDING OPERATIONS SHOULD BE DEFERRED UNTIL THE AUDIT RECOMMENDATIONS ARE MADE AND ACTED UPON. SHULTZ
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62

FINANCIERA DE EXPORTACIONES, S. A.

LOGICAL FRAMEWORK

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
GOAL	MEASURES OF GOAL ACHIEVEMENT		
To increase economic growth and reduce unemployment	2,700 employment opportunities generated This employment will result in approximately $12.5 million in wages and salaries.	Site visits and surveys	1. GOP does not pass new laws further restricting private sector activity 2. Private investment in exportable goods continues 3. Foreign (esp. U.S.) markets can be succesfully entered by Panamanian companies
PURPOSE	END-OF-PROJECT STATUS		
To generate increased export earnings by substantially increasing private investment in manufacturing and agri-business industries for exportable goods. A private sector development finance institution will be established as a viable instrument for providing medium- and long-term financing, technical assistance and advisory services to the export sector	1. The Project will have established a viable financial institution capable of maintaining and increasing export-oriented production in Panama 2. The co-financing of loans with LAAD and other institutions will have been accomplished 3. Personnel will be trained in development lending 4. The net loan portfolio of FIDESA will be $23.3 million 5. Support services to client enterprises to assure the efficient management of their investment will be in place. 6. The reserve for extraordinary bad debt will be 2% of the net loan portfolio.	1. Project reports, annual independent audits, Project evaluations 2. FIDESA records 3. FIDESA records, Project evaluations 4. FIDESA records 5. FIDESA records 6. FIDESA records	1. Panama export industry can be competitive in world markets 2. Productivity of Panamanian industry improves 3. Suitably qualified personnel can be recruited, trained and retained 4. FIDESA credit terms and services are considered to be adequate incentives for new investors

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
OUTPUTS	**NET LOAN PORTFOLIO ($000)**		
1. Net loan portfolio at the end of each year (Year 1 begins with the disbursement of the first loan)	1. Year 1: 4,700; Year 2: 10,400; Year 3: 15,800; Year 4: 23,000; Year 5: 23,300	1. FIDESA portfolio records and Project reports	1. Substantial demand for medium- and long-range credit for export financing and marketing continues
2. Personnel trained in Project appraisal and evaluation	2. Four (20 person-months of training)	2. FIDESA files	2. Other donors and institutions are willing to provide additional funds
3. Credit and Project monitoring systems functioning efficiently to assure client success in loan repayments	3. Interest/principal payments are received in a timely basis. There is a low level of delinquent payments	3. FIDESA portfolio records, Project reports	3. TA and training programs are adequate and are provided in a timely fashion
4. A total of $34 million in loans will have been made. The total value of approved projects will be $48 million.	4. FIDESA will have generated 85 individual loans.	4. FIDESA's files and independent audits	4. FIDESA concept is valid
	5. Retained earnings will be $987,000	5. FIDESA's files and independent audits	5. Average of each loan is $400,000
INPUTS	**IMPLEMENTATION TARGETS**		
1. USAID A. AID loan (lending capital) B. AID grant	1. A. Year 1: 2,500; Year 2: 4,500; Year 3: 4,500; Year 4: 6,500; Year 5: 0 B. Year 1: 250; Year 2: 350; Year 3: 475; Year 4: 175; Year 5: 50 TOTAL Year 1: 2,750; Year 2: 4,850; Year 3: 4,975; Year 4: 6,675; Year 5: 50	1. USAID records	1. USAID loan is paid back at the end of Year 19. There is a grace period on principal through Year 10.5
2. Borrowers Equity	1. A. Year 1: 2,500; Year 2: 1,000; Year 3: 500; Year 4: 500; Year 5: 0	2. FIDESA reports and annual independent audit	2. Private investors, both domestic and foreign, will find terms attractive and thus there will be a successful subscription of equity funds

5C(1) - COUNTRY CHECKLIST

Listed below are statutory criteria applicable generally to FAA funds, and criteria applicable to individual fund sources: Development Assistance and Economic Support Fund.

A. GENERAL CRITERIA FOR COUNTRY ELIGIBILITY

1. FAA Sec. 481(h)(1); FY 1986 Continuing Resolution Sec. 527. Has it been determined or certified to the Congress by the President that the government of the recipient country has failed to take adequate measures or steps to prevent narcotic and psychotropic drugs or other controlled substances (as listed in the schedules in section 202 of the Comprehensive Drug Abuse and Prevention Control Act of 1971) which are cultivated, produced or processed illicitly, in whole or in part, in such country or transported through such country, from being sold illegally within the jurisdiction of such country to United States Government personnel or their dependents or from entering the United States unlawfully?

   No.

2. FAA Sec. 481(h)(4). Has the President determined that the recipient country has not taken adequate steps to prevent (a) the processing, in whole or in part, in such country of narcotic and psychotropic drugs or other controlled substances, (b) the transportation through such country of narcotic and psychotropic drugs or other controlled substances, and (c) the use of such country as a refuge for illegal drug traffickers?

   No.

65

3. FAA Sec. 620(c). If assistance is to a government, is the government liable as debtor or unconditional guarantor on any debt to a U.S. citizen for goods or services furnished or ordered where (a) such citizen has exhausted available legal remedies and (b) the debt is not denied or contested by such government?

N/A
The assistance under this project is to a private sector entity.

4. FAA Sec. 620(e)(1). If assistance is to a government, has it (including government agencies or subdivisions) taken any action which has the effect of nationalizing, expropriating, or otherwise seizing ownership or control of property of U.S. citizens or entities beneficially owned by them without taking steps to discharge its obligations toward such citizens or entities?

N/A
Assistance under this project is to a private sector entity.

5. FAA Sec. 620(a), 620(f), 620D; FY 1986 Continuing Resolution Sec. 512. Is recipient country a Communist country? If so, has the President determined that assistance to the country is important to the national interests of the United States? Will assistance be provided to Angola, Cambodia, Cuba, Iraq, Syria, Vietnam, Libya, or South Yemen? Will assistance be provided to Afghanistan without a certification?

No.

6. FAA Sec. 620(j). Has the country permitted, or failed to take adequate measures to prevent, the damage or destruction by mob action of U.S. property?

No.

7. FAA Sec. 620(l). Has the country failed to enter into an agreement with OPIC?

No.

8. FAA Sec. 620(o); Fishermen's Protective Act of 1967, as amended, Sec. 5. (a) Has the country seized, or imposed any penalty or sanction against, any U.S. fishing activities in international waters?

(b) If so, has any deduction required by the Fishermen's Protective Act been made?

a) No.
b) No.

9. FAA Sec. 620(q); FY 1986 Continuing Resolution Sec. 518. (a) Has the government of the recipient country been in default for more than six months on interest or principal of any AID loan to the country? (b) Has the country been in default for more than one year on interest or principal on any U.S. loan under a program for which the appropriation bill (or continuing resolution) appropriates funds?

No.

10. FAA SEC. 6 0(s). If contemplat d assistance is development loan or from Economic Support Fund, has the Administrator taken into account the amount of foreign exchange or other resources which the country has spent on military equipment? (Reference may be made to the annual "Taking Into Consideration" memo: "Yes, taken into account by the Administrator at time of approval of Agency OYB." This approval by the Administrator of the Operational Year Budget can be the basis for an affirmative answer during the fiscal year unless significant changes in circumstances occur.)

Yes, the Administrator has taken into account the amount of money and other resources Panama has spent on military equipment. It was taken into account at the time of approval of the Agency's OYB.

11. FAA Sec. 620(t). Has the country severed diplomatic relations with the United States? If so, have they been resumed and have new bilateral assistance agreements been negotiated and entered into since such resumption?

No.

12. FAA Sec. 620(u). What is the payment status of the country's U.N. obligations? If the country is in arrears were such arrearages taken into account by the AID Administrator in determining the current AID Operational Year Budget? (Reference may be made to the Taking into Consideration memo.)

Panama is not in arrears in its payment of its U.N. obligations.

13. FAA Sec. 620A. Has the government of the recipient country aided or abetted, by granting sanctuary from prosecution to, any individual or group which has committed an act of international terrorism?

No.

14. ISDCA of 1985 Sec. 552(b). Has the Secretary of State determined that the country is a high terrorist threat country after the Secretary of Transportation has determined, pursuant to section 1115(e)(2) of the Federal Aviation Act of 1958, that an airport in the country does not maintain and administer effective security measures?

No.

15. FAA Sec. 666. Does the country object, on the basis of race, religion, national origin or sex, to the presence of any officer or employee of the U.S. who is present in such country to carry out economic development programs under the FAA? No.

16. FAA Sec. 669, 670. Has the country, after August 3, 1977, delivered or received nuclear enrichment or reprocessing equipment, materials, or technology, without specified arrangements or safeguards? Has it transferred a nuclear explosive device to a non-nuclear weapon state, or if such a state, either received or detonated a nuclear explosive device? (FAA Sec. 620E permits a special waiver of Sec. 669 for Pakistan.) No.

17. FAA Sec. 670. If the country is a non-nuclear weapon state, has it, on or after August 8, 1985, exported illegally (or attempted to export illegally) from the United States any material, equipment, or technology which would contribute significantly to the ability of such country to manufacture a nuclear explosive device? No.

18.	ISDCA of 1981 Sec. 720. Was the country represented at the Meeting of Ministers of Foreign Affairs and Heads of Delegations of the Non-Aligned Countries to the 36th General Assembly of the U.N. of Sept. 25 and 28, 1981, and failed to disassociate itself from the communique issued? If so, has the President taken it into account? (Reference may be made to the Taking into Consideration memo.)	Yes. It was taken into account in the Administrator's FY'86 taking into consideration memorandum and at the time of the approval of the Agency's OYB.
19.	FY 1986 Continuing Resolution Sec. 541.	No.
	Are any of the funds to be used for the performance of abortions as a method of family planning or to motivate or coerce any person to practice abortions?	
	Are any of the funds to be used to pay for the performance of involuntary sterilization as a method of family planning or to coerce or provide any financial incentive to any person to undergo sterilizations?	No.
	Are any of the funds to be used to pay for any biomedical research which relates, in whole or in part, to methods of, or the performance of, abortions or involuntary sterilization as a means of family planning?	No.

20. FY 1986 Continuing Resolution. Is the assistance being made available to any organization or program which has been determined as supporting or participating in the management of a program of coercive abortion on involuntary sterilization? — No.

If assistance is from the population functional account, are any of the funds to be made available to family planning projects which do not offer, either directly or through referral to or information about access to, a broad range of family planning methods and services? — N/A

21. FY 1986 Continuing Resolution Sec. 529. Has the recipient country been determined by the President to have engaged in a consistent pattern of opposition to the foreign policy of the United States? — No.

22. FY 1986 Continuing Resolution Sec. 513. Has the duly elected Head of Government of the country been deposed by military coup or decree? — No.

B. FUNDING SOURCE CRITERIA FOR COUNTRY ELIGIBILITY

1. Development Assistance Country Criteria — No.

FAA Sec. 116. Has the Department of State determined that this government has engaged in a consistent pattern of gross violations of internationally recognized human rights? If so, can it be demonstrated that contemplated assistance will directly benefit the needy?

2. Economic Support Fund Country Criteria — N/A

FAA Sec. 502B. Has it been determined that the country has engaged in a consistent pattern of gross violations of internationally recognized human rights? If so, has the country made such significant improvements in its human rights record that furnishing such assistance is in the national interest?

N

5C(2) PROJECT CHECKLIST

Listed below are statutory criteria applicable to projects. This section is divided into two parts. Part A. includes criteria applicable to all projects. Part B. applies to projects funded from specific sources only: B.1. applies to all projects funded with Development Assistance loans, and B.3. applies to projects funded from ESF.

CROSS REFERENCES: IS COUNTRY CHECKLIST UP TO DATE? HAS STANDARD ITEM CHECKLIST BEEN REVIEWED FOR THIS PROJECT?

A. GENERAL CRITERIA FOR PROJECT

1. FY 1986 Continuing Resolution Sec. 524; FAA Sec. 634A.

   Describe how authorizing and appropriations committees of Senate and House have been or will be notified concerning the project.

   The Project was included in the FY'86 Congressional Presentation as a new project in FY'86.

2. FAA Sec. 611(a)(1). Prior to obligation in excess of $500,000, will there be (a) engineering, financial or other plans necessary to carry out the assistance and (b) a reasonably firm estimte of the cost to the U.S. of the assistance?

   (a) Yes.

   (b) Yes.

3. FAA Sec. 611(a)(2). If further legislative action is required within recipient country, what is basis for reasonable expectation that such action will be completed in time to permit orderly accomplishment of purpose of the assistance?

   No further legislative action is required to meet the objectives and goals of the Project.

N

4. FAA Sec. 611(b); FY 1986 Continuing Resolution Sec. 501. If for water or water-related land resource construction, has project met the principles, standards, and procedures established pursuant to the Water Resources Planning Act (42 U.S.C. 1962, et seq.)? (See AID Handbook 3 for new guidelines.)

This project is not for water or water related land resource construction.

5. FAA Sec. 611(e). If project is capital assistance (e.g., construction), and all U.S. assistance for it will exceed $1 million, has Mission Director certified and Regional Assistant Administrator taken into consideration the country's capability effectively to maintain and utilize the project?

The Project is not a capital assistance project.

6. FAA Sec. 209. Is project susceptible to execution as part of regional or multilateral project? If so, why is project not so executed? Information and conclusion whether assistance will encourage regional development programs.

No.

7. FAA Sec. 601(a). Information and conclusions whether projects will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; and (c) encourage development and use of cooperatives, and credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture and commerce; and (f) strengthen free labor unions.

The Project should aid all of the items mentioned with the exception of (c) and (f) as it is not designed to address those items.

8. FAA Sec. 601(b). Information and conclusions on how project will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).

It is anticipated that most of the technical assistance and equipment will be of U.S. origen from the U.S. private sector.

9. FAA Sec. 612(b), 636(h); FY 1986 Continuing Resolution Sec. 507. Describe steps taken to assure that, to the maximum extent possible, the country is contributing local currencies to meet the cost of contractual and other services, and foreign currencies owned by the U.S. are utilized in lieu of dollars.

The U.S. dollar is used in Panama. There is no local currency here.

10. FAA Sec. 612(d). Does the U.S. own excess foreign currency of the country and, if so, what arrangements have been made for its release?

No, the U.S. does not own excess foreign currency.

11. FAA Sec. 601(e). Will the project utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise?

Yes.

12. FY 1986 Continuing Resolution Sec. 522. If assistance is for the production of any commodity for export, is the commodity likely to be in surplus on world markets at the time the resulting productive capacity becomes operative, and is such assistance likely to cause substantial injury to U.S. producers of the same, similar or competing commodity?

The main purpose of the Project is to increase export earnings by increasing private sector investment in exportable goods. The goods produced will be for markets where demand exists, and therefore will not likely be in surplus on world markets at the time productive capacity becomes operative.

13. FAA 118(c) and (d). Does the project comply with the environonmental procedures set forth in AID Regulation 16. Does the project or program take into consideration the problem of the destruction of tropical forests?

Yes.

14. FAA 121(d). If a Sahel project, has a determination been made that the host government has an adequate sysem for accounting for and controlling receipt and expenditure of project funds (dollars or local currency generated therefrom)?

The Project is not a Sahel Project.

15. FY 1986 Continuing Resolution Sec. 533. Is disbursement of the assistance conditioned solely on the basis of the policies of any multilateral institution?

No.

16. ISDCA of 1985 Sec. 310. For development assistance projects, how much of the funds will be available only for activities of economically and socially disadvantaged enterprises, historically black colleges and universities, and private and voluntary organizations which are controlled by individuals who are black Americans, Hispanic Americans, or Native Americans, or who are economically or socially disadvantaged (including women)?

Approximately 15% of technical assistance funds will be utilized for these purposes.

16

B. FUNDING CRITERIA FOR PROJECT

1. Development Assistance Project Criteria

a. FAA Sec. 102(a), 111, 113, 281(a). Extent to which activity will (a) effectively involve the poor in development, by extending access to economy at local level, increasing labor-intensive production and the use of appropriate technology, spreading investment out from cities to small towns and rural areas, and insuring wide participation of the poor in the benefits of development on a sustained basis, using the appropriate U.S. institutions; (b) help develop cooperatives, especially by technical assistance, to assist rural and urban poor to help themselves toward better life, and otherwise encourage democratic private and local governmental institutions; (c) support the self-help efforts of developing countries; (d) promote the participation of women in the national economies of developing countries and the improvement of women's status, (e) utilize and encourage regional cooperation by developing countries?

The Project will facilitate the release of entrepreneurial energies, create jobs and increase incomes, and stimulate new economic activities in urban and rural areas. Assuming that on the average an investment of $16,300 is needed for the generation of a new job, by years 5 and 10 the project will have generated 2,700 and 6,000 jobs respectively. The fiscal impact of the new economic activities will assist in the continuation of the high level of social services, which were formerly supported by foreign borrowings, and the success of the project will give evidence of, and hopefully contribute to, understanding of the mutually supportive roles of capital, management and labor in a relatively free-market-oriented economy.

b.	FAA Sec. 103, 103A, 104, 105, 106. Does the project fit the criteria for the type of funds (functional account) being used?	Yes.
c.	FAA Sec. 107. Is emphasis on use of appropriate technology (relatively smaller, cost-saving, labor-using technologies that are generally most appropriate for the small farms, small businesses, and small incomes of the poor)?	Yes.
d.	FAA Sec. 110(a). Will the recipient country provide at least 25% of the costs of the program, project, or activity with respect to which the assistance is to be furnished (or is the latter cost-sharing requirement being waived for a "relatively least developed country)?	No. Assistance under this Project is to a private sector entity and FAA Sec. 110(a) does not apply. However, the contribution of the private sector entity for the Project will be approximately 19%.
e.	FAA Sec. 122(b). Does the activity give reasonable promise of contributing to the development of economic resources, or to the increase of productive capacities and self-sustaining economic growth?	Yes.

13

f. <u>FAA Sec. 128(b)</u>. If the activity attempts to increase the institutional capabilities of private organizations or the government of the country, or if it attempts to stimulate scientific and technological research, has it been designed and will it be monitored to ensure that the ultimate beneficiaries are the poor majority?

Yes.

g. <u>FAA Sec. 281(b)</u>. Describe extent to which program recognizes the particular needs, desires, and capacities of the people of the country; utilizes the country's intellectual resources to encourage institutional development; and supports civil education and training in skills required for effective participation in governmental processes essential to self-government.

The Project will support the development of the economy as a whole and will promote the skills of Technical and Administrative personnel of the Export Development Finance Corporation. Additionally, local private institutions will participate in and benefit from the project.

19

2. <u>Development Assistance Project Criteria (Loans Only)</u>

N/A
A Loan will be made to a private sector entity.

   a. <u>FAA Sec. 122(b)</u>. Information an conclusion on capacity of the country to repay the loan, at a reasonable rate of interest.

   b. <u>FAA Sec. 620(d)</u>. If assistance is for any productive enterprise which will compete with U.S. enterprises, is there an agreement by the recipient country to prevent export to the U.S. of more than 20% of the enterprise's annual production during the life of the loan?

   N/A

3. <u>Economic Support Fund Project Criteria</u>

N/A

   a. <u>FAA Sec. 531(a)</u>. Will this assistance promote economic and political stability? To the maximum extent feasible, is this assistance consistent with the policy directions, purposes, and programs of part I of the FAA?

   b. <u>FAA Sec. 531(c)</u>. Will assistance under this chapter be used for military, or paramilitary activities?

   N/A

   c. <u>ISDCA of 1985 Sec. 207</u>. Will ESF funds be used to finance the construction of, or the operation or maintenance of, or the supplying of fuel for, a nuclear facility? If so, has the President certified

   N/A

80

that such country is a party to the Treaty on the Non-Proliferation of Nuclear Weapons or the Treaty for the Prohibition of Nuclear Weapons in Latin America (the "Treaty of Tlatelolco"), cooperates fully with the IAEA, and pursues nonproliferation policies consistent with those of the United States?

d. FAA Sec. 609. If commodities are to be granted so that sale proceeds will accrue to the recipient country, have Special Account (counterpart) arrangements been made? N/A

5C(3) - STANDARD ITEM CHECKLIST

Listed below are the statutory items which normally will be covered routinely in those provisions of an assistance agreement dealing with its implementation, or covered in the agreement by imposing limits on certain uses of funds.

These items are arranged under the general headings of (A) Procurement, (B) Construction, and (C) Other Restrictions.

A. Procurement

1.	FAA Sec. 602. Are there arrangements to permit U.S. small business to participate equitably in the furnishing of commodities and services financed?	Yes.
2.	FAA Sec. 604(a). Will all procurement be from the U.S. except as otherwise determined by the President or under delegation from him??	Yes.
3.	FAA Sec. 604(d). If the cooperating country discriminates against marine insurance companies authorized to do business in the U.S., will commodities be insured in the United States against marine risk with such a company?	Yes.
4.	FAA Sec. 604(e); ISDCA of 1980 Sec. 705(a). If offshore procurement of agricultural commodity or product is to be financed, is there provision against such procurement when the domestic price of such commodity is less than parity? (Exception where commodity financed could not reasonably be procured in U.S.)	N/A

92

5. FAA Sec. 604(g). Will construction or engineering services be procured from firms of countries which receive direct economic assistance under the FAA and which are otherwise eligible under Code 941, but which have attained a competitive capability in international markets in one of these areas? Do these countries permit United States firms to compete for construction or engineering services financed from assistance programs of these countries? — N/A

6. FAA Sec. 603. Is the shipping excluded from compliance with requirement in section 901(b) of the Merchant Marine Act of 1936, as amended, that at least 50 per centum of the gross tonnage of commodities (computed separately for dry bulk carriers, dry cargo liners, and tankers) financed shall be transported on privately owned U.S. flag commercial vessels to the extent such vessels are available at fair and reasonable rates? — No.

7. FAA Sec. 621. If technical assistance is financed, will such assistance be furnished by private enterprise on a contract basis to the fullest extent practicable? — Yes.
If the facilities of other Federal agencies will be utilized, are they particularly suitable, not competitive with private enterprise, and made available without undue interference with domestic programs? — N/A

87

8. <u>International Air Transportation Fair Competitive Practices Act, 1974</u>. If air transportation of persons or property is financed on grant basis, will U.S. carriers be used to the extent such service is available? — Yes.

9. <u>FY 1986 Continuing Resolution Sec. 504</u>. If the U.S. Government is a party to a contract for procurement, does the contract contain a provision authorizing termination of such contract for the convenience of the United States? — Yes.

B. <u>Construction</u>

1. <u>FAA Sec. 601(d)</u>. If capital (e.g., construction) project, will U.S. engineering and professional services be used? — N/A

2. <u>FAA Sec. 611(c)</u>. If contracts for construction are to be financed, will they be let on a competitive basis to maximum extent practicable? — N/A

3. <u>FAA Sec. 620(k)</u>. If for construction of productive enterprise, will aggregate value of assistance to be furnished by the U.S. not exceed $100 million (except for productive enterprises in Egypt that were described in the CP)? — N/A

C. Other Restrictions

1. FAA Sec. 122(b). If development loan, is interest rate at least 2% per annum during grace period and at least 3% per annum thereafter?	Yes.
2. FAA Sec. 301(d). If fund is established solely by U.S. contributions and administered by an international organization, does Comptroller General have audit rights?	Yes.
3. FAA Sec. 620(h). Do arrangements exist to insure that United States foreign aid is not used in a manner which, contrary to the best interests of the United States, promotes or assists the foreign aid projects or activities of the Communist-bloc countries?	Yes.
4. Will arrangements preclude use of financing:	
a. FAA Sec. 104(f); FY 1986 Continuing Resolution Sec. 526. (1) To pay for performance of abortions as a method of family planning or to motivate or coerce persons to practice abortions; (2) to pay for performance of involuntary sterilization as method of family planning, or to coerce or provide financial incentive to any person to undergo	(1) Yes. (2) Yes. (3) Yes. (4) Yes

sterilization; (3) to pay for any biomedical research which relates, in whole or part, to methods or the performance of abortions or involuntary sterilizations as a means of family planning; (4) to lobby for abortion?

b.	FAA Sec. 488. To reimburse persons, in the form of cash payments, whose illicit drug crops are eradicated?	Yes.
c.	FAA Sec. 620(g). To compensate owners for expropriated nationalized property?	Yes.
d.	FAA Sec. 660. To provide training or advice or provide any financial support for police, prisons, or other law enforcement forces, except for narcotics programs?	Yes.
e.	FAA Sec. 662. For CIA activities?	Yes.
f.	FAA Sec. 636(i). For purchase, sale, long-term lease, exchange or guaranty of the sale of motor vehicles manufactured outside U.S., unless a waiver is obtained?	Yes.

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g. <u>FY 1986 Continuing Resolution, Sec. 503</u>. To pay pensions, annuities, retirement pay, or adjusted service compensation for military personnel? — Yes.

h. <u>FY 1986 Continuing Resolution, Sec. 505</u>. To pay U.N. assessments, arrearages or dues? — Yes.

i. <u>FY 1986 Continuing Resolution, Sec. 506</u>. To carry out provisions of FAA section 209(d) (Transfer of FAA funds to multilateral organizations for lending)? — Yes.

j. <u>FY 1986 Continuing Resolution, Sec. 510</u>. To finance the export of nuclear equipment, fuel, or technology? — Yes.

k. <u>FY 1986 Continuing Resolution, Sec. 511</u>. For the purpose of aiding the efforts of the government of such country to repress the legitimate rights of the population of such country contrary to the Universal Declaration of Human Rights? — Yes.

l. <u>FY 1986 Continuing Resolution, Sec. 516</u>. To be used for publicity or propaganda purposes within U.S. not authorized by Congress? — Yes.

97

A N N E X   I V

BORROWERS LETTER OF APPLICATION

98

FINANCIERA DE EXPORTACIONES, S.A.

Panamá, 11 de junio de 1986.

Señor
Ronald Levin
Director
Agencia de Estados Unidos para el
Desarrollo Internacional.
E. S. D.

Apreciado Sr. Levin:

Pláceme solicitarle a nombre de Financiera de Exportaciones, S.A., (FIDESA), un préstamo por US$18,000,000.00 (Dieciocho millones de dólares), para establecer una línea de financiamiento a mediano y largo plazo para el sector de exportaciones industriales, agroindustriales y de servicio de Panamá, conjuntamente con una donación de US$1,300,000.00 (Un millón trescientos mil dólares) para asistencia técnica y entrenamiento.

El grupo promotor de este proyecto ha venido trabajando en el diseño del mismo desde hace más de dos años, y considera que en las circunstancias actuales, el desarrollo del país exige de un papel más activo del sector privado, especialmente de sus sectores de exportación agrícola e industrial.

FIDESA acuerda suscribir US$ 4.5 millones en capital, de los cuales US$2.5 millones serán pagados antes de que los fondos de la USAID sean desembolsados. Igualmente acordamos

.../....

19

que antes de que cualquier fondo del préstamo de la USAID sea otorgado, ningún inversionista institucional tendrá más del 20% de las acciones de FIDESA y ningún inversionista individual tendrá más el 1% del capital. Cualquier incremento en estos porcentajes estará sujeto a la aprobación de la USAID.

Confiamos en que el esfuerzo conjunto de USAID y un grupo de empresarios privados ayudará en forma importante a la necesaria tarea de desarrollo del sector exportador.

Agradecemos a usted y a sus colaboradores en la Misión de USAID-Panamá, la ayuda que siempre brindaron a la planificación del proyecto.

Cordial saludo,

JOAQUIN J. VALLARINO, JR.
Presidente

JJV/mda.

ENVIRONMENTAL THRESHOLD DECISION

Project Location:	Panama, R. P.
Project Title:	Private Sector Export Financing Project
Funding:	All Years: $19,300,000 First Year (FY 86): $2,424,000 Loan $1,000,000 Grant
Life of Project:	Five Years : $18,000,000 Loan : $ 1,300,000 Grant
Prepared by:	Kermit C. Moh, OPSD

Background:

Section 216.2 (c) (2) of 22 CFR Part 216, Environmental Procedures, describes the classes of action which are eligible for categorical exclusion and for which an Environmental Threshold Decision is not generally required. The activities of the subject project are applicable to the following categorical exclusions:

1) 216.2 (c) (i)	Education, technical assistance and training programs..
2) 216.2 (c) (iii)	Analysis, studies, workshops and meetings.
3) 216.2 (c) (v)	Document information and transfer.
4) 216.2 (c) (x)	Support for intermediate credit institutions.
5) 216.2 (c) (xiv)	projects to develop the capability of recipient countries in development planning.

Environmental Action Recommended:

Based on the categorical exclusions discussed above, the Mission recommends that the Private Sector Export Financing Project be given a Negative Determination requiring no further environmental review.

Ronald D. Levin
Mission Director

Aug. 25, 1986
Date

91

FIRST YEAR IMPLEMENTATION PLAN

A list of events and the activities leading up to them is shown below:

Critical Events 1/	Responsibility USAID	Responsibility FIDESA	Date Accomplished (week)
1) Project Authorization Signed			0
2) Project Agreement Signed			1
a) FIDESA incorporated (Completed) 2/		X	
b) Capital of US$4.5 million subscribed (1)		X	
c) US$2.5 million of subscribed capital paid-in (1)		X	
3) Conditions Precedent to initial disbursement of Loan and Grant Funds met			9
a) Legal opinion of counsel that PROAG has been duly authorized and/or ratified by the FIDESA and that it is legally binding (3)	X	X	
b) The names of the officers, the Board of Directors and any other legal representative who can act on behalf of the FIDESA (1)		X	
c) The names of FIDESA shareholders and the number of shares held by each shareholder (1)		X	
d) A statement of FIDESA's procurement policy and procedures (3)	X	X	
e) Evidence that FIDESA can legally operate under the Laws of Panama as an IFI (9)		X	

1/ Activities listed below each event are those that must be accomplished before the event can take place.

2/ The number to the right of each activity is the number of weeks this activity is expected to take before it is accomplished.

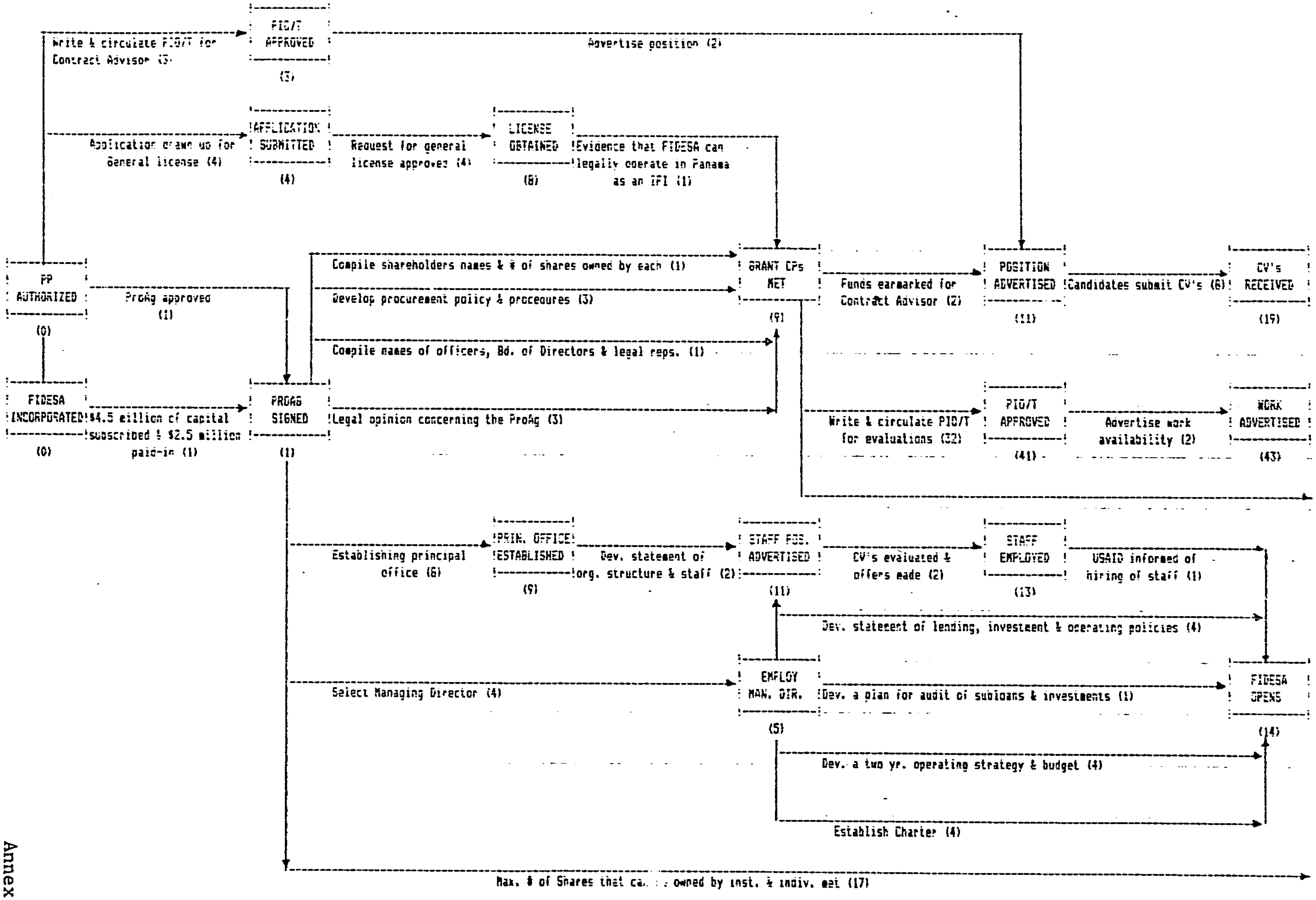
92

IMPLEMENTATION PLAN

Critical Events		Responsibility USAID	FIDESA	Date Accomplished (week)
4) Additional conditions precedent to initial disbursement of loan funds met				24
a) Establish the principal office	(8)		X	
b) Managing Director employed	(4)		X	
c) Staff employed	(6)		X	
d) Development of a statement of lending, investment and operational policies	(4)	X	X	
e) Statement of the organizational structure and staff of FIDESA	(1)		X	
f) Development of a detailed plan for the periodic audit of sub-loans and investments	(1)	X	X	
g) Development of a two year operating strategy and budget for direct lending and/or other financial services	(4)	X	X	
h) Evidence that $2.5 million in paid-in capital has been earmarked for administrative & operating expenses and/or utilized for purposes of the project	(10)	X	X	
i) Establish charter	(4)		X	
5) Contract Advisor to the General Manager hired and in place				23
a) Develop PIO/T for contractor & circulate it	(3)	X	X	
b) Advertise position	(2)	X		
c) Candidates submit CV's	(8)	X		
d) Select most talented individual	(1)	X	X	
e) Negotiate and sign a contract with the individual	(1)	X		
f) Arrival of individual on-site	(2)	X		
6) Institution contracted with & personnel arrive to perform evaluations				56
a) Write & circulate PIO/T for evaluations 1/	(32)	X	X	
b) Advertise Work Availability	(2)	X		
c) Firms submit proposals	(8)	X		
d) Select best proposals	(2)	X	X	
e) Negotiate and sign Contract	(1)	X		
f) Contractors arrive to perform first evaluation	(2)	X		

1/ Writing of PIO/T is programmed for June 1987.

FIRST YEAR IMPLEMENTATION PLAN (weeks)



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FIRST YEAR IMPLEMENTATION PLAN (weeks)

CV's RECEIVED (19) → Select most talented individual (1) → INDIVIDUAL SELECTED (20) → Negotiate Contract (1) → CONTRACT SIGNED (21) → Advisor packs & arrives at post (2) → ADVISOR ON-SITE (23)

WORK ADVERTISED (43) → Firms submit proposals (8) → PROPOSALS RECEIVED (51) → Select best proposal (2) → FIRM SELECTED (53) → Negotiate contract (1) → CONTRACT SIGNED (54) → Contractors arrives to perform first evalcation (2) → CONTRACTORS ON-SITE (56)

GRANT CPs MET (16) → INITIAL LOAN CPs MET (24)

FIDESA OPENS (14) → Paid-in capital earmarked and/or utilized (10) → INITIAL LOAN CPs MET (24)

PROAG SIGNED → Max. # of Shares that can be owned by inst & indiv. met (17) → INITIAL LOAN CPs MET (24)

ANALYSIS OF DEMAND FOR MEDIUM AND LONG-TERM CREDIT IN PANAMA AND ECONOMIC EVALUATION OF PROPOSED LENDING PROGRAM

Report Prepared by

INVESTIGACION Y DESARROLLO, S. A.

for

USAID PANAMA

Revised: January 22, 1986

96

TABLE OF CONTENTS

TABLE OF CONTENTS

ANNEXES

a

EXECUTIVE SUMMARY

A. STATEMENT OF THE PROBLEM

The growth recession which Panama has been experiencing since the year 1983, is affecting seriously the levels of unemployment and underemployment as well as other measures of economic and social welfare. The perspectives for recovery are not promissing unless major adjustments in economic policy are undertaken in order to increase the competitiveness of the Panamanian economy. Such adjustments will have to be in the areas of labor legislation, investment incentives, tariff policy, price controls and price supports, and the cost and efficiency of public utilities. But even if all such measures were adopted at once, the reaction from the private sector may prove to be very slow, given the lack of medium - to long -term credit facilities for development projects.

Cognizant of the lack of adequate facilities, USAID is considering making a loan and giving technical assistance to a proposed private sector development finance institution that would provide support to the adjustment process needed in Panama. This report contains an analysis of the expected demand for credit over the life of the project and an evaluation on the economic impact of the project. The project

1(0)

consists of a USAID loan of $18 millions to a private sector financial institution which will have a paid-in capital of $4.5 millions.

B. ANALYSIS OF DEMAND

The methodology for the analysis of demand for medium- and long-term credit includes two main elements: 1) an examination of projects from different sources classified in five categories and; 2) a methodology to compute additional fixed assets required to achieve certain levels of increment of value added by the manufacturing sector. The methodology is based in the Incremental Capital-Output Ratio for the manufacturing sector. Three alternative scenarios were defined to project incremental GDP by the manufacturing sector which were labeled the Base Case, the High-Growth Case and the Low - Growth Case.

After estimating the demand for credit, the supply of funds from the commercial banking sector to the production sectors was projected based on historical trends and different assumptions for the three cases.

The gap in the supply of credit was computed as the difference between the two projections, with the following results for selected years in the three cases:

101

ANNUAL GAP IN THE SUPPLY OF CREDIT

(millions of dollars)

YEAR	BASE	HIGH-GROWTH	LOW-GROWTH
1	(7.6)	(27.7)	(6.2)
5	(11.6)	(56.0)	(8.6)
10	(20.2)	(153.3)	(9.4)
AGGREGATE:	(141.5)	(766.6)	(83.3)

NOTE: Figures in parentheses denote a gap and without parentheses a surpluss of funds.

The main conclusion from the analysis is that in the three cases there is an important gap to be covered to satisfy the medium- and long-term financial needs of productive sectors. In all cases the gap would be greater than the resources available to the proposed finance institution.

C. ECONOMIC EVALUATION

The methodology developed for the economic evaluation of the project assumes that the benefits accruing from the activities financed by the proposed institution would not take place otherwise if the loans are not made. To estimate the economic impact the consultant assumed a portfolio mix of loans by the institution and then used profiles of typical projects under each category included in the mix.

The impact of the project by year ten on total value added would be $80.7 millions with more than 15,000 direct and indirect jobs generated.

The net impact on the Balance of Payments by year ten has been estimated to reach $70.4 million.

The project will fulfill an important gap in the supply of credit in all the cases, with very beneficial economic and social effects.

PART I. ANALYSIS OF DEMAND FOR MEDIUM AND LONG-TERM CREDIT

A. APPROACH AND METHODOLOGY

To estimate the potential demand for medium - and long-term credit from production activities, the different sectors considered were identified and classified in the following categories:

1. Agriculture/Agribusiness
2. Export Processing/Assembly
3. Manufacturing/Other
4. Tourism
5. Services for Export

A methodology based on the Incremental Capital-Output Ratio (ICOR) for Panama's manufacturing sector was devised to estimate the potential demand for credit by firms in categories 2 and 3 above, i.e. Export Processing/Assembly and Manufacturing/Other. Annex 1 to this report has a description of this methodology.

For the other three (3) sectors the consultant made a survey of different sources of information which included the following: 1) the list of projects in the annex to the PID; 2) the portfolio of projects in the National Investment

104

Council; 3) profiles of projects in the study by Arthur D. Little International, Inc.[1] and 4) other information obtained from direct interviews and information available to the consultant.

The status of each project was defined according to its degree of maturity, with three classifications:

1. Request for loan;
2. Profile; and
3. Idea status

All the projects considered are listed according to category and status in Annex No. 2 to this report.

B. DEMAND FOR CREDIT

In order to project the demand for medium- and long-term credit by the private development sectors, the consultant defined first, three alternative economic scenarios and then proceeded to project the demand for credit by the manufacturing sector (includes Export Processing/Assembly and Manufacturing/Other) as per the methodology explained below and in Annex No. 1. Projections for Agriculture/Agribusiness, Tourism and Services for Export were prepared independently.

1/ Arthur D. Little International, Inc., Estudio Integral del Sector Idustrial de Panama. MICI, febrero de 1984.

105

1. Alternative Scenarios

Three alternative scenarios have been developed as the bases from which the projections are made. These scenarios are intended to be consistent with the historical performance of the Panamanian economy and with projections on Panama's economic prospects developed through formal models by international financial institutions.

For comparative purposes it is important to consider the real historical rates of growth for total GDP and manufacturing in the past quarter of this century, which are as follows, in per cent:

PERIOD	TOTAL GDP	MANUFACTURING
1960 - 1969 1/	8.1	11.4
1970 - 1984 2/	4.5	2.3
1980 - 1984 2/	2.2	-0.8
1960 - 1984 3/	6.0	10.2

The three scenarios developed are described as follows :

a. Base Case: Patterned after the experience of 1970-1984, assumes a rate of growth for GDP in manufacturing of 2% for the remainder of the 80s and 3% for 1990-2005. This scenario considers

1/ Calculated from the national accounts series in 1960 prices.
2/ Calculated from the national accounts series in 1970 prices.
3/ Calculated from the combination of the series in footnotes 1 and 2.

106

that only minor adjustments to the prevailing "rules of the game" are adopted over the medium term, and whatever economic growth there is, will come from external demand for the goods and services of existing industries, plus the demand generated by the domestic market.

b. <u>High - Growth Case</u>: Assumes that major changes in economic policy in key areas such as labor legislation, investment incentives, tariff protection to existing and new industry, price controls and support prices, and tariffs of public utilities, are adopted within the next two years. A generally favorable international climate, with reasonably good export possibilities, expecially under the CBI program has also been assumed. Manufacturing would grow at 10% in real terms for the rest of this decade, increasing to 12% in the 1990s and then going to 9% in the period from 2000 to 2005.

c. <u>Low-Growth Case</u>: Manufacturing GDP projected at 1% annually for commparative purposes.

Inflation has been projected at 4% annually for all scenarios, which are summarized in Table No. 1.

TABLE NO. 1

SUMMARY OF SCENARIOS FOR PROJECTIONS[1/]

SCENARIO AND PERIOD	ANNUAL REAL RATE OF GROWTH IN MANUFACTURING GDP
BASE CASE	
1985 - 1990	2%
1990 - 2000	3%
2000 - 2005	3%
HIGH-GROWTH CASE	
1985 - 1990	10%
1990 - 2000	12%
2000 - 2005	9%
LOW-GROWTH CASE	
1985 - 2005	1%

1/ See description of the scenarios in the text.

102

2. The Demand for Credit by Manufacturing Industry

The demand for credit by manufacturing industry has been projected on the basis of the Incremental Capital-Output Ratio (ICOR) calculated for the sector. The ICOR used is derived from historical data as well as from industry profiles and includes only fixed assets in the definition of capital. The methodology used to calculated the ICOR is described in Annex No. 1.

Value added in the manufacturing sector was projected applying the rates of real growth of each one of the three alternative scenarios which are being considered and the rate of inflation of 4% adopted for the long term. The result of this excercise, as shown in the first column of Table No. 2, is a projection of the Gross Product in Manufacturing, starting with the value estimated for 1985 by the consultant. This projection allows for the calculation of the annual increment in GDP by the manufactuing sector, which is the difference in GDP between any two consecutive years. This annual increment in manufacturing GDP shown in the second column of Table No. 2 is used to calculate the annual increment in fixed assets by applying the adopted ICOR value of 1.3. Finally, the demand for medium- and long- term credit was calculated assuming that 70% of the investment in fixed assets is financed by sources external to the firms and the remainder by internally generated cash-flow and/or new equity.

These projections were made for the three scenarios defined above and the results are shown in Tables Nos. 2, 3 and 4.

The demand for credit estimated through this methodology includes both the expansion of existing industries as well as new industries classified under the previously defined categories of Export Processing/Assembly and Manufacturing/Other. Annex No. 2 has a list of the types of industries included under each category.

3. The Demand for Credit by Agribusiness

Since there is no statistical base available on investment in agribusiness in Panama that would allow a methodology as in the above case, direct estimates of the financing required were prepared, based on the survey made by the consultant.

Table No. 5 shows the demand for credit by projects in the survey which are classified according to the probability of their implementation for the three alternative scenarios. The timetable for the execution of the projects has been assumed to be the following:

1. REQUEST FOR LOAN: implemented between year 1 and 5.
2. PROFILE: implemented between year 2 and 7.
3. IDEA STATUS: implemented between year 4 and year 10.

TABLE NO. 2

BASE CASE: PROJECTION OF THE DEMAND FOR MEDIUM- AND LONG- TERM CREDIT BY THE MANUFACTURING SECTOR
(millions of U. S. Dollars)

YEAR	GROSS PRODUCT IN MANUFACTURING	ANNUAL GDP	INCREMENT IN FIXED ASSETS	DEMAND FOR CREDIT
1985	399.2			
1986	423.2	24.0	31.2	21.8
1987	448.5	25.3	32.9	23.0
1988	475.5	27.0	35.1	24.6
1989	504.0	28.5	37.1	25.9
1990	534.2	30.2	39.3	27.5
1991	571.6	37.4	48.6	34.0
1992	611.6	40.0	52.0	36.4
1993	654.4	42.8	55.6	38.9
1994	700.2	45.8	59.5	41.7
1995	749.2	49.0	63.7	44.6
1996	801.7	52.5	68.3	47.8
1997	857.8	56.1	72.9	51.1
1998	917.9	60.1	78.1	54.7
1999	982.1	64.2	83.5	58.4
2000	1,050.9	68.8	89.4	62.6
2001	1,124.4	73.5	95.6	66.9
2002	1,203.1	78.7	102.3	71.6
2003	1,287.3	84.2	109.5	76.6
2004	1,377.5	90.2	117.3	82.1
2005	1,473.9	96.4	125.3	87.7

SOURCE: Methodology described in the text.

TABLE NO. 3

HIGH GROWTH CASE: PROJECTION OF THE DEMAND FOR MEDIUM- AND LONG-TERM CREDIT BY THE MANUFACTURING SECTOR

(millions of U. S. Dollars)

YEAR	GROSS PRODUCT OF MANUFACTURING	ANNUAL INCREMENT IN GDP	ANNUAL INCREMENT IN FIXED ASSETS	DEMAND FOR CREDIT
1985	399.2			
1986	455.1	55.9	72.7	50.9
1987	518.8	63.7	82.8	58.0
1988	591.4	72.6	94.4	66.1
1989	674.2	82.8	107.6	72.5
1990	768.6	94.4	122.7	85.9
1991	891.6	123.0	159.9	111.9
1992	1,034.2	142.6	185.4	129.8
1993	1,199.7	165.5	215.2	150.6
1994	1,391.7	192.0	249.6	174.7
1995	1,614.4	222.7	289.5	202.7
1996	1,872.7	258.3	335.8	235.1
1997	2,172.3	299.6	389.5	272.6
1998	2,519.9	347.6	451.9	316.3
1999	2,923.1	403.2	524.2	366.9
2000	3,390.6	467.5	607.8	425.5
2001	3,831.4	440.8	573.0	401.1
2002	4,329.5	498.1	647.5	453.3
2003	4,892.3	562.8	731.6	512.1
2004	5,528.5	636.2	827.1	578.9
2005	6,247.2	718.7	934.3	654.0

SOURCE: Methodology described in the text.

112

TABLE NO. 4

LOW GROWTH CASE: PROJECTION OF THE DEMAND FOR MEDIUM AND LONG-TERM CREDIT BY THE MANUFACTURING SECTOR

(millions of U. S. Dollars)

YEAR	GROSS PRODUCT IN MANUFACTURING	ANNUAL INCREMENT IN GDP	ANNUAL INCREMENT IN FIXED ASSETS	DEMAND FOR CREDIT
1985	399.2			
1986	419.1	19.9	25.9	18.1
1987	440.1	21.0	27.3	19.1
1988	462.1	22.0	28.6	20.0
1989	485.2	23.1	30.0	21.0
1990	509.5	24.3	31.6	22.1
1991	535.0	25.5	33.2	23.2
1992	561.8	26.8	34.8	24.3
1993	589.9	28.1	36.5	25.6
1994	619.4	29.5	38.4	26.8
1995	650.4	31.0	40.3	28.2
1996	682.9	32.5	42.3	29.6
1997	717.1	34.2	44.5	31.1
1998	753.0	35.9	46.6	32.6
1999	790.6	37.6	48.9	34.3
2000	830.1	39.5	51.4	36.0
2001	871.6	41.5	54.0	37.8
2002	915.2	43.6	56.7	39.7
2003	960.9	45.7	59.4	41.6
2004	1,008.9	48.0	62.4	43.7
2005	1,059.4	50.5	65.6	46.0

SOURCE: Methodology described in the text.

TABLE No. 5

ESTIMATE OF AGGREGATE DEMAND FOR MEDIUM - AND LONG - TERM CREDIT BY AGRIBUSINESS UNDER THREE ALTERNATIVE SCENARIOS

(millions of U.S. Dollars)

STATUS OF PROJECT	TOTAL DEMAND 1/ (%)	PROBABILITY (%)	PROBABLE DEMAND ($)
	BASE CASE		
Request	7.3	40	2.9
Profile	50.2	20	10.0
Idea	0.3	10	0.03
	57.8		12.9
	HIGH-GROWTH CASE		
Request	7.3	70	5.1
Profile	50.2	50	25.1
Idea	0.3	30	0.1
	57.8		30.3
	LOW-GROWTH CASE		
Request	7.3	20	1.5
Profile	50.2	10	5.0
Loan	0.3	5	--
	57.8		6.5

NOTES:

1/ See Exhibit 2.2 in Annex No.2

These estimates are of course limited by the fact that only projects which are known today to the consultant are included. There should be other projects which the consultant has not been able to detect and more that may come up in the future. Because of these factors, the projections may be judged to be conservative.

4. The demand for Credit by Services for Export

Estimates for this sector were made based on the profiles of the projects prepared by Arthur D. Little International, Inc., for the study refered to above.

The financing requirements estimated for these projects are the following:

PROJECT	US$ MILLIONS
1. Contracts between big and small Manufacturing firms	0.2
2. Electronic Data Processing	0.5
3. Teleport	7.0
4. Repair of Containers	1.1
5. Scrapping of Boats	1.6
T O T A L	10.4

Since all of these projects are presently in the idea status, it has been assumed that they will have a 30% probability of being implement between years 4 and 10 of the

115

projection in the high-growth case, 15% probability in the base case and a probability of only 5% in the low-growth case.

5. The Demand for Credit by Tourism

Two projects were considered in the tourist sector for the high-growth case, as follows:

1. A duty free shopping center identified in the ADL study, with a total cost of US$4.4 millions, financing needs in the amount of US$3.1 millions and a 50% probability of implementation; and

2. New Hotels: Estimates made by the consultant indicate that with passenger arrivals growing at an annual rate of 5%, capacity in first class hotels will have to increase 800 rooms by year 10 of the projection. At today's prices this will require a total investment of US$70.0 millions in two hotels of 400 rooms each, that should be completed by years 7 and 10 of the projection. The probability of implementation is assumed to be at 30% and the long-term financing requirement at 70% of total investment.

For the base case the consultant has assumed that if tourism flows towards the country at a rate of growth of 3% per year, by the year 10 of projection, there will be a demand of 1,550 rooms per day in first class hotels, which could be covered with the present existing capacity, though at a high rate of occupancy (85%). Under these conditions it may also be assumed that the duty free shopping center will not develop either.

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There would not be any demand for credit by this sector in the low-growth case.

6. Summary of Demand Projections

The demand for medium- and long- term credit by the five categories of development activities selected for this analysis is summarized in Tables Nos. 6, 7 and 8 for the base case, high-growth case and low-growth case, respectively. Total estimated demand in millions of U.S. Dollars for the years 1986 to 1995 for the three alternative cases, is as follows:

DEMAND BY ALTERNATIVE CASE

YEAR	BASE	HIGH-GROWTH	LOW-GROWTH
1986	22.2	51.9	18.3
1987	25.2	63.2	20.2
1988	26.8	72.8	21.1
1989	28.3	80.9	22.1
1990	29.9	91.5	23.3
1991	36.1	116.6	24.3
1992	38.4	141.8	25.4
1993	39.3	151.1	25.7
1994	42.0	175.2	27.0
1995	44.8	210.5	28.2

117

TABLE NO. 6

BASE CASE: PROJECTED DEMAND FOR MEDIUM- AND LONG-TERM CREDIT BY SELECTED DEVELOPMENT ACTIVITIES

(millions of U. S. Dollars)

YEAR	AGRIBUSINESS 1/	EXPORT PROCESSING & MFG/OTHER 2/	SERVICES FOR EXPORT	TOURISM	TOTAL
1986	0.4	21.8	--	--	22.2
1987	2.2	23.0	--	--	25.2
1988	2.2	24.6	--	--	26.8
1989	2.2	26.0	0.2	--	28.3
1990	2.2	25.9	0.2	--	29.9
1991	1.9	34.0	0.2	--	36.1
1992	1.8	36.4	0.2	--	38.4
1993	--	39.0	0.3	--	39.3
1994	--	41.7	0.3	--	42.0
1995	--	44.6	0.2	--	44.8

NOTES AND SYMBOLS

1/ See Table No. 5

2/ See Table No. 2

--denotes that no demand has been detected.

118

TABLE NO. 7

HIGH-GROWTH CASE: PROJECTED DEMAND FOR MEDIUM - AND LONG-TERM CREDIT BY SELECTED DEVELOPMENT ACTIVITIES

(millions of U. S. dollars)

YEAR	AGRIBUSINESS1/	EXPORT PROCESSING & MFG/OTHER2/	SERVICES FOR EXPORT	TOURISM	TOTAL
1986	1.0	50.9	--	--	51.9
1987	5.2	58.0	--	--	63.2
1988	5.2	66.1	--	1.5	72.8
1989	5.2	75.3	0.4	--	80.9
1990	5.2	85.9	0.4	--	91.5
1991	4.3	111.9	0.4	--	116.6
1992	4.2	129.8	0.4	7.4	141.8
1993	0.0	150.6	0.5	--	151.1
1994	0.0	174.7	0.5	--	175.2
1995	0.0	202.7	0.5	7.3	210.5

NOTES AND SYMBOLS

1/ See Table No. 5

2/ See Table No. 3

-- denotes that no demand has been detected.

119

TABLE NO. 8

LOW-GROWTH CASE: PROJECTED DEMAND FOR MEDIUM - AND LONG-TERM CREDIT BY SELECTED DEVELOPMENT ACTIVITIES

(millions of U. S. Dollars)

YEAR	AGRIBUSINESS 1/	EXPORT PROCESSING & MFG/OTHER 2/	SERVICES FOR EXPORT	TOURISM	TOTAL
1986	0.2	18.1	--	--	18.3
1987	1.1	19.1	--	--	20.2
1988	1.1	20.0	--	--	21.1
1989	1.1	21.0	--	--	22.1
1990	1.1	22.1	0.1	--	23.3
1991	1.0	23.2	0.1	--	24.3
1992	0.9	24.3	0.1	--	25.4
1993	--	25.6	0.1	--	25.7
1994	--	26.8	0.2	--	27.0
1995	--	28.2	--	--	28.2

NOTES AND SYMBOLS

1/ See Table No. 5

2/ See Table No. 4

-- denotes that no demand has been detected.

120

C. THE SUPPLY OF FUNDS

The supply of credit for medium- and long- term financing for the productive sectors originated historically from the commercial banks which operate locally, including special financing programs by the National Bank of Panama. There have been from time to time other sources of financing such as DISA and COFINA, which do not continue to be active in the market at present.

Out of total bank loans, it may be estimated that financing to the production sectors is made up of loans classified in the credit statistics of the banking system under the following categories: agriculture, cattle, fisheries, mining and manufacturing industries. It is the consultant's judgment that 50% of loans classified under "Other constructions", is also credit to the production sectors.

Balances of loans outstanding to the production sectors for the years from 1975 to 1984 are shown in Table No. 9. The period from 1970 to 1975 has been excluded since the extremely high rate of growth of credit experienced in the first stage of the development of the International Banking System of Panama, is not meaningful for this analysis. Between 1975 and 1981 the annual rate of growth in the balances of loans outstanding has been 8.3%, while growth between 1981 and 1984 dropped to 1.5% per year. The growth experienced during the period 1975-1984

TABLE NO. 9

BALANCE OF LOANS TO THE SELECTED PRODUCTION SECTORS BY THE NATIONAL BANKING SYSTEM. YEARS 1975 - 1984

(millions of U. S. dollars)

YEAR	BALANCE	ANNUAL VARIATION
1975	288.0	
1976	285.3	(2.7)
1977	303.0	17.7
1978	350.7	47.7
1979	393.4	42.7
1980	476.4	83.0
1981	562.7	86.3
1982	555.3	(7.4)
1983	562.5	7.2
1984	588.9	26.4

SOURCE: National Banking Commission of Panama.

reflects extraordinary situations, such as the trans-isthmian pipeline, the financing of which was partially registered in Panama.

The consultant has used a 10% nominal rate of growth to project balances up to 1995 for the high-growth case, even though this is likely to exaggerate the future availability of credit from commercial banks. The projection for the base case has been made at an annual nominal rate of 6% (i.e. 2% above inflation) and for the low growth case at 5% nominal. These assumptions would result in more conservative estimates on the need for additional sources of funds. The results of these projections are contained in Table No. 10, which shows the annual increment in the credit portfolio of the banking system to the production sectors.

The banking statistics do not classify credits in accordance to their terms, but it is a well-known fact that Panamanian firms in manufacturing and agribusiness rely heavily on short term liabilities for their external financing, a practice which is consistent with the commercial nature of the Panamanian banking system. In this respect, the 1984 study by Arthur D. Little International, Inc. reveals that 56% of the credits obtained by manufacturing firms are for periods of two and more years and that manufacturing firms use bank credit as their primary source to finance their working capital needs (59%).1/

1/ Arthur D. Little International, Inc., op. cit., pp.80-81

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TABLE NO. 10

PROJECTION OF THE SUPPLY OF FUNDS BY THE BANKING SYSTEM TO THE SELECTED PRODUCTION SECTORS IN THREE ALTERNATIVE CASES. YEARS 1986 - 1995

(millions of U. S. Dollars)

YEAR	BASE CASE		HIGH-GROWTH CASE		LOW-GROWTH CASE	
	BALANCE	VARIATION	BALANCE	VARIATION	BALANCE	VARIATION
1986	675.9	38.3	701.4	63.8	669.5	31.9
1987	716.4	40.5	771.5	70.1	703.0	33.5
1988	759.4	43.0	848.6	77.1	738.1	35.1
1989	805.0	45.6	933.5	84.9	775.0	36.9
1990	853.3	48.3	1,026.9	93.4	813.8	38.8
1991	904.4	51.1	1,129.5	102.6	854.4	40.6
1992	958.7	54.3	1,242.5	113.0	897.2	42.8
1993	1,016.2	57.5	1,366.8	124.3	942.0	44.8
1994	1,077.2	61.0	1,5033.4	136.6	989.1	47.1
1995	1,141.8	64.6	1,653.8	150.4	1,038.6	49.5

SOURCE: See assumptions in text.

To calculate the proportion of bank credit (measured by net changes in balances outstanding) used by firms in the production sectors to finance fixed assets, the consultant has analyzed the changes occurring over time in the composition of the financial structure of Panamanian firms operarting in the five different categories which have been considered for the demand analysis. To this end, the data obtained for each category was given the same relative weight as in the portfolio described in section II . A of this report. The result of the analysis indicates that for the portfolio mix assumed and the data available, firms would use 38% of commercial bank credit available to them to finance new fixed assets. If, instead of a high-intensity of capital case included in the cases for Agriculture/Agribusiness, one were to consider a medium-intensity of capital case, then the overall proportion would be reduced to 35%. If, additionally, the relative weight of projects in tourism is reduced to 10% of the portfolio, the proportion would become 30%.

The consultant has adopted 38% as the proportion of total bank credit that is in fact used by firms to finance the acquisition of fixed assets, to be on the conservative side in estimating the gap in financial resources

The results of these projections of new credit from the banking system to selected production sectors to finance fixed assets for the three alternatives being considered, are summarized in Table No. 11.

TABLE NO. 11

PROJECTION OF NEW CREDIT FROM THE BANKING SYSTEM TO SELECTED PRODUCTION SECTORS TO FINANCE FIXED ASSETS FOR THREE ALTERNATIVE CASES.

YEARS 1986 -1995

(millions of U. S. Dollars)

		ALTERNATIVE CASES	
YEAR	BASE	HIGH-GROWTH	LOW-GROWTH
1986	14.6	24.2	12.1
1987	15.4	26.6	12.7
1988	16.3	29.3	13.3
1989	17.3	32.3	14.0
1990	18.3	35.5	14.7
1991	19.4	39.0	15.4
1992	20.6	42.9	16.3
1993	21.8	47.2	17.0
1994	23.2	51.9	17.9
1995	24.6	57.2	18.8

SOURCE: See text for explanation.

'26

D. THE GAP IN FINANCIAL RESOURCES

The gap in financial resources has been calculated as the difference between the demand for credit for the three cases as shown in Tables Nos. 6, 7 and 8 and the supply of credit from the commercial banking system, which has been summarized in Table No. 11. The estimated gap is shown in Table No. 12.

E. CONCLUSIONS

The supply and demand projections indicate that there is an important gap to be covered in the three cases considered to satisfy the medium- and long-term financing requirements by production activities. These estimates do not take into account that in many instances Panamanian firms finance their acquisition of fixed assets with short term loans. If a more sound financial structure is desired, then the gap in medium- and long-term funds would be much larger than the amount estimated.

To achieve a rate of growth in the sectors of production of the order of magnitude which the high-growth projections imply, it would be necessary to create other financial institutions complementary to the banking system. Financing from commercial banks will not be sufficient, even assuming a rapid rate of growth in total credit and a high proportion of medium- and long-term loans.

TABLE NO. 12

PROJECTION OF GAP IN FINANCIAL RESOURCES FOR THREE ALTERNATIVE CASES1/

(millions of U. S. Dollars)

YEAR	BASE	HIGH-GROWTH	LOW-GROWTH
1986	(7.6)	(27.7)	(6.2)
1987	(9.8)	(36.6)	(7.5)
1988	(10.5)	(43.5)	(7.8)
1989	(11.0)	(48.6)	(8.1)
1990	(11.6)	(56.0)	(8.6)
1991	(16.7)	(77.6)	(8.9)
1992	(17.8)	(98.9)	(9.1)
1993	(17.5)	(103.9)	(8.7)
1994	(18.8)	(123.3)	(9.1)
1995	(20.2)	(153.3)	(9.4)
AGGREGATE GAP	(141.5)	(766.6)	(83.3)

NOTES:
1/ Figures in parentheses denote a gap and figures without parentheses indicate a surplus.
SOURCE: Tables Nos. 6,7,8 and 11

128

The net amount of new funds required to cover the medium-to long-term financial needs of selected production activities is smaller than the amount of annual demand not covered by credit from the banking sector, since there is a process of repayment of loans that are then loaned again. The total amount of net additional resources required depends on the terms, the grace periods and the interest rates, which will determine the rate at which loans granted will be recovered.

The projections have been made for a 10 year period, even though the original plan was to cover 20 years since, among other reasons, the credit gap that would have to be covered in the first 10 years of the projections is large enough even in the low-growth case.

PART II. ECONOMIC EVALUATION

A. METHODOLOGY TO EVALUATE THE ECONOMIC IMPACT

The evaluation of the impact by the operations of the proposed institution was developed on the basis of the effect of the projects financed by it on selected economic variables. The methodology consisted mainly of the following components:

1. The underlying assumption in the analysis is that if the proposed loan is not available, the projects would not be executed and accordingly, the whole of the impact of such projects is to be attributed to the lending operations of the institution.

2. It was assumed that all the funds available for lending will be disbursed every year, and the amount of annual disbursements by the proposed institution was provided by USAID assuming the following conditions:

130

The rate of interest on the USAID loan is 10% p.a., out of which 5.0% is to be set aside, as a reserve for extraordinary bad debts, with a 50-50 risk sharing feature between USAID and the bank on the unused portion of the reserve. Assuming an extraordinary writeoff of 0.25%, the average effective interest rate on the USAID loan would be 7.16%.

3. The proposed loan mix assumes that the institution will seek a diversified portfolio, consistent with an attractive rate of return on its own equity, and with key economic policy objectives such as the creation of employment, the generation of foreign exchange earnings and additional growth by the national economy. The relative weights of different sectors in such portfolio would be the following:

Agriculture/Agribusiness	30%
Export Processing/Assembly	20%
Manufacturing/Other	15%
Services for Export	10%
Tourism	25%
	100

(3)

4. For each one of the above sectors, the profile of a typical project was selected to derive from them a series of aggregate coefficients which could then be used to calculate the economic impact of the total lending operations. The projects selected for each sector are the following:

SECTOR	PROJECT
Agriculture/Agribusiness	Frozen and dry yucca
Export processing/Assembly	Ethyl alcohol
Manufacturing/other	Dry batteries
Export Services	Scrapping of vessels
Tourism	Apartment Hotel

The main criteria for selecting representative projects was the availability of adequate information to calculate the coefficients. The profiles used for the analysis are included in Annex No. 3 to this report.

5. The aggregate coefficients developed to measure the economic impact of the projects were expressed in terms of the effect on selected variables to be expected for each US$1.00 of loans disbursed per year. Thus, to each US$1.00 loaned, the following results would be obtained.

VARIABLE	EFFECT
Total investment	1.55
Annual sales	2.59
Annual Exports	2.32

32

6. The economic impact was calculated by applying to the amounts loaned annually in each one of the three cases, the above coefficients plus certain adjustments indicated below.

B. MEASUREMENT OF THE ECONOMIC IMPACT

The economic impact of the project in each of the three cases was computed to show the effect on gross investment, sales, value added, employment, payroll and Balance of Payments. The results are presented in Table No. 13 and are also summarized and commented upon in the text below.

1. Gross Investment

The project will generate a total gross investment in ten years of $104.3 millions. Investment reaches a maximum annual amount on year 4 of the projection and subsequently decreases somewhat. This tapering-off effect is due to the fact that loans made from the USAID loan, are disbursed and loaned in the first four years, and afterwards new loans are made from repayments to the bank.

2. Sales

Sales have been computed on the basis of the coefficients above and the results for selected years are the following:

YEAR	TOTAL SALES IN US$ MILLIONS
1	8.7
5	76.5
10	174.6

3. Value Added

To compute value added, total costs of production and expenses were separated between payments to factors of production and intermediate purchases of goods and services, as shown in Annex 1 to this report. The resulting projections are summarized below:

YEAR	TOTAL VALUE ADDED IN US$ MILLIONS
1	4.0
5	35.2
10	80.7

134

4. <u>Employment and Payroll</u>

According to the profiles of selected projects, the investment required per job is $16,320. Given that loans represent 64.5% of the investment, it may be calculated that the projects induced by the institution will generate a total of 95 direct jobs per each $1.0 million loaned.

The average annual new direct employment induced by the project in the 10 year period evaluated has been calculated to be 639 jobs.

Given that salaries in the profiles average $4,644 per year, the total amount of salaries paid in year 1 would be in the order of $1.5 million reaching $13 million in year 5 and $30 million by year 10.

The demand for goods and services on the rest of the economy induced by the additional production from the new projects, would generate in turn new or "indirect" employment. The estimation of indirect employment takes into account two main factors: a) total sales of goods and services for the economy as a whole, both of local origin and imported, amounted to $9,891 per employee in 1984; and b) for the profile of new projects it has been calculated that each $1,000,000 in new sales will generate a demand of $540,000 in goods and services from the rest of the economy (See Annex 1). With these two coefficients it was possible to calculate that each $1,000,000 in total sales will generate indirect employment for 55 persons elsewhere in the economy. Projected indirect employment for selected years would be as follows:

YEAR	INDIRECT EMPLOYMENT
1	480
5	4,213
10	9,582

By the end of year 10, total direct and indirect employment would exceed 15,000 jobs created.

5. Balance of Payments

The effect of the project on the Balance of Payments has been calculated on the basis of the coefficients shown at the begining of this section as well as on the disbursement and repayment of the USAID loan.

130

The results obtained indicate that the net external balance for the country is positive for all the years considered, even though there is a lag of two years between the time when the loans are made and the moment when exports begin. The net Balance of Payments effect for selected years is the following:

YEAR	NET BALANCE OF PAYMENTS EFFECT (in U. S. Millions)
1	2.4
5	19.7
10	70.4

C. CONCLUSIONS

The measurement of the economic effect which the activities financed by the new bank would generate are both positive and substantial in all the variables examined. It is concluded that the bank would have an important impact in the Panamanian economy in terms of gross investment, sales, value added, employment and Balance of Payments.

TABLE No. 13

MEASUREMENT OF THE ECONOMIC IMPACT OF THE EXPORT DEVELOPMENT BANK

(in millions of U.S. Dollars except where noted differently)

YEARS	1	2	3	4	5	6	7	8	9	10
ANNUAL LOANS	3.37	5.19	6.53	9.18	5.30	7.46	7.50	7.82	7.05	7.90
GROSS INVESTMENT	5.23	8.04	10.12	14.23	8.22	11.56	11.63	12.12	10.93	12.25
NEW SALES PER YEAR	8.73	13.43	16.91	23.78	13.73	19.32	19.43	20.25	18.26	20.46
TOTAL SALES	8.73	22.16	39.07	62.82	76.55	95.87	115.30	135.55	154.15	174.61
NEW VALUE ADDED PER YEAR	4.02	6.18	7.77	10.92	6.31	8.88	8.93	9.31	8.39	9.98
TOTAL VALUE ADDED	4.02	10.20	17.97	28.89	35.20	44.08	53.01	62.32	70.71	80.69
NEW JOBS PER YEAR (Number)										
Direct	320	493	620	872	503	708	712	743	670	750
Indirect	480	740	930	1,308	755	1,062	1,068	1,115	1,005	1,125
Total	800	1,233	1,550	2,180	1,258	1,770	1,780	1,858	1,675	1,875
TOTAL EMPLOYMENT (Number)										
Direct	320	813	1,433	2,305	2,808	3,516	4,228	4,971	5,641	6,391
Indirect	480	1,220	2,150	3,458	4,213	5,275	6,337	3,452	8,457	9,582
Total	800	2,033	3,583	5,763	7,021	8,791	10,565	12,424	14,098	15,973
TOTAL PAYROLL ON DIRECT JOBS	1.49	3.78	6.65	10.70	13.04	16.33	19.63	23.09	26.20	29.68
BALANCE OF PAYMENTS EFFECT										
USAID LOAN	2.50	4.50	4.50	6.50	- -	- -	- -	- -	- -	(1.13)
INTEREST PAYMENTS	(0.09)	(0.35)	(0.68)	(1.08)	(1.32)	(1.32)	(1.32)	(1.32)	(1.32)	(1.31)
NET EXPORTS	- -	- -	4.69	11.91	21.00	33.76	41.14	51.52	61.97	72.85
NET EFFECT	2.41	4.15	8.51	17.33	19.68	32.44	39.82	50.20	60.65	70.41

ANNEX NO. 1

DESCRIPTION OF THE METHODOLOGY USED TO CALCULATE THE INCREMENTAL CAPITAL-OUTPUT RATIO OR ICOR

For the purposes of calculating the ICOR of the manufacturing sector for this analysis, the concept of capital which has been used includes only fixed assets. Two alternative calculations were made: the first one was based on the coefficients derived from the projects in the profiles available to the consultant, and the other utilized historical data for the manufacturing sector as a whole.

1. ICOR from Profiles of Projects

Table No. 1-1 shows the composition of the gross value of production for a set of projects that has the following structure:

Gross value of production	$2,590,169
Intermediate purchases	1,397.944
Value added	1,192,225

To achieve such an increment in output (as measured by value added) of $1,192,225, data from the same profiles

TABLE NO. 1-1

COMPOSITION OF GROSS VALUE OF PRODUCTION OF A SET OF PROJECTS

STRUCTURE	T O T A L	VALUE ADDED	INTERMEDIATE PURCHASES
	(in U. S. dollars)		
Raw Materials	973,304		973,304
Labor	441,692	441,692	
Other Cost of Production	171,857	85,928	85,928
General and Financial Expenses	677,422	338,711	338,711
Income Tax	114,063	114,063	
Net Earnings	211,831	211,831	
T O T A L	2,590,169	1,192,225	1,397,944
PER CENT	100%	46%	54%

SOURCE: Annex No. 3

indicate that an incremental investment in fixed assets of $1,550,400 would be required. Thus, the incremental capital-output ratio would be 1,550,400/1,192,225 = 1.3

2. ICOR from historical data

The consultant obtained a special tabulation from the Office of the Controller General in order to have on hand the information on investment in fixed assets by manufacturing firms from the 1982 census, the results of which have not been published yet. These data and that of previous industrial censuses appear in Table No. 1-2 below.

TABLE NO. 1 - 2

INVESTMENT IN FIXED ASSETS AND VALUE ADDED BY THE MANUFACTURING SECTOR FOR 1961, 1971 AND 1982

(Millions of U. S. Dollars)

YEAR	TOTAL FIXED ASSETS AT END OF YEAR	VALUE ADDED IN THE YEAR
1961	41.9	49.1
1971	168.5	163.7
1982	731.0	487.7

SOURCES: Contraloría General de la República, Censuses of Manufacturing Industry for Years 1961, 1971 and special tabulation for 1982.

The data in the above table is not comparable with the data for the manufacturing sector which appears in the official publications of Panama's GDP, since both the number of firms covered and the definition of value added are different. However, there is consistency in Table No. 1-1 between the coverage and definition for the data on fixed investment and on value added, to allow the computations shown below.

PERIOD	INCREMENTS IN		
	CAPITAL	VALUE ADDED	ICOR
1961 - 1982	689.2	438.6	1.6
1961 - 1971	126.6	114.6	1.1
1971 - 1982	562.6	324.0	1.7

The value added from the 1982 census seems to be too low when compared with the values obtained from the annual surveys of the manufacturing sector, which should be consistent with census data but not with GDP figures. The following figures, where 1979, 1981 and 1983 are from the annual surveys and 1982 is from the Census data, show the difference.

YEAR	VALUE ADDED ($ millions)
1979	374.5
1981	526.3
1982	487.7
1983	578.0

One explanation for this discrepancy could be that while the census data for fixed assets has been revised carefully, the information for value added is still very preliminary. To overcome this limitation a trend-line figure for value added in 1982 has been interpolated and the resulting ICOR for the 1971-1982 period would be 1.4.

3. Conclusion.

Given these elements, the consultant has adopted for the projections, the ICOR from the projects in the profiles, i. e. 1.3, which is an intermediate value between the low capital-intensive 60s and the higher intensity of capital which prevailied in the 70s.

143

ANNEX No. 2

Projects Identified in the Survey Classified by Sector and Status

144

INDEX

Classification of Projects by Sector

Classification of Projects by Status

CLASSIFICATION OF PROJECTS BY SECTOR

1. Agriculture/ Agribusiness.

2. Export Processing/ Assembly.

3. Manufacturing/ Other.

4. Tourism.

5. Services for Export.

Exhibit No. 2.1

INVESTMENT AND MEDIUM-TERM FINANCING BY SECTOR
(Thousands of dollars)

SECTOR	TOTAL INVESTMENT	MEDIUM-TERM FINANCING
Agriculture/ Agribusiness	83,115.9	57,801.0
Export Processing/ Assembly	2,750.0	1,510.0
Manufacturing/ Other	35,440.8	19,389.0
TOTAL	121,306.7	78,700.0

147

LONG-TERM AND MEDIUM-TERM FINANCING
BY SECTOR OF AGRICULTURE / AGRIBUSINESS
(Thousands of dollars)

STATUS
REQUEST FOR LOAN

PROJECT	MEDIUM-TERM FINANCING
Animal Food	65.0
Candy Factory	500.0
Chewing gum	500.0
Lemon Oil & Lemon Juice	25.0
Lobsters Tails	50.0
Pineapple Processing Plant	2,000.0
Sweat water shrimp	1,700.0
Turkeys	2,450.0
SUBTOTAL	7,290.0

PROFILE

PROJECT	MEDIUM-TERM FINANCING
Animal Feeds (Molasses, Soybean & Citrus Pulp)	300.0
Beef processing for Export	4,550.0
Candied Tropical Fruits	121.0
Canned Seafood Dish	700.0
Canned Soups: Shrimp, Clam and other seafood	2,350.0
Castor Oil & Meal	1,250.0
Coconut - trees (2,000 hect)	5,900.0
Corn Germ Oil & Flour	600.0
Dehidrated bell peppers	200.0
Essential Oil from Lemon Grass	90.0
Fishery (processed for exportation)	7,000.0
Fresh & FRozen Okra	180.0
Frozen Yucce	270.0
Palm Oil	2,800.0
Papain	160.0

148

PROJECT	MEDIUM-TERM FINANCING
Salted fish & sardines	425.0
Seafood Concentrates	150.0
Seafood Patés	1,800.0
Shrimp Farming (3-4,000 hect.) - Exploitation	14,000.0
Shrimp processing plant	4,200.0
Soluble Coffee (Instant)	2,700.0
Tomato Paste	265.0
Tropical Fruits Cocktail (Canned)	200.0
SUBTOTAL	50,211.0

IDEA

PROJECT	MEDIUM-TERM FINANCING
Crabmeat, prepared, canned	300.0
SUBTOTAL	300.0

Resquest for Loan = 70%, year 1 to year 5 = 5,103.0 - 1,020.6/year
Profile = 50%, year 2 to year 7 = 25,105.5 = 4,184.2/year
Idea = 30%, year 4 to year 10 = 90.0 = 12.9/year

Year	($ thousands)
1	1,020.6
2	5,204.8
3	5,204.8
4	5,217.7
5	5,217.7
6	4,197.1
7	4,197.1
8	12.9
9	12.9
10	12.9

Sources:
1. Original List
2. ADL
3. INDESA

Exhibit No. 2.3

INVESTMENT AND MEDIUM-TERM FINANCING BY SECTOR OF EXPORT PROCESSING / ASSEMBLY

(Thousands of dollars)

PROJECT	TOTAL INVESTMENT	MEDIUM-TERM FINANCING
Anodes for outboard marine motors	100.0	50.0
Christmas tree lights	500.0	300.0
Soft loggage	150.0	60.0
Transformers & Switch gear	1,000.0	600.0
Walkie Talkies, Radios, etc.	1,000.0	500.0
SUBTOTAL	2,750.0	1,510.0

150

Exibit No. 2.4

INVESTMENT AND MEDIUM-TERM FINANCING

BY SECTOR OF MANUFACTURING / OTHER

(Thousands of dollars)

PROJECT	TOTAL INVESTMENT	MEDIUM-TERM FINANCING
Accesories, PVC	660.0	450.0
Bicycles	1,000.0	600.0
Bicycles and parts	2,000.0	1,300.0
Car Mufflers & Exhaust Tubes	570.0	350.0
Ceramic tiles	2,500.0	1,000.0
Dry batteries	1,362.0	1,000.0
Emulsifiers	1,500.0	910.0
Glazed Ceramic Ware	100.0	50.0
Hand Tools (Forged Steel)	1,150.0	800.0
Hand Tools for agriculture	1,123.8	800.0
Leather Gloves	200.0	100.0
Leather bags	150.0	100.0
Molded Plastic Goods	667.0	450.0
Panels for Walls(foam, lumber, plywood & concrete)	200.0	150.0
Paper	14,000.0	7,000.0
Poliethylene pipes	320.0	280.0
Rotoplastics	1,500.0	910.0
Silica	590.0	370.0
Silver Ware (low cost)	1,000.0	600.0
Solar Collectors	66.0	26.0
Tableware, non bone	2,500.0	1,000.0
Tires & Inner tubes for bicycles	2,000.0	1,000.0
Tooth Brushes	202.0	143.0
SUBTOTAL	35,440.8	19,389.0

CLASSIFICATION OF PROJECTS BY STATUS

1. Request for Loan.

2. Profile.

3. Idea.

152

Exhibit No. 2.5

INVESTMENT AND MEDIUM-TERM FINANCING BY STATUS

(Thousands of dollars)

STATUS	TOTAL INVESTMENT	MEDIUM-TERM FINANCING
Request for Loan	29,300.0	16,310.0
Profile	88,506.7	60,190.0
Idea	3,500.0	2,200.0
TOTAL	121,306.7	78,700.0

Exhibit No. 2.6

INVESTMENT AND MEDIUM-TERM FINANCING BY STATUS OF REQUEST FOR LOAN

(Thousands of dollars)

PROJECT	TOTAL INVESTMENT	MEDIUM-TERM FINANCING
Animal Food	300.0	65.0
Candy Factory	800.0	500.0
Chewing gum	900.0	500.0
Emulsifiers	1,500.0	910.0
Leather Gloves	200.0	100.0
Leather bags	150.0	100.0
Lemon Oil & Lemon Juice	50.0	25.0
Lobsters Tails	200.0	50.0
Paper	14,000.0	7,000.0
Pineapple Processing Plant	3,000.0	2,000.0
Rotoplastics	1,500.0	910.0
Sweet water shrimp	2,700.0	1,700.0
Turkeys	4,000.0	2,450.0
SUBTOTAL	29,300.0	16,310.0

154

Exhibit No. 2.7

INVESTMENT AND MEDIUM-TERM FINANCING
BY STATUS OF PROFILE
(Thousands of dollars)

PROJECT	TOTAL INVESTMENT	MEDIUM-TERM FINANCING
Accesories, PVC	660.0	450.0
Animal Feeds (Molasses, Soybean & Citrus Pulp)	549.0	300.0
Anodes for outboard marine motors	100.0	50.0
Beef processing for Export	6,500.0	4,550.0
Bicycles	1,000.0	600.0
Candied Tropical Fruits	284.7	121.0
Canned Seafood Dish	1,190.0	700.0
Canned Soups. Shrimp, Clam and other seafood	3,475.0	2,350.0
Car Mufflers & Exhaust Tubes	570.0	350.0
Castor Oil & Meal	1,540.0	1,250.0
Ceramic tiles	2,500.0	1,000.0
Christmas tree lights	500.0	300.0
Coconut - trees (2,000 hect)	7,375.0	5,900.0
Corn Germ Oil & Flour	718.0	600.0
Dehidrated bell peppers	320.0	200.0
Dry batteries	1,362.0	1,000.0
Essential Oil from Lemon Grass	150.0	90.0
Fishery (processed for exportation)	10,000.0	7,000.0
Fresh & FRozen Okra	271.0	180.0
Frozen Yucca	365.0	270.0
Glazed Ceramic Ware	100.0	50.0
Hand Tools (Forged Steel)	1,150.0	800.0
Hand Tools for agriculture	1,123.8	800.0
Molded Plastic Goods	667.0	450.0

PROJECT	TOTAL INVESTMENT	MEDIUM-TERM FINANCING
Palm Oil	4,000.0	2,800.0
Panels for Walls(foam, lumber, plywood & concrete)	280.0	150.0
Papain	335.0	160.0
Poliethylene pipes	320.0	280.0
Salted fish & sardines	600.0	425.0
Seafood Concentrates	261.2	150.0
Seafood Patés	2,500.0	1,800.0
Shrimp Farming (3-4,000 hect.) - Exploitation	20,000.0	14,000.0
Shrimp processing plant	6,000.0	4,200.0
Silica	590.0	370.0
Soft luggage	150.0	60.0
Solar Collectors	66.0	26.0
Soluble Coffee (Instant)	3,400.0	2,700.0
Tableware, non bone	2,500.0	1,000.0
Tires & Inner tubes for bicycles	2,000.0	1,000.0
Tomato Paste	414.0	265.0
Tooth Brushes	202.0	143.0
Transformers & Switch gear	1,000.0	600.0
Tropical Fruits Cocktail (Canned)	418.0	200.0
Walkie Talkies, Radios, etc.	1,000.0	500.0
SUBTOTAL	88,506.7	60,190.0

36

Exibit No. 2.8

INVESTMENT AND MEDIUM-TERM FINANCING BY STATUS OF IDEA

(Thousands of dollars)

PROJECT	TOTAL INVESTMENT	MEDIUM-TERM FINANCING
Bicycles and parts	2,000.0	1,300.0
Crabmeat, prepared, canned	500.0	300.0
Silver Ware (low cost)	1,000.0	600.0
SUBTOTAL	3,500.0	2,200.0

157

ANNEX NO. 3

PROFILES OF TYPICAL PROJECTS

SECTOR: AGRICULTURE/AGRIBUSINESS

DESCRIPTION: Production of frozen yucca for human consumption and dry yucca for animal feed (by product). The production will be 1,018 tons of dry yucca per year.

MAIN CHARACTERISTICS

1.	Total investment	$365,200
2.	Number Employed	19
3.	Annual Sales	$487,700
4.	Exports	90% Sales
5.	Raw Materials:	
	Yucca: National	
	Other: 50% National	

FINANCIAL DATA

Financial Rate of Return	22.5%
Sales	$487,700
Cost of Production	281,300
Raw Materials	150,000
Labor	95,000
Other	36,300

158

ECONOMIC INDICATORS

Investment per Job		$ 19,200
Sales per Job		$ 25,670
Annual Employment Earnings		$ 5,000
National Value Added		80%
Foreign Exchange (Net)		$410,800
Inflow	438,930	
Outflow	28,130	
Foreign Exchange Earnings/Investment		1.126
Employment Earnings/Investment		0.260
National Value Added/Investment		1.068

SECTOR: PROCESSING/ASSEMBLY

DESCRIPTION: Production of ethyl alcohol (264 thousand annual liters) and high grade alcohol (165,000 annual liters) for exports.

MAIN CHARACTERISTICS

1.	Total Investment	$174,000
2.	Number Employed	22
3.	Annual Sales	$426,690
4.	Exports	100%
5.	Raw Materials	The most important is sugar cane (local).

FINANCIAL DATA

Financial Rate of Return		27.06%
Sales		$426,690
Cost of Production		$317,800
Raw Materials	209,800	
Labor	88,000	
Other	20 000	

ECONOMIC INDICATORS

Investment Per Job	$ 7,909
Sales per Job	$ 19,395
Annual Employment Earnings	$ 4,000
National Value Added	65%
Foreign Exchange (Net)	$321,400
Inflow 426,690	
Outflow 105,500	

Foreign Exchange Earnings/Investment	1.847
Employment Earnings/Investment	0.506
National Value Added/Investment	1.594

SECTOR: MANUFACTURING/OTHER

DESCRIPTION: Production of 12.0 millions of large, medium & small battereis per year.

MAIN CHARACTERISTICS

1.	Total Investment	$1,362.700
2.	Number Employed	51
3.	Annual Sales	$3,360,000
4.	Exports	70 Sales
5.	Raw Materials	Imported

FINANCIAL DATA

Financial Rate of Return		80.4%
Sales		$3,360,000
Cost of Production		$1,620,000
Raw Materials	1,195,000	
Labor	298,000	
Other	142,000	

162

ECONOMIC INDICATORS

Investment Per Job		$ 26,700
Sales per Job		$ 65,880
Annual Employment Earnings		$ 5,840
National Value Added		38.5%
Foreign Exchange (Net)		$ 287,000
Inflow	$2,352,000	
Outflow	$2,065.000	

Foreign Exchange Earnings/Investment	0.211
Employment Earnings/Investment	0.219
National Value Added/Investment	0.949

SECTOR: EXPORT SERVICES.

DESCRIPTION: Scrapping of vessels.

MAIN CHARACTERISTICS

1.	Total Investment	$1,557,500
2.	Number Employed	200
3.	Annual Sales	$5,002,000
4.	Exports	100% Sales
5.	Raw Materials	Imported

FINANCIAL DATE

Financial Rate of Return		30-40%
Sales		$5,002,000
Cost of Production		$3,393,600
Raw Materials	1,920,000	
Labor	993,600	
Other	480,000	

ECONOMIC INDICATORS

Investment per Job	$ 7,788
Sales per Job	$ 25,010
Annual Employment Earnings	$ 4,970
National Value Added	28%
Foreign Exchange (Net)	$1,662,000
Inflow $5,002,000	
Outflow $3,340,000	
Foreign Exchange Earnings/Investment	1.067
Employment Earnings/Investment	0.638
National Value Added/Investment	0.899

SECTOR: TOURISM

DESCRIPTION: Apartment hotel of 100 rooms, for prolongated stays with medium - high rates.

MAIN CHARACTERISTICS

1.	Total Investment	$3,709,000
2.	Number Employed	30
3.	Annual Sales	$1,314,000
4.	Exports	70% of Sales
5.	Raw Materials	80% Local (Construction/ Depreciation)

FINANCIAL DATA

Financial Rate of Return		17%
Sales		$1,314,000
Cost of Production		$ 459,900
Raw Materials	127,500 1/	
Labor	135,000	
Other	197,400	

1/ Maintenanceof building and equipment and renewal of equipment

ECONOMIC INDICATORS

Investment per jor		$123,633
Sales Per Job		$ 43,800
Annual Employment Earning		$ 4,500
National Value Added		80%
Foreign Exchange (Net)		$781,830
Inflow	919,800	
Outflow	137,970	
Foreign Exchange Earnings/Investment		0.211
Employment Earnings/Investment		0.035
National Value Added/Investment		0.283

B. Institutional Analysis

1. Introduction

When requested, FIDESA will provide medium- and long-term loans to those manufacturing and processing industries that meet criteria established by the lending corporation.

In broad terms, a feasibility study must have been performed of each loan application so that an analysis can be made of it. If the application is approved, FIDESA will normally finance up to 70% of medium- and long-term requirements of the project. It is expected that the remaining 30% will be financed by the person(s) applying for the loan.

On some projects, FIDESA will enter into co-financing arrangements with other banks or institutions. LAAD has already expressed an interest in this activity and this will allow the A.I.D. loan to have even more of an impact on the Panamanian economy.

As FIDESA evolves over time, it will be given some latitude in the methods in which it can invest its funds. One area will be equity investments. However, its principal activity will be to provide medium- and long-term loans to the above-mentioned industries.

Because Panama is the center of banking for Latin America, experienced banking personnel for FIDESA will be hired locally. It is anticipated that training in development lending will have to be provided to the General Manager and Credit Officers as they will be more familiar with short-term lending practices. In addition, USAID will provide funds to obtain a full-time development banker for a period of four years. This banker will assist in start-up operations, training and evaluating any projects that come in during this period of time.

2. Proposed Organization

In the first years of FIDESA's operations, the professional staff will consist of the General Manager (Managing Director), an advisor to the General Manager, two Loan and Investment Monitoring Officers and an Administrative Officer. As the volume of lending increases, the staff will be increased accordingly.

In the sections that follow, the job descriptions and responsibilities of the different levels within the organization are presented. The type and specific activities which have been described reflect the assumptions that have been made in this project paper.

a. Responsibilities of the Board of Directors

- o Develop and/or approve policy objectives, guidelines and goals.
- o Approval of management structure.
- o Approval of senior management selection and their compensation packages.
- o Delegation of operational responsibilities to management.
- o Review loan applications that are deemed feasible by the Managing Director and the project Review Committee and exceed the lending authority of the Managing Director.
- o Develop and/or approve policy objectives, guidelines and goals.
- o Specific approval of all proposed loans and equity investments exceeding financing limits.
- o Post review of financing decisions.
- o Selection of outside auditors, legal counsel and attorneys.
- o General promotion of the company including search for potential clients and coordination with financial institutions.
- o On-going monitoring of financed projects in close coordination with Loan and Investment Monitoring Officer.

b. Board Role and Interface with Management

- o The Managing Director will be a member of the Board as well as General Manager of FIDESA.
- o The Managing Director will have responsibilities for operating FIDESA within policies set by the Board. Once general guidelines are established for individual FIDESA projects and agreed to by the Board, the Managing Director can negotiate with project partners and commit FIDESA within such guidelines.
- o The Board's role is to set policy and establish guidelines for the operations of FIDESA to review progress, to assist in developing cooperative/beneficial relations with existing financial institutions, and to assist in evaluating projects.
- o Initially, the Board will work very closely with the Managing Director to gain a better understanding of FIDESA's operation. Once practical knowledge is attained and mutual confidence achieved, the Board may assume a less active role in the day-to-day operations.

c. Responsibilities of the Managing Director

- o Senior operational executive in FIDESA.
- o Responsible for development and implementation of overall business plan.
- o Vice Chairman of the Board.
- o Provides leadership in general promotion and business development.
- o Senior liaison with international and local financial/business communities.
- o Responsible for day-to-day management of the corporation.
- o Responsible for selection of key personnel.
- o Develops policy issues for Board consideration.
- o Senior project packager and fee structurer.
- o Liaison with USAID/Panama and institutional leaders.
- o Responsible for utilizing technical assistance under USAID program.

d. Experience Level and Capabilities Sought for the Managing Director

- o Minimum ten years experience in a merchant and/or investment bank, with a record of successful project financing.
- o Proven ability to operate with limited organizational and staff resources.
- o Skillful at evaluating the merits of projects and project sponsors.
- o Proven ability to structure projects to meet the financing requirements of different financial institutions.
- o Skillful at working with and through people.
- o Spanish speaking/reading capability.
- o Latin American experience.
- o Imaginative and creative problem solver.
- o Excellent judgment.

e. Responsibilities of the Loan and Investment Officer

- Responsible for reviewing performance of each company financed, including on-going evaluation of financial reports and spot visits for auditing purposes.
- Responsible for establishing timely and effective control systems for the monitoring of the investment and loan portfolio; provides recommendations to Managing Director for corrective action.
- Provides policy and business development guidance on company finance through Board representation as appropriate.
- Maintains close coordination with client companies as a basis for identifying additional opportunities for providing financial services.
- Responsible for identifying, structuring ("packaging") and implementing projects.
- Co-financing projects with other institutions as appropriate.
- Assists Managing Director to design loan and investment standards and guidelines for overall operations.
- Coordinates FIDESA project development activities with other local and foreign financial institutions.
- Identifies and evaluates projects for their presentation, review and implementation.

f. Experience Level and Capabilities Sought for Loan and Investment Officer

- Five years experience monitoring loans and investments for a financial institution.
- Skillful communicator.
- Effective at dealing with senior businessmen.

g. Responsibilities of the Operations and Administrative Officer

- Development of internal accounting and management information systems.
- Personnel functions, including payroll.
- Preparation of performance reports and other reports for USAID.
- Day-to-day cash management.
- Disbursement and collection systems.

171

h. Experience Level and Capabilities Sought for Operations and Administrative Officer

- Five years accounting/control experience in a financial institution.
- Creative and capable financial administration professional.
- Able to work effectively with and through people.

i. Responsibilities of the Advisor to the Managing Director

- Assists Managing Director with all banking activities.
- Advises on potential new areas that the Bank might become involved in.
- Assists in project structuring and loan evaluation.
- Attends the Board of Directors meeting as a non-voting member.

j. Experience Level and Capabilities Sought for the Advisor to the Managing Director

- Minimum ten years business experience of successful development banking.
- Proven ability to evaluate the merits of projects.

k. Responsibilities of the Loan and Investment Screening Committee

- Reviews loan application after being screened by the Loan and Investment Office.
- Source of new project ideas.
- Assists Board with project review.

In addition, the Board of Directors will establish three committees to assist in managing FIDESA. These are the;

i. Loan and Investment Committee.

This Committe would review and approve or submit for approval of the full Board, all loans, equity investments and placement of the surplus funds of the institution in excess of the limit established for the Managing Director. It would decide or submit for the approval of the full Board on matters regarding interest rates, commitment charges, service charges to the clients and mobilization of funds. It would be also responsible for the review and approval or submission for approval by the full Board of the internal as well as the operational budget of FIDESA.

172

ii. Policy and Planning Committee

This Committee would establish the overall annual and long-term objectives of the institution. It would deal with priority areas of financing, and the expansion or contraction of the operation of the institution in the light of economic conditions. It would review the annual report, the balance sheet and the profit and loss statement for submission to the Board and shareholders.

iii. Compensation Committee

This Committee will deal with wage policies and the staffing requirements of FIDESA.

3. Business Plan

a. Investment and Revenue - Four Years

The USAID loan will be disbursed over a four-year period. FIDESA's principal source of income will be the interest that it charges on its loans.

Financial projections presented in Annex VII-C show an increasing level of operation over time. It assumes conservatively that FIDESA will increase its loan portfolio from $4.7 million in year 1 to $23. million in year 5. The return on equity will increase from -1% to 13%.

b. Achieving the Business Plan

FIDESA must start out in a highly focussed and disciplined manner if it is to be successful in building a profitable loan portfolio.

Given FIDESA's relatively small initial capitalization and strong indications that immediate demands from prospective clients will be large, it must stress the development of constructive, cooperative relationships with the local and international financial and business community.

FIDESA must provide clear guidelines on its services, financing capabilities and financing standards to the local business community. It will need to meet with key business and financial people throughout Panama to discuss and review FIDESA services and methods of collaboration.

FIDESA must be careful to inform potential clients that it will be receptive only to well-defined project proposals. It must make clear to all potential clients that Management will not review projects, nor consider them for financing, unless these proposals satisfy minimum presentation standards. The information and standards to be met should be published in a brochure and circulated to the general business community, potential co-financing affiliates and individual businesses, on request.

173

Factors that must be presented in order to evaluate a project are;

i. Brief Description of Project

ii. Sponsorship, Management and Technical Assistance

a. History and business of sponsors, including financial information.
b. Proposed management arrangements and list of executive management, with curricula.
c. Description of technical arrangements for know-how and other external assistance (management, production, marketing, finance, etc.)

iii. Market and Sales

a. Basic market orientation; export, local national, local regional.
b. Projected production volume, sales objectives, and market share of proposed venture.
c. Potential users of products and distribution channels to be used.
d. Present sources of supply for products. Future competition and possibility that market may be satisfied by substitute products.
e. Tariff protection or import restrictions relating to products.
f. Critical factors that determine market potential.
g. Review aspects and consequences of any proposed or existing regional economic integration agreements.

iv. Technical Feasibility, Manpower and Raw Material Resources

a. Brief description of manufacturing process.
b. Comments on special technical complexities, needs for know-how and special skills.
c. Possible sources of equipment supply.
d. Availability of manpower and of infrastructure facilities (transport and communications, power, water, etc.)
e. Sources, costs, and quality of raw material supply and relations with support industries.
f. Are required raw materials subject to import restrictions?
g. Proposed plant location in relation to suppliers, markets, infrastructure and manpower.
h. Proposed plant size in comparison with other known plants.

v. Investment Requirements, Project Financing and Return

a. Estimate of total project cost, broken down into land, construction, installed equipment and working capital.
b. Proposed financial structure of venture, indicating expected sources and terms of equity and debt financing.
c. Type of financing: loan, equity or both and amount.
d. Information on profitability and return on investment.
e. Critical factors affecting profitability.

174

vi. Government Support and Regulations

a. Project in context of government economic development and investment program.
b. Specific government incentives and support available to project.
c. Expected contribution of project to economic development.
d. Outline government regulations regarding exchange controls and conditions on capital entry and repatriation.

vii. Time Scale Envisaged for Project Preparation and Completion.

Only after a project is shown to be viable will the collateral issue be addressed. It is anticipated that, on the average, collateral requirements will be less than those required by commercial banks. Collateral requirements will be determined on an individual basis based on the type of project, the length of the loan, anticipated risk and other factors that FIDESA will develop in its lending criteria.

Note: It is intended that FIDESA deal only with well-conceived and presented commercial proposals. The information shown in this chart is typical of that required for any commercial project (although it may be altered slightly for FIDESA). It is drawn from the IFC Preliminary Project Information Required brochure.

175

Project Analysis

C. Financial Analysis

1. Introduction

In order to measure the financial viability of FIDESA, a computer model was designed which allows changes in certain key variables and development of a projected set of balance sheets, income statements and cumulative amounts of loans and investments. The financial analysis covers a twenty-year period and was designed to simulate the projected operations of FIDESA over that time-frame. However, in this analysis, reference is made only to the first ten years since projections beyond that time-frame are highly conjectural.

2. The Base Case

The base case projections are shown in Table A1,2 & 3. The key variables and assumptions which are analyzed in part 3 of this section include:

- Market demand;
- Reserve for losses;
- A.I.D. loan and other long-term debt;
- Paid-in capital, retained earnings and dividends;
- Interest rate applicable to the earning portfolio;
- Interest rate on A.I.D. loan and other long-term debt;
- Administrative expenses
- Risk-sharing; and
- Taxes

The result of the base case financial projections demonstrate that FIDESA is a viable and financially attractive institution in the long-run for the investors while as the same time providing the type of services which should lead to achieving the developmental objectives which USAID is seeking. The projections show that in the first year of its operation, FIDESA will suffer a loss of US$30,000. However, FIDESA becomes profitable in the second year and remains that way so that by year 5, ROE is almost 13 percent. In the 10th year of its operation, FIDESA will have a net loan portfolio of US$24.9 million. FIDESA's net worth will have increased from US$2.5 million to US$7.0 million. The debt to equity ratio is 1:1 in year 1, increases to 3.1:1 in year 5 and decreases to 2.6:1 by year 10.

3. Base Case Assumptions

In this section, the key variables identified in the previous section are discussed. A sensitivity analysis is performed on the relevant variables in order to measure its impact on the projected financial returns of FIDESA, as is discussed in part 4 of this section.

176

a. Market Demand

Table I provides a breakdown of the annual disbursements for each of the ten years of the analysis. For the purposes of the base case analysis it has been assumed that loans are placed for an average term of five years including a grace period of two years and the amount of US$400,000.

TABLE I

Annual Disbursement-Base Case

Year	Amount Million of US$
1	4.7
2	5.7
3	7.0
4	10.7
5	6.1
6	8.1
7	8.2
8	8.6
9	7.8
10	8.6

b. Reserve for Possible Losses

Two reserve accounts for bad debts are maintained.

1. Reserve for Normal Bad Debt is equal to 1 percent of the new loans made every year.

2. Reserve for Extraordinary Bad Debt is maintained at 2 percent of the net loan portfolio during any year. It will be capitalized from a "Special Account" earmarked for extraordinay bad debt. FIDESA will allocate to this Special Account funds equal to the interest paid to AID every year.

At year-end, any residual remaining in the "Special Account" earmarked for extraordinary bad debt after building up the "Reserve for Extraordinary Bad Debt" shall be shared equally between A.I.D. and FIDESA.

At the end of the 20th year, A.I.D. and FIDESA will equally share any credits that might remain in the "Reserve for Extraordinary Bad Debt".

c. USAID Loan and Other Loans

A loan from A.I.D. for a total of US$18 million has been assumed in the base case analysis and other cases. This loan will be repaid in 20 years including a grace period of 10 years. The interest rate on this loan is 5 percent. In this base case, the effective cost of the A.I.D. loan to the borrowers is slightly more than 7 percent. Depending on bad debts the effective cost could be as low as 5 percent and as high as 7.5 percent.

177

The full disbursement of the A.I.D. loan is expected to be achieved over a four-year period. The base case projections do not assume additional funds before the commencement of the repayment of the A.I.D. loan. Additional funds as of year 11 are (a) an amount equal to the repayment of the A.I.D. loan, and (b) US$4.5 million spread over years 11, 12 and 13. These additional funds are assumed to carry an interest rate of 8 percent.

d. Paid-in Capital and Net Worth

It is assumed that the Capital of FIDESA will be paid in the first four years of operation; cumulative US$2.5 million, US$3.5 million, US$4.0 million, and US$4.5 million respectively.

Net Worth will grow from US$2.5 million in year 1 to US$7.0 million in year 10 given that all profits are retained during the first three years and dividend payments after this do not exceed 60 percent of "Net Profit After Taxes" for any particular year.

e. Interest Rates

Interest charged on the outstanding loan portfolio is assumed to be an average of 13 percent. The interest rate charged by FIDESA will vary depending on the length of the loan, the grace period, and the risks involved. Additionally, FIDESA will have earnings from commitment fees, issuance of guarantees and a fee charged to cover the cost of studies and analysis made in connection with project appraisal. For purposes of these projections, income from fees has been calculated to be 2 percent of half of the new loan portfolio every year. All interest income is expected to be paid to FIDESA in the year it is earned (not capitalized).

f. Administration Expenses

Table II shows the detailed projected staff and administrative expenses. These expenses are assumed to increase by 10 percent during the first four years of operation and 5 percent per year thereafter. It is assumed that FIDESA will invest US$100,000 in fixed assets (office equipment). This is depreciated over 10 years. Also it is assumed that US$50,000 will have been spent on initial organizational expenses. This is amortized over 5 years.

\70

T A B L E II
Administrative Expense
(US$)

Salaries	$131,000
General Manager	50,000
Loan Officers (2)	50,000
Operational Manager	12,000
Bookeeper	5,000
Secretaries (2)	10,000
Messenger	4,000
Travel & Communications	10,000
Rent	12,000
Miscellaneous	7,000
T O T A L	$160,000

g. Taxes

Panamanian tax rates are applied to net income. As of the fourth year, the rate is slightly over 40 percent. In addition to regular tax, there is a tax on corporate and paid-in capital. The tax on corporate capital is 1 percent with a maximum of US$20,000 and 2.5 percent on paid-capital with a maximum of $12,500.

4. Sensitivity Analysis

a. Demand

Two separate sensitivity analysis were performed on demand. In one case the capital and A.I.D. loan are utilized in five years. In the other, the capital and A.I.D. loan are utilized in seven years (Tables B and C). In both sensitivity runs, the model showed that the effects strongly impact on the financial statements. To be more precise, the ratios of profit to capital which in the base case in years 5 and 10 are about 15.6 and 17.1 percent respectively decline to 12.2 and 16.3 percent when funds are utilized over a five year period and 10.9 and 15.7 percent when utilized over a seven year period.

b. Provision for Loan Losses

The model is somewhat sensitive to increases or decreases in normal bad debt expense. When bad debt expense is increased or decreased by half a percentage point, return on capital (ROC) changes by approximately this same amount. (Tables D and E).

Bad debt charged to the "Reserve for Extraordinary Bad Debt" has less of an impact on ROC. For every increase or decrease of half a percentage point, ROC increases or decrease by approximately two tenths of a percentage point (Tables F and G). This can be attributed to the risk-sharing mechanism that A.I.D. has with FIDESA.

c. Cost of Funds

A scenario was created in which the interest on the A.I.D. loan was 6 percent and the amount that was used to capitalize the "Special Account Earmarked for Extraordinary Bad Debt" was equal to 4 percent of the A.I.D. loan every year. When compared to the Base Case, ROC dropped by 1 percentage point in year 5 and 1/2 percentage points in year 10 (Table H).

d. Changes in the interest rate charged to the Borrower

The model was very sensitive to the interest rate that FIDESA would charge its clients. When this rate was varied by one point, ROC varied by 2.8 and 3.3 percentage points in years 5 and 10 respectively. (Tables I and J).

e. Administrative Expenses

When administrative expenses were maintained at 10 percent throughout the projections and then compared to the Base Case, the difference in ROC was negligible in Year 5 but dropped by one percentage point in year 10 (Table K). This can be attributed to the assumptions used in the Base Case; an increase of 10 percent in operating expenses for the first four years and then 5 percent thereafter.

f. Summary

Comparison of the base case and the sensitivity analysis shows that FIDESA cannot easily sustain downside risks without seriously jeopardizing the overall financial projections. However, the variables that have the greatest impact on the financial performance are; lower income from the loan portfolio, a low level of demand for funds, the cost of funds and a higher level of normal bad debt expense. A higher level of extraordinary bad debt expense has a relatively minor impact on the financial projections.

180

TABLE III
Return on Capital (ROC) Comparison
(%)

	Year 5	Year 10
Base Case	15.6	17.1
Demand:		
Capital & A.I.D. loan utilized in 5 years	12.2	16.3
Capital & A.I.D. loan utilized in 7 years	10.9	15.7
Bad Debt:		
Normal: 0.5% of new loans made	16.1	17.8
Normal: 1.5% of new loans made	15.2	16.5
Extraordinary; 0.5% of new loans made	15.9	17.5
Extraordinary; 1.5% of new loans made	15.4	16.8
Cost of Funds		
Interest paid directly to A.I.D. at 6%	14.6	15.9
Interest rate Income		
12%	12.8	13.8
14%	18.5	20.6
Operating Expenses		
Increase at 10% annually	15.5	16.1

5. Model Description

The computer model was designed to allow the user to change certain key variables and to develop a projected set of balance sheets, income statements, and cumulative number of loans made and amount of loans disbursed. The model also provides the user with a set of ratios which makes the analysis of the financial statements easier. These ratios are; net profit after taxes to capital, net profit after taxes to equity and the interest and windfall expressed as a percent of the A.I.D. loan, that A.I.D. will obtain when it makes the loan. The model covers a twenty-year time-frame.

A detailed description of the computer model assumptions is provided below.

Balance Sheet

Cash: Cash shown on the balance sheet is a function of administrative expenses. It is maintained as the level of US$100,000.

Outstanding Loan Portfolio: A residual figure; the difference between all resources and all expenses is divided between this item and the Risk Minimization Fund.

Reserve for Normal Bad Debt: Made up of the provision for normal losses taken in every year. For the purposes of this analysis it is 1 percent of the dollar amount of new loans made every year.

Reserve for Extraordinary Bad Debt: Equal to 2 percent of net loan portfolio. In the first year, it is 5 percent of the A.I.D. loan minues the extraordinary bad debt expense which is less than the above-mentioned 2 percent. In year 20, this reserve is "zeroed out" and the funds divided equally between A.I.D. and FIDESA.

Net Loan Portfolio: This is the outstanding loan portfolio minus the reserve for normal bad debt and the reserve for extraordinary bad debt.

Fixed Assets: Depreciated in a straight line over a 10 year period.

Organizational Expense: Amortized in a straight line over a 5 year period.

A.I.D. Loan: Repaid in 20 years with a grace period on principal of 10 years. This loan's rate of interest is 5 percent. Repayment of the principal of this loan and payment of interest are made in equal installments.

Other long-term loans: Equal to the amount of principal repaid to A.I.D.

Others Loans: Cumulative US$2 million , US$4 million and US$4.5 million respectively in years 11, 12 and 13 and maintained at the latter level.

Retained Earnings: Made up of the previous year's retained earnings plus the current years income after taxes minus dividends paid during the current year.

Total Net Worth: Capital plus retained earnings.

Total Liabilities and Net Worth: The amount of the outstanding loans plus the Net Worth.

Income Statement

Interest from Loan Portfolio. In the first year of operation, interest is computed by dividing the end of year one net loan portfolio by two and applying the rate of interest. In subsequent years it is computed by applying the rate of interest to the total net loan portfolio of the previous year plus one half of the increase in the net portfolio in the current year. The rate of interest applied is 13 percent.

Closing Fees: The rate is 2 percent of half of the dollar amount of new loans made every year.

Interest Expense for A.I.D. Loan: The rate is 5 percent and calculated as in the above explanation.

Interest Expense for Other Loans: The rate is 8 percent and calculated as in the above explanation.

182

Gross Income after Interest Expense: the difference between gross income and interest expense.

Operating Expenses: This increases by 10 percent during the first four years of operation and 5 percent thereafter.

Normal Bad Debt Expense: This is equal to 1 percent of the dollar amount of new loans made every year.

Extraordinary Bad Debt Expense: This is all bad debt in excess of normal bad debt. In the computations it is assumed to be 1 percent of the dollar amount of new loans made every year.

Special Account Expense: Equal to the interest expense for the A.I.D. loan.

Depreciation: Straight line over a 10 year period

Amortization: Straight line over a 5 year period.

Surplus Funds Retained by FIDESA: Funds retained by FIDESA after risk-sharing with A.I.D.

Income before taxes: Net income before taxes

Tax: Based on Panamanian tax code.

Tax on Corporate Capital: 1 percent of corporate capital. The minimum is $10 and the maximum is $20,000 per year.

Tax on Paid-in Capital: 2 percent of paid-in capital up to $12,500 per year.

Dividends: None in the initial three years; then 60 percent of "Net Income After Taxes".

Retained earnings: Difference between "Net Income After Taxes" and "Dividends".

Uses of Funds set Aside for Extraordinary Bad Debt

Special Account: Equal to 5 percent of the A.I.D. loan plus last year's "Reserve for Extraordinary Bad Debt".

Extraordinary Bad Debt Expense: Equal to 1 percent of the dollar amount of new loans made each year.

Reserve for Extraordinary Bad Debt: Equal to 2 percent of the net loan portfolio. In the first year, it is the "Special Account" minus the Extraordinary Bad Debt expense which is less than the above-mentioned 2 percent. In the 20th year, it is "zeroed out" and the funds divided equally between A.I.D. and FIDESA.

Surplus Funds Available: Funds remaining from the "Special Account" after extraordinary bad debt expense has been charged off and the "Reserve for Extraordinary Bad Debt" has been built up.

Share to A.I.D. & FIDESA: This is equal to one half of the surplus funds available.

RATIOS

These are calculated at the end of the year.

TABLE A BASE CASE

FINANCIAL STATEMENTS FOR THE FINANCIERA DE EXPORTACIONES, S.A.

ASSUMPTIONS

I) Resources

A) Total Capital: $4.5 million

To be paid in as follows:	Cumulative ($000)
Year 1	2,500
Year 2	3,500
Year 3	4,000
Year 4	4,500

B) A.I.D. loan: $18 million

To be disbursed as follows:	Cumulative ($000)
Year 1	2,500
Year 2	7,000
Year 3	11,500
Year 4	18,000

C) Replacement of the A.I.D. loan starts in year 10 and is equal to the amount of principal repaid to A.I.D. each year

D) Other loans: $4.5 million

To be disbursed as follows:	Cumulative ($000)
Year 11	2,000
Year 12	4,000
Year 13	4,500

II) Terms of the Loans

A) A.I.D. loan: 20 years, 10 years grace on principal
Other long-term loans: 20 years, 10 years grace on principal
Other loans: Short-term revolving

B) Interest Rates:

A.I.D. Loan:	5%	Paid out
Other long-term loans:	8%	Paid out
Other loans:	8%	Paid out
To Borrowers:	13%	Received
Risk Minimization Fund:	6%	Received

III) Capitalization of Special Acct.: 5% (Equivalent to 5% of the A.I.D. loan per year)

IV) Cash On Hand: $100,000

V) Depreciation of Fixed Assets: 10%/yr.

VI) Amortization of Initial Organizational Expenses: 20%/yr.

VII-C-10

187

TABLE A BASE CASE

VII) Bad Debt Reserves:

A) Normal: 1%
(% of new loans made each year)

B) Extraordinary: 2% (5% of the A.I.D. loan plus last year's Extraordinary Bad Debt Reserve is used to capitalize the account).
(% of yearly loan portfolio)

VIII) Bad Debt Expense:

A) Normal: 1%
(% of new loans made each yr)

B) Extraordinary: 1% Note: If bad debts exceed what has been set aside in the Reserve for Extraordinary Bad Debt, the remaining bad debt is charged to Normal Bad Debt Expense.
(% of new loans made each yr)

IX) Closing fees: Upfront charge of 2% of the value of half of the new loans made every year.

X) Operating Expenses: For first 4 yrs, incr. at 10%/yr.; thereafter, incr. at 5%/yr..

XI) Dividends: None in the initial 3 years; then 60% of "Net Income After Taxes" if this line item is positive

XII) Share of EDFC & AID: Bad debt is initially charged to the Reserve For Normal Bad Debt. Bad Debt in excess of funds available in the Reserve For Normal Bad Debt shall be charged to the "Special Account Earmarked For Extraordinary Bad Debt" which consists of last year's Reserve for Extraordinary Bad Debt and 5% of the current year's A.I.D. loan. After this write-off, the residual funds in the Special Account will be credited to the "Reserve For Extraordinary Bad Debt" which will be maintained at 2% of the net loan portfolio for that yr. Any residual remaining in the Special Account after all expenses, shall be be shared equally between A.I.D. and the EDFC.

XIII) Tax: According to the Panamanian tax code:

Amount ($000)	Tax Rate
0 to 30	20%
30 to 100	30%
100 to 500	45%
500 and up	50%

Note: Tax is computed as follows; 20% on the first $30,000 of profits; 30% on the next $70,000 of profits; 45% of the next $400,000 of profits; 50% on any profits in excess of $500,000

XIV) Tax on corp. capital: Per Panamanian law, there is a 1% tax on corporate capital. The minimum is $10 and the maximum $20,000.

XV) Tax on Paid-in capital: Per Panamanian law, there is a 2.5% tax on paid-in capital. The maximum is $12,500/yr.

XVI) Windfall: Amount of money that A.I.D. receives in excess of the 5% interest rate. It is calculated as a percent of the outstanding A.I.D. loan.

86

TABLE A BASE CASE

PROFORMA BALANCE SHEET FOR THE FINANCIERA DE EXPORTACIONES,S.A. (000's)

YEAR	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
ASSETS																				
CASH	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100
OUTSTANDING LOAN PORTFOLIO	4,802	10,671	16,185	23,604	23,865	24,188	24,498	24,816	25,128	25,461	27,830	30,205	31,074	31,458	31,846	32,233	32,625	33,024	33,426	33,237
LESS RESERVE F/ NORMAL BAD DEBT	47	57	70	107	61	81	82	86	78	86	105	107	98	103	107	106	107	109	111	112
LESS RESERVE F/ XTRAORD BAD DEBT	15	196	316	461	467	473	479	485	491	498	544	590	607	615	622	630	638	645	653	0
NET LOAN PORTFOLIO	4,740	10,418	15,800	23,036	23,337	23,635	23,937	24,245	24,559	24,877	27,181	29,509	30,369	30,740	31,116	31,497	31,881	32,270	32,662	33,125
FIXED ASSETS	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100
DEPRECIATION	10	20	30	40	50	60	70	80	90	100	100	100	100	100	100	100	100	100	100	100
ORGANIZATIONAL EXPENSES	50	50	50	50	50	50	50	50	50	50	50	50	50	50	50	50	50	50	50	50
AMORTIZATION	10	20	30	40	50	50	50	50	50	50	50	50	50	50	50	50	50	50	50	50
TOTAL ASSETS	4,970	10,628	15,990	23,206	23,487	23,775	24,067	24,365	24,669	24,977	27,281	29,609	30,469	30,840	31,216	31,597	31,981	32,370	32,762	33,225
LIABILITIES & NET WORTH																				
LIABILITIES																				
A.I.D. LOAN	2,500	7,000	11,500	18,000	18,000	18,000	18,000	18,000	18,000	18,000	16,569	15,066	13,489	11,832	10,092	8,266	6,348	4,334	2,220	0
OTHER LONG-TERM LOANS	0	0	0	0	0	0	0	0	0	0	1,431	2,934	4,511	6,168	7,908	9,734	11,652	13,666	15,780	18,000
OTHER LOANS	0	0	0	0	0	0	0	0	0	0	2,000	4,000	4,500	4,500	4,500	4,500	4,500	4,500	4,500	4,500
TOTAL LIABILITIES	2,500	7,000	11,500	18,000	18,000	18,000	18,000	18,000	18,000	18,000	20,000	22,000	22,500	22,500	22,500	22,500	22,500	22,500	22,500	22,500
NET WORTH																				
CAPITAL	2,500	3,500	4,000	4,500	4,500	4,500	4,500	4,500	4,500	4,500	4,500	4,500	4,500	4,500	4,500	4,500	4,500	4,500	4,500	4,500
RETAINED EARNINGS	(30)	128	490	706	987	1,275	1,567	1,865	2,169	2,477	2,781	3,109	3,469	3,840	4,216	4,597	4,981	5,370	5,762	6,225
TOTAL NET WORTH	2,470	3,628	4,490	5,206	5,487	5,775	6,067	6,365	6,669	6,977	7,281	7,609	7,969	8,340	8,716	9,097	9,481	9,870	10,262	10,725
TOTAL LIABILITIES & NET WORTH	4,970	10,628	15,990	23,206	23,487	23,775	24,067	24,365	24,669	24,977	27,281	29,609	30,469	30,840	31,216	31,597	31,981	32,370	32,762	33,225

TABLE A — BASE CASE

PROFORMA INCOME STATEMENT FOR THE FINANCIERA DE EXPORTACIONES, S.A. (000's)

YEAR	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
GROSS INCOME																				
INTEREST																				
LOAN PORTFOLIO	308	985	1,704	2,524	3,014	3,053	3,092	3,132	3,172	3,213	3,384	3,685	3,892	3,972	4,021	4,070	4,120	4,170	4,221	4,276
CLOSING FEES	47	57	70	107	61	81	82	86	78	86	105	107	98	103	107	106	107	109	111	112
INTEREST EXPENSE																				
PAID DIRECTLY TO A.I.D.	63	238	463	738	900	900	900	900	900	900	900	828	753	674	592	505	413	317	217	111
OTHER LONG-TERM LOANS												114	235	361	493	633	779	932	1,093	1,262
OTHER LOANS											160	320	360	360	360	360	360	360	360	360
GROSS INCOME AFTER INTEREST EXP.	293	805	1,311	1,894	2,175	2,234	2,274	2,318	2,350	2,400	2,429	2,529	2,642	2,680	2,683	2,679	2,674	2,670	2,661	2,655
OTHER EXPENSES																				
OPERATING	160	176	194	213	224	235	247	259	272	285	300	315	330	347	364	382	402	422	443	465
NORMAL BAD DEBT	47	57	70	107	61	81	82	86	78	86	105	107	98	103	107	106	107	109	111	112
SPECIAL ACCOUNT	63	238	463	738	900	900	900	900	900	900	900	828	753	674	592	505	413	317	217	111
DEPRECIATION	10	10	10	10	10	10	10	10	10	10	0	0	0	0	0	0	0	0	0	0
AMORTIZATION	10	10	10	10	10	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
TOTAL EXPENSES	290	490	746	1,078	1,205	1,226	1,239	1,255	1,260	1,282	1,305	1,250	1,182	1,124	1,063	994	922	848	770	688
SURPLUS FUNDS RETAINED BY FIDESA	0	0	136	243	417	407	406	404	408	404	374	338	319	282	238	195	149	100	49	326
INCOME BEFORE TAXES	3	314	702	1,059	1,387	1,415	1,441	1,467	1,498	1,522	1,499	1,616	1,779	1,837	1,858	1,881	1,902	1,921	1,940	2,293
TAX	1	123	308	487	651	665	678	690	706	718	706	765	847	876	886	897	908	918	927	1,103
TAX ON CORPORATE CAPITAL	20	20	20	20	20	20	20	20	20	20	20	20	20	20	20	20	20	20	20	20
TAX ON PAID-IN CAPITAL	13	13	13	13	13	13	13	13	13	13	13	13	13	13	13	13	13	13	13	13
NET INCOME AFTER TAXES	(30)	158	361	540	704	718	731	744	760	771	760	819	900	929	940	951	962	971	981	1,157
DIVIDENDS	0	0	0	324	422	431	439	446	456	463	456	491	540	558	564	571	577	583	588	694
RETAINED EARNINGS	(30)	158	361	216	282	287	292	298	304	309	304	327	360	372	376	380	385	388	392	463

USES OF FUNDS SET ASIDE FOR EXTRAORDINARY BAD DEBT

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
SPECIAL ACCT EARMARKED FOR EXTRAORDINARY BAD DEBT	63	253	658	1,053	1,361	1,367	1,373	1,379	1,385	1,391	1,398	1,372	1,343	1,282	1,206	1,127	1,043	955	862	764
EXTRAORDINARY BAD DEBT EXPENSE	47	57	70	107	61	81	82	86	78	86	105	107	98	103	107	106	107	109	111	112
RESERVE FOR EXTRAORDINARY BAD DEBT	15	196	316	451	467	473	479	485	491	498	544	590	607	615	622	630	638	645	653	0
SURPLUS FUNDS AVAILABLE	0	0	273	486	833	813	812	808	816	807	749	675	638	564	477	391	299	200	98	652
-Share to A.I.D.	0	0	136	243	417	407	406	404	408	404	374	338	319	282	238	195	149	100	49	326
-Share to FIDESA	0	0	136	243	417	407	406	404	408	404	374	338	319	282	238	195	149	100	49	326
TOTAL PAYMENT TO A.I.D.	63	238	599	980	1,317	1,307	1,306	1,304	1,308	1,304	1,274	1,166	1,072	956	830	700	563	418	266	437

FINANCIAL RATIOS FOR THE FINANCIERA DE EXPORTACIONES, S.A.

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
NET PROFITS/CAPITAL RATIO (ROC)	-1.2%	4.5%	9.0%	12.0%	15.6%	16.0%	16.2%	16.5%	16.9%	17.1%	16.9%	18.2%	20.0%	20.6%	20.9%	21.1%	21.4%	21.6%	21.8%	25.7%
NET PROFITS/NET WORTH RATIO (ROE)	-1.2%	4.4%	8.1%	10.4%	12.8%	12.4%	12.1%	11.7%	11.4%	11.1%	10.4%	10.8%	11.3%	11.1%	10.8%	10.5%	10.1%	9.8%	9.6%	10.8%
INTEREST & WINDFALL ON A.I.D. LOAN	5.0%	5.0%	6.5%	6.6%	7.3%	7.3%	7.3%	7.2%	7.3%	7.2%	7.1%	7.0%	7.1%	7.1%	7.0%	6.9%	6.8%	6.6%	6.1%	19.7%

TABLE A BASE CASE

BREAKDOWN OF NEW AND OLD LOANS

YEAR	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
EXISTING LOAN PORTFOLIO:	4,740	10,418	15,800	23,036	23,337	23,635	23,937	24,245	24,559	24,877	27,161	29,509	30,369	30,740	31,116	31,497	31,981	32,270	32,662	33,125
INCR (DECR) IN LOAN PORT.:	4,740	5,678	5,381	7,236	302	297	302	308	314	319	2,304	2,327	860	372	376	380	385	388	392	463
REFLOWS FROM YR:																				
1			1,580	1,580	1,580															
2				1,893	1,893	1,893														
3					2,320	2,320	2,320													
4						3,570	3,570	3,570												
5							2,032	2,032	2,032											
6								2,693	2,693	2,693										
7									2,741	2,741	2,741									
8										2,867	2,867	2,867								
9											2,593	2,593	2,593							
10												2,874	2,874	2,874						
11													3,502	3,502	3,502					
12														3,554	3,554	3,554				
13															3,276	3,276	3,276			
14																3,434	3,434	3,434		
15																	3,569	3,569	3,569	
16																		3,548	3,548	3,548
17																			3,555	3,555
18																				3,647
19																				
20																				
FUNDS AVAILABLE FOR LOANS	4,740	5,678	6,961	10,709	6,095	8,080	8,224	8,602	7,780	8,621	10,506	10,662	9,829	10,301	10,708	10,644	10,664	10,940	11,065	11,212
NO. OF LOANS ASSUMING LOAN SIZE OF $400,000:	11.8	14.2	17.4	26.8	15.2	20.2	20.6	21.5	19.5	21.6	26.3	26.7	24.6	25.8	26.8	26.6	26.7	27.3	27.7	28.0
CUMULATIVE:	11.8	26.0	43.4	70.2	85.5	105.7	126.2	147.7	167.2	188.7	215.0	241.6	266.2	292.0	318.7	345.4	372.0	399.4	427.0	455.1

TABLE B SENSITIVITY I

FINANCIAL STATEMENTS FOR THE FINANCIERA DE EXPORTACIONES, S.A.

ASSUMPTIONS

I) Resources

A) Total Capital: $4.5 million

To be paid in as follows:	Cumulative ($000)
Year 1	1,000
Year 2	2,000
Year 3	3,000
Year 4	4,000
Year 5	4,500

B) A.I.D. loan: $18 million

To be disbursed as follows:	Cumulative ($000)
Year 1	2,000
Year 2	5,000
Year 3	9,000
Year 4	13,000
Year 5	18,000

C) Replacement of the A.I.D. loan starts in year 10 and is equal to the amount of principal repaid to A.I.D. each year

D) Other loans: $4.5 million

To be disbursed as follows:	Cumulative ($000)
Year 11	2,000
Year 12	4,000
Year 13	4,500

II) Terms of the Loans

A)

A.I.D. loan:	20 years, 10 years grace on principal
Other long-term loans:	20 years, 10 years grace on principal
Other loans:	Short-term revolving

B) Interest Rates:

A.I.D. Loan:	5%	Paid out
Other long-term loans:	8%	Paid out
Other loans:	8%	Paid out
To Borrowers:	13%	Received
Risk Minimization Fund:	6%	Received

III) Capitalization of Special Acct.: 5% (Equivalent to 5% of the A.I.D. loan per year)

IV) Cash On Hand: $100,000

V) Depreciation of Fixed Assets: 10%/yr.

VI) Amortization of Initial Organizational Expenses: 20%/yr.

110

TABLE B SENSITIVITY I

VII) Bad Debt Reserves:

A) Normal: 1%
(% of new loans made each year)

B) Extraordinary: 2% (5% of the A.I.D. loan plus last year's Extraordinary Bad Debt Reser
(% of yearly loan portfolio) is used to capitalize the account).

VIII) Bad Debt Expense:

A) Normal: 1%
(% of new loans made each yr)

B) Extraordinary: 1% Note: If bad debts exceed what has been set aside in the Reserve for Extraordinary Bad Debt, the remaining bad debt is charged to Normal Bad Debt Expense.
(% of new loans made each yr)

IX) Closing fees: Upfront charge of 2% of the value of half of the new loans made every year.

X) Operating Expenses: For first 4 yrs, incr. at 10%/yr.; thereafter, incr. at 5%/yr..

XI) Dividends: None in the initial 3 years; then 60% of "Net Income After Taxes" if this line item is positive

XII) Share of EDFC & AID: Bad debt is initially charged to the Reserve For Normal Bad Debt. Bad Debt in excess of funds available in the Reserve For Normal Bad Debt shall be charged to the "Special Account Earmarked For Extraordinary Bad Debt" which consists of last year's Reserve for Extraordinary Bad Debt and 5% of the current year's A.I.D. loan. After this write-off, the residual funds in the Special Account will be credited to the "Reserve For Extraordinary Bad Debt" which will be maintained at 2% of the net loan portfolio for that yr. Any residual remaining in the Special Account after all expenses, shall be be shared equally between A.I.D. and the EDFC.

XIII) Tax: According to the Panamanian tax code:

Amount ($000)	Tax Rate
0 to 30	20%
30 to 100	30%
100 to 500	45%
500 and up	50%

Note: Tax is computed as follows; 20% on the first $30,000 of profits; 30% on the next $70,000 of profits; 45% of the next $400,000 of profits; 50% on any profits in excess of $500,000

XIV) Tax on corp. capital: Per Panamanian law, there is a 1% tax on corporate capital. The minimum is $10 and the maximum $20,000.

XV) Tax on Paid-in capital: Per Panamanian law, there is a 2.5% tax on paid-in capital. The maximum is $12,500/yr.

XVI) Windfall: Amount of money that A.I.D. receives in excess of the 5% interest rate. It is calculated as a percent of the outstanding A.I.D. loan.

181

TABLE 9 SENSITIVITY I

PROFORMA BALANCE SHEET FOR THE FINANCIERA DE EXPORTACIONES,S.A. (000's)

YEAR	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
ASSETS																				
CASH	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100
OUTSTANDING LOAN PORTFOLIO	2,689	6,854	12,197	17,485	23,365	23,618	23,932	24,231	24,538	24,842	27,203	29,560	30,414	30,778	31,150	31,518	31,893	32,272	32,655	32,459
LESS RESERVE F/ NORMAL BAD DEBT	26	40	61	74	100	61	81	81	84	78	105	[illegible]	97	99	106	104	104	107	108	109
LESS RESERVE F/ XTRAORD BAD DEBT	24	134	238	341	456	462	468	474	479	486	531	578	594	602	609	616	623	631	638	0
NET LOAN PORTFOLIO	2,639	6,680	11,898	17,069	22,809	23,095	23,383	23,676	23,975	24,279	26,567	28,879	29,722	30,077	30,436	30,799	31,165	31,535	31,908	32,350
FIXED ASSETS	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100
DEPRECIATION	10	20	30	40	50	60	70	80	90	100	100	100	100	100	100	100	100	100	100	100
ORGANIZATIONAL EXPENSES	50	50	50	50	50	50	50	50	50	50	50	50	50	50	50	50	50	50	50	50
AMORTIZATION	10	20	30	40	50	50	50	50	50	50	50	50	50	50	50	50	50	50	50	50
TOTAL ASSETS	2,869	6,890	12,088	17,239	22,959	23,235	23,513	23,796	24,085	24,379	26,667	28,979	29,822	30,177	30,536	30,899	31,265	31,635	32,008	32,450
LIABILITIES & NET WORTH																				
LIABILITIES																				
A.I.D. LOAN	2,000	5,000	9,000	13,000	18,000	18,000	18,000	18,000	18,000	18,000	16,569	15,066	13,489	11,832	10,092	8,266	6,348	4,334	2,220	0
OTHER LONG-TERM LOANS	0	0	0	0	0	0	0	0	0	0	1,431	2,934	4,511	6,168	7,908	9,734	11,652	13,666	15,780	18,000
OTHER LOANS	0	0	0	0	0	0	0	0	0	0	2,000	4,000	4,500	4,500	4,500	4,500	4,500	4,500	4,500	4,500
TOTAL LIABILITIES	2,000	5,000	9,000	13,000	18,000	18,000	18,000	18,000	18,000	16,000	20,000	22,000	22,500	22,500	22,500	22,500	22,500	22,500	22,500	22,500
NET WORTH																				
CAPITAL	1,000	2,000	3,000	4,000	4,500	4,500	4,500	4,500	4,500	4,500	4,500	4,500	4,500	4,500	4,500	4,500	4,500	4,500	4,500	4,500
RETAINED EARNINGS	(131)	(110)	88	239	459	735	1,013	1,296	1,585	1,879	2,167	2,479	2,822	3,177	3,536	3,899	4,265	4,635	5,008	5,450
TOTAL NET WORTH	869	1,890	3,088	4,239	4,959	5,235	5,513	5,796	6,085	6,379	6,667	6,979	7,322	7,677	8,036	8,399	8,765	9,135	9,508	9,950
TOTAL LIABILITIES & NET WORTH	2,869	6,890	12,088	17,239	22,959	23,235	23,513	23,796	24,085	24,379	26,667	28,979	29,822	30,177	30,536	30,899	31,265	31,635	32,008	32,450

TABLE 8 SENSITIVITY I

PROFORMA INCOME STATEMENT FOR THE FINANCIERA DE EXPORTACIONES, S.A. (000's)

YEAR	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
GROSS INCOME																				
INTEREST																				
LOAN PORTFOLIO	172	606	1,208	1,883	2,592	2,984	3,021	3,059	3,097	3,136	3,305	3,604	3,809	3,887	3,933	3,980	4,028	4,076	4,124	4,177
CLOSING FEES	26	40	61	74	100	61	81	81	84	78	105	104	97	99	106	104	104	107	108	107
INTEREST EXPENSE																				
PAID DIRECTLY TO A.I.D.	50	175	350	550	775	900	900	900	900	900	900	828	753	674	592	505	413	317	217	111
OTHER LONG-TERM LOANS												114	235	361	493	633	779	932	1,093	1,262
OTHER LOANS											160	320	360	360	360	360	360	360	360	360
GROSS INCOME AFTER INTEREST EXP.	148	471	919	1,407	1,917	2,145	2,202	2,240	2,281	2,314	2,350	2,445	2,558	2,591	2,594	2,587	2,580	2,573	2,562	2,553
OTHER EXPENSES																				
OPERATING	160	176	194	213	224	235	247	259	272	285	300	315	330	347	364	382	402	422	443	465
NORMAL BAD DEBT	26	40	61	74	100	61	81	81	84	78	105	104	97	99	106	104	104	107	108	109
SPECIAL ACCOUNT	50	175	350	550	775	900	900	900	900	900	900	828	753	674	592	505	413	317	217	111
DEPRECIATION	10	10	10	10	10	10	10	10	10	10	0	0	0	0	0	0	0	0	0	0
AMORTIZATION	10	10	10	10	10	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
TOTAL EXPENSES	256	411	625	857	1,119	1,206	1,238	1,250	1,266	1,273	1,305	1,247	1,181	1,120	1,062	991	919	846	768	685
SURPLUS FUNDS RETAINED BY FIDESA	0	12	92	186	280	416	407	406	405	408	375	339	320	284	239	197	151	102	50	320
INCOME BEFORE TAXES	(108)	72	386	736	1,079	1,355	1,371	1,396	1,421	1,449	1,420	1,537	1,697	1,754	1,772	1,793	1,812	1,829	1,845	2,187
TAX	0	19	156	325	496	635	643	655	667	682	667	726	805	834	843	853	863	871	879	1,051
TAX ON CORPORATE CAPITAL	10	20	20	20	20	20	20	20	20	20	20	20	20	20	20	20	20	20	20	20
TAX ON PAID-IN CAPITAL	13	13	13	13	13	13	13	13	13	13	13	13	13	13	13	13	13	13	13	13
NET INCOME AFTER TAXES	(131)	21	198	379	550	688	696	709	721	735	720	779	859	888	896	907	916	925	933	1,104
DIVIDENDS	0	0	0	227	330	413	418	425	432	441	432	467	515	533	538	544	550	555	560	663
RETAINED EARNINGS	(131)	21	198	151	220	275	278	283	288	294	288	312	344	355	359	363	367	370	373	442

USES OF FUNDS SET ASIDE FOR EXTRAORDINARY BAD DEBT

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
SPECIAL ACCT EARMARKED FOR EXTRAORDINARY BAD DEBT	50	199	484	788	1,116	1,356	1,362	1,368	1,374	1,379	1,386	1,360	1,331	1,269	1,193	1,113	1,029	941	847	749
EXTRAORDINARY BAD DEBT EXPENSE	26	40	61	74	100	61	81	81	84	78	105	104	97	99	106	104	104	107	108	109
RESERVE FOR EXTRAORDINARY BAD DEBT	24	134	238	341	456	462	468	474	479	486	531	578	594	602	609	616	623	631	638	0
SURPLUS FUNDS AVAILABLE	0	25	185	373	560	833	813	813	810	816	749	678	639	568	479	394	302	203	101	640
-Share to A.I.D.	0	12	92	186	280	416	407	406	405	408	375	339	320	284	239	197	151	102	50	320
-Share to FIDESA	0	12	92	186	280	416	407	406	405	408	375	339	320	284	239	197	151	102	50	320
TOTAL PAYMENT TO A.I.D.	50	187	442	736	1,055	1,316	1,307	1,306	1,305	1,308	1,275	1,168	1,073	959	831	701	564	419	267	4[illegible]1

FINANCIAL RATIOS FOR THE FINANCIERA DE EXPORTACIONES, S.A.

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
NET PROFITS/CAPITAL RATIO (ROC)	-13.1%	1.0%	6.6%	9.5%	12.2%	15.3%	15.5%	15.7%	16.0%	16.3%	16.0%	17.3%	19.1%	19.7%	19.9%	20.2%	20.4%	20.6%	20.7%	24.5%
NET PROFITS/NET WORTH RATIO (ROE)	-15.1%	1.1%	6.4%	8.9%	11.1%	13.1%	12.6%	12.2%	11.8%	11.5%	10.8%	11.2%	11.7%	11.6%	11.2%	10.8%	10.5%	10.1%	9.8%	11.1%
INTEREST & WINDFALL ON A.I.D. LOAN	5.0%	5.4%	6.3%	6.7%	6.8%	7.3%	7.3%	7.3%	7.3%	7.3%	7.1%	7.0%	7.1%	7.1%	7.0%	6.9%	6.8%	6.6%	6.2%	19.4%

193

TABLE B SENSITIVITY I

BREAKDOWN OF NEW AND OLD LOANS

YEAR	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
EXISTING LOAN PORTFOLIO:	2,639	6,680	11,898	17,069	22,809	23,095	23,383	23,676	23,975	24,279	26,567	28,879	29,722	30,077	30,436	30,799	31,165	31,535	31,908	32,350
INCR (DECR) IN LOAN PORT.:	2,639	4,041	5,218	5,171	5,740	285	288	293	298	304	2,288	2,312	844	355	359	363	367	370	373	442
REFLOWS FROM YR:																				
1			880	880	880															
2				1,347	1,347	1,347														
3					2,033	2,033	2,033													
4						2,466	2,456	2,466												
5							3,333	3,333	3,333											
6								2,044	2,044	2,044										
7									2,707	2,707	2,707									
8										2,712	2,712	2,712								
9											2,794	2,794	2,794							
10												2,589	2,589	2,589						
11													3,500	3,500	3,500					
12														3,469	3,469	3,469				
13															3,242	3,242	3,242			
14																3,304	3,304	3,304		
15																	3,523	3,523	3,523	
16																		3,459	3,459	3,459
17																			3,479	3,479
18																				3,552
19																				
20																				
FUNDS AVAILABLE FOR LOANS	2,639	4,041	6,098	7,398	9,999	6,131	8,120	8,136	8,382	7,766	10,501	10,406	9,727	9,913	10,578	10,378	10,436	10,657	10,835	10,932
NO. OF LOANS ASSUMING LOAN SIZE OF $400,000:	6.6	10.1	15.2	18.5	25.0	15.3	20.3	20.3	21.0	19.4	26.3	26.0	24.3	24.8	26.4	25.9	26.1	26.6	27.1	27.3
CUMULATIVE:	6.6	16.7	31.9	50.4	75.4	90.8	111.1	131.4	152.4	171.8	198.0	224.0	248.4	273.1	299.6	325.5	351.6	378.2	405.3	432.7

TABLE C SENSITIVITY II

FINANCIAL STATEMENTS FOR THE FINANCIERA DE EXPORTACIONES, S.A.

ASSUMPTIONS

I) Resources

A) Total Capital: $4.5 million

To be paid in as follows:	Cumulative ($000)		Cumulative ($000)
Year 1	650	Year 5	3,250
Year 2	1,300	Year 6	3,900
Year 3	1,950	Year 7	4,500
Year 4	2,600		

B) A.I.D. loan: $18 million

To be disbursed as follows:	Cumulative ($000)		Cumulative ($000)
Year 1	2,500	Year 5	12,500
Year 2	5,000	Year 6	15,000
Year 3	7,500	Year 7	18,000
Year 4	10,000		

C) Replacement of the A.I.D. loan starts in year 10 and is equal to the amount of principal repaid to A.I.D. each year

D) Other loans: $4.5 million

To be disbursed as follows:	Cumulative ($000)
Year 11	2,000
Year 12	4,000
Year 13	4,500

II) Terms of the Loans

A)

A.I.D. loan:	20 years, 10 years grace on principal
Other long-term loans:	20 years, 10 years grace on principal
Other loans:	Short-term revolving

B) Interest Rates:

A.I.D. Loan:	5%	Paid out
Other long-term loans:	8%	Paid out
Other loans:	8%	Paid out
To Borrowers:	13%	Received
Risk Minimization Fund:	6%	Received

III) Capitalization of Special Acct.: 5% (Equivalent to 5% of the A.I.D. loan per year)

IV) Cash On Hand: $100,000

V) Depreciation of Fixed Assets: 10%/yr.

VI) Amortization of Initial Organizational Expenses: 20%/yr.

VII-C-20

19

TABLE C SENSITIVITY II

VII) Bad Debt Reserves:

A) Normal: (% of new loans made each year)	1%	
B) Extraordinary: (% of yearly loan portfolio)	2%	(5% of the A.I.D. loan plus last year's Extraordinary Bad Debt Reser is used to capitalize the account).

VIII) Bad Debt Expense:

A) Normal: (% of new loans made each yr)	1%	
B) Extraordinary: (% of new loans made each yr)	1%	Note: If bad debts exceed what has been set aside in the Reserve for Extraordinary Bad Debt, the remaining bad debt is charged to Normal Bad Debt Expense.

IX) Closing fees: Upfront charge of 2% of the value of half of the new loans made every year.

X) Operating Expenses: For first 4 yrs, incr. at 10%/yr.; thereafter, incr. at 5%/yr..

XI) Dividends: None in the initial 3 years; then 60% of "Net Income After Taxes" if this line item is positive

XII) Share of EDFC & AID: Bad debt is initially charged to the Reserve For Normal Bad Debt. Bad Debt in excess of funds available in the Reserve For Normal Bad Debt shall be charged to the "Special Account Earmarked For Extraordinary Bad Debt" which consists of last year's Reserve for Extraordinary Bad Debt and 5% of the current year's A.I.D. loan. After this write-off, the residual funds in the Special Account will be credited to the "Reserve For Extraordinary Bad Debt" which will be maintained at 2% of the net loan portfolio for that yr. Any residual remaining in the Special Account after all expenses, shall be be shared equally between A.I.D. and the EDFC.

XIII) Tax: According to the Panamanian tax code:

Amount ($000)	Tax Rate
0 to 30	20%
30 to 100	30%
100 to 500	45%
500 and up	50%

Note: Tax is computed as follows; 20% on the first $30,000 of profits; 30% on the next $70,000 of profits; 45% of the next $400,000 of profits; 50% on any profits in excess of $500,000

XIV) Tax on corp. capital: Per Panamanian law, there is a 1% tax on corporate capital. The minimum is $10 and the maximum $20,000.

XV) Tax on Paid-in capital: Per Panamanian law, there is a 2.5% tax on paid-in capital. The maximum is $12,500/yr.

XVI) Windfall: Amount of money that A.I.D. receives in excess of the 5% interest rate. It is calculated as a percent of the outstanding A.I.D. loan.

TABLE C SENSITIVITY II

PROFORMA BALANCE SHEET FOR THE FINANCIERA DE EXPORTACIONES,S.A. (000's)

YEAR	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
ASSETS																				
CASH	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100
OUTSTANDING LOAN PORTFOLIO	2,839	6,097	9,467	12,809	16,202	19,627	23,567	23,834	24,142	24,441	26,785	29,130	29,977	30,329	30,688	31,045	31,408	31,774	32,144	31,944
LESS RESERVE F/ NORMAL BAD DEBT	28	32	42	52	67	76	92	68	81	82	103	100	97	98	104	102	103	105	106	108
LESS RESERVE F/ XTRAORD BAD DEBT	35	119	185	250	316	383	460	466	472	478	523	569	586	593	600	607	614	621	628	0
NET LOAN PORTFOLIO	2,776	5,946	9,240	12,507	15,818	19,168	23,015	23,300	23,589	23,852	26,160	28,461	29,294	29,638	29,985	30,336	30,691	31,048	31,409	31,837
FIXED ASSETS	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100
DEPRECIATION	10	20	30	40	50	60	70	80	90	100	100	100	100	100	100	100	100	100	100	100
ORGANIZATIONAL EXPENSES	50	50	50	50	50	50	50	50	50	50	50	50	50	50	50	50	50	50	50	50
AMORTIZATION	10	20	30	40	50	50	50	50	50	50	50	50	50	50	50	50	50	50	50	50
TOTAL ASSETS	3,006	6,156	9,430	12,677	15,968	19,308	23,145	23,420	23,699	23,982	26,260	28,561	29,394	29,738	30,085	30,436	30,791	31,148	31,509	31,937
LIABILITIES & NET WORTH																				
LIABILITIES																				
A.I.D. LOAN	2,500	5,000	7,500	10,000	12,500	15,000	18,000	18,000	18,000	18,000	16,569	15,066	13,489	11,832	10,092	8,266	6,348	4,334	2,220	0
OTHER LONG-TERM LOANS	0	0	0	0	0	0	0	0	0	0	1,431	2,934	4,511	6,168	7,908	9,734	11,652	13,666	15,780	18,000
OTHER LOANS	0	0	0	0	0	0	0	0	0	0	2,000	4,000	4,500	4,500	4,500	4,500	4,500	4,500	4,500	4,500
TOTAL LIABILITIES	2,500	5,000	7,500	10,000	12,500	15,000	18,000	18,000	18,000	18,000	20,000	22,000	22,500	22,500	22,500	22,500	22,500	22,500	22,500	22,500
NET WORTH																				
CAPITAL	650	1,300	1,950	2,600	3,250	3,900	4,500	4,500	4,500	4,500	4,500	4,500	4,500	4,500	4,500	4,500	4,500	4,500	4,500	4,500
RETAINED EARNINGS	(144)	(144)	(20)	77	218	408	645	920	1,199	1,482	1,760	2,061	2,394	2,738	3,085	3,436	3,791	4,148	4,509	4,937
TOTAL NET WORTH	506	1,156	1,930	2,677	3,468	4,308	5,145	5,420	5,699	5,982	6,260	6,561	6,894	7,238	7,585	7,936	8,291	8,648	9,009	9,437
TOTAL LIABILITIES & NET WORTH	3,006	6,156	9,430	12,677	15,968	19,308	23,145	23,420	23,699	23,982	26,260	28,561	29,394	29,738	30,085	30,436	30,791	31,148	31,509	31,937

TABLE C SENSITIVITY II

PROFORMA INCOME STATEMENT FOR THE FINANCIERA DE EXPORTACIONES, S.A. (000's)

YEAR	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
GROSS INCOME																				
INTEREST																				
LOAN PORTFOLIO	180	567	987	1,414	1,841	2,274	2,742	3,010	3,048	3,086	3,253	3,550	3,754	3,831	3,875	3,921	3,967	4,013	4,060	4,111
CLOSING FEES	28	32	42	52	67	76	92	68	81	82	103	100	97	98	104	102	103	105	106	108
INTEREST EXPENSE																				
PAID DIRECTLY TO A.I.D.	63	188	313	438	563	688	825	900	900	900	900	828	753	674	592	505	413	317	217	111
OTHER LONG-TERM LOANS												114	235	361	493	633	779	932	1,093	1,262
OTHER LOANS											160	320	360	360	360	360	360	360	360	360
GROSS INCOME AFTER INTEREST EXP.	146	411	717	1,029	1,346	1,662	2,009	2,178	2,229	2,267	2,296	2,387	2,503	2,534	2,534	2,526	2,518	2,508	2,496	2,485
OTHER EXPENSES																				
OPERATING	160	176	194	213	224	235	247	259	272	295	300	315	330	347	364	382	402	422	443	465
NORMAL BAD DEBT	28	32	42	52	67	76	92	68	81	82	103	100	97	98	104	102	103	105	106	108
SPECIAL ACCOUNT	63	188	313	438	563	688	825	900	900	900	900	928	753	674	592	505	413	317	217	111
DEPRECIATION	10	10	10	10	10	10	10	10	10	10	0	0	0	0	0	0	0	0	0	0
AMORTIZATION	10	10	10	10	10	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
TOTAL EXPENSES	270	415	568	723	873	1,008	1,174	1,237	1,263	1,277	1,303	1,243	1,161	1,120	1,059	989	918	844	766	683
SURPLUS FUNDS RETAINED BY FIDESA	0	36	102	160	215	272	328	413	407	406	376	341	320	285	241	198	152	103	52	316
INCOME BEFORE TAXES	(125)	32	251	465	687	927	1,163	1,355	1,372	1,396	1,369	1,486	1,642	1,699	1,715	1,734	1,731	1,767	1,782	2,117
TAX	0	7	95	191	301	420	539	634	643	655	641	700	778	806	815	824	833	841	848	1,016
TAX ON CORPORATE CAPITAL	6.5	13	19.5	20	20	20	20	20	20	20	20	20	20	20	20	20	20	20	20	20
TAX ON PAID-IN CAPITAL	13	13	13	13	13	13	13	13	13	13	13	13	13	13	13	13	13	13	13	13
NET INCOME AFTER TAXES	(144)	(0)	124	241	354	474	592	688	697	709	695	753	832	860	868	878	886	894	901	1,069
DIVIDENDS	0	0	0	145	212	284	355	413	418	425	417	452	499	516	521	527	532	536	541	642
RETAINED EARNINGS	(144)	(0)	124	97	142	190	237	275	279	283	278	301	333	344	347	351	354	358	361	428

USES OF FUNDS SET ASIDE FOR EXTRAORDINARY BAD DEBT

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
SPECIAL ACCT EARMARKED FOR EXTRAORDINARY BAD DEBT	63	222	431	622	813	1,004	1,208	1,360	1,366	1,372	1,378	1,352	1,323	1,260	1,184	1,104	1,020	931	838	739
EXTRAORDINARY BAD DEBT EXPENSE	28	32	42	52	67	76	92	68	81	82	103	100	97	98	104	102	103	105	106	108
RESERVE FOR EXTRAORDINARY BAD DEBT	35	119	185	250	316	383	460	466	472	478	523	569	586	593	600	607	614	621	628	6
SURPLUS FUNDS AVAILABLE	0	72	204	320	429	545	656	826	813	813	751	683	640	569	481	396	303	205	103	632
-Share to A.I.D.	0	36	102	160	215	272	328	413	407	406	376	341	320	285	241	198	152	103	52	316
-Share to FIDESA	0	36	102	160	215	272	328	413	407	406	376	341	320	285	241	198	152	103	52	316
TOTAL PAYMENT TO A.I.D.	63	223	415	597	777	960	1,153	1,313	1,307	1,306	1,276	1,170	1,073	959	832	702	565	429	268	427

FINANCIAL RATIOS FOR THE FINANCIERA DE EXPORTACIONES, S.A.

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
NET PROFITS/CAPITAL RATIO (ROC)	-22.1%	.0%	6.4%	9.3%	10.9%	12.2%	13.2%	15.3%	15.5%	15.7%	15.4%	16.7%	18.5%	19.1%	19.3%	19.5%	19.7%	19.9%	20.0%	23.8%
NET PROFITS/NET WORTH RATIO (ROE)	-28.3%	.0%	6.4%	9.0%	10.2%	11.0%	11.5%	12.7%	12.2%	11.8%	11.1%	11.5%	12.1%	11.9%	11.4%	11.1%	10.7%	10.3%	10.0%	11.3%
INTEREST & WINDFALL ON A.I.D. LOAN	5.0%	6.0%	6.6%	6.8%	6.9%	7.0%	7.0%	7.3%	7.3%	7.3%	7.1%	7.1%	7.1%	7.1%	7.0%	7.0%	6.8%	6.6%	6.2%	19.2%

TABLE C SENSITIVITY II

BREAKDOWN OF NEW AND OLD LOANS

YEAR	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
EXISTING LOAN PORTFOLIO:	2,776	5,946	9,240	12,507	15,818	19,168	23,015	23,300	23,589	23,882	26,160	28,461	29,294	29,638	29,985	30,336	30,691	31,048	31,409	31,837
INCR (DECR) IN LOAN PORT.:	2,776	3,170	3,294	3,267	3,312	3,350	3,847	285	289	293	2,278	2,301	833	344	347	351	354	358	361	428
REFLOWS FROM YR:																				
1			925	925	925															
2				1,057	1,057	1,057														
3					1,406	1,406	1,406													
4						1,750	1,750	1,750												
5							2,233	2,233	2,233											
6								2,521	2,521	2,521										
7									3,079	3,079	3,079									
8										2,263	2,263	2,263								
9											2,707	2,707	2,707							
10												2,719	2,719	2,719						
11													3,442	3,442	3,442					
12														3,330	3,330	3,330				
13															3,234	3,234	3,234			
14																3,278	3,278	3,278		
15																	3,451	3,451	3,451	
16																		3,398	3,398	3,398
17																			3,439	3,439
18																				3,495
19																				
20																				
FUNDS AVAILABLE FOR LOANS	2,776	3,170	4,219	5,249	6,700	7,562	9,236	6,789	8,122	8,156	10,327	9,990	9,701	9,835	10,353	10,193	10,317	10,485	10,648	10,759
NO. OF LOANS ASSUMING LOAN SIZE OF $400,000:	6.9	7.9	10.5	13.1	16.8	18.9	23.1	17.0	20.3	20.4	25.8	25.0	24.3	24.6	25.9	25.5	25.8	26.2	26.6	26.9
CUMULATIVE:	6.9	14.9	25.4	38.5	55.3	74.2	97.3	114.3	134.6	154.9	180.8	205.7	230.0	254.6	280.5	305.9	331.7	357.9	384.6	411.5

TABLE D SENSITIVITY III

FINANCIAL STATEMENTS FOR THE FINANCIERA DE EXPORTACIONES, S.A.

ASSUMPTIONS

I) Resources

A) Total Capital: $4.5 million

To be paid in as follows:	Cumulative ($000)
Year 1	2,500
Year 2	3,500
Year 3	4,000
Year 4	4,500

B) A.I.D. loan: $18 million

To be disbursed as follows:	Cumulative ($000)
Year 1	2,500
Year 2	7,000
Year 3	11,500
Year 4	18,000

C) Replacement of the A.I.D. loan starts in year 10 and is equal to the amount of principal repaid to A.I.D. each year

D) Other loans: $4.5 million

To be disbursed as follows:	Cumulative ($000)
Year 11	2,000
Year 12	4,000
Year 13	4,500

II) Terms of the Loans

A) A.I.D. loan:	20 years, 10 years grace on principal
Other long-term loans:	20 years, 10 years grace on principal
Other loans:	Short-term revolving

B) Interest Rates:

A.I.D. Loan:	5%	Paid out
Other long-term loans:	8%	Paid out
Other loans:	8%	Paid out
To Borrowers:	13%	Received
Risk Minimization Fund:	6%	Received

III) Capitalization of Special Acct.:	5%	(Equivalent to 5% of the A.I.D. loan per year)
IV) Cash On Hand:	$100,000	
V) Depreciation of Fixed Assets:	10%/yr.	
VI) Amortization of Initial Organizational Expenses:	20%/yr.	

VII-C-25

208

TABLE D SENSITIVITY III

VII) Bad Debt Reserves:

A) Normal: (% of new loans made each year)	0.5%	
B) Extraordinary: (% of yearly loan portfolio)	2%	(5% of the A.I.D. loan plus last year's Extraordinary Bad Debt Reserv is used to capitalize the account).

VIII) Bad Debt Expense:

A) Normal: (% of new loans made each yr)	0.5%	
B) Extraordinary: (% of new loans made each yr)	1%	Note: If bad debts exceed what has been set aside in the Reserve for Extraordinary Bad Debt, the remaining bad debt is charged to Normal Bad Debt Expense.

IX) Closing fees: Upfront charge of 2% of the value of half of the new loans made every year.

X) Operating Expenses: For first 4 yrs, incr. at 10%/yr.; thereafter, incr. at 5%/yr..

XI) Dividends: None in the initial 3 years; then 60% of "Net Income After Taxes" if this line item is positive

XII) Share of EDFC & AID: Bad debt is initially charged to the Reserve For Normal Bad Debt. Bad Debt in excess of funds available in the Reserve For Normal Bad Debt shall be charged to the "Special Account Earmarked For Extraordinary Bad Debt" which consists of last year's Reserve for Extraordinary Bad Debt and 5% of the current year's A.I.D. loan. After this write-off, the residual funds in the Special Account will be credited to the "Reserve For Extraordinary Bad Debt" which will be maintained at 2% of the net loan portfolio for that yr. Any residual remaining in the Special Account after all expenses, shall be be shared equally between A.I.D. and the EDFC.

XIII) Tax: According to the Panamanian tax code:

Amount ($000)	Tax Rate
0 to 30	20%
30 to 100	30%
100 to 500	45%
500 and up	50%

Note: Tax is computed as follows; 20% on the first $30,000 of profits; 30% on the next $70,000 of profits; 45% of the next $400,000 of profits; 50% on any profits in excess of $500,000

XIV) Tax on corp. capital: Per Panamanian law, there is a 1% tax on corporate capital. The minimum is $10 and the maximum $20,000.

XV) Tax on Paid-in capital: Per Panamanian law, there is a 2.5% tax on paid-in capital. The maximum is $12,500/yr.

XVI) Windfall: Amount of money that A.I.D. receives in excess of the 5% interest rate. It is calculated as a percent of the outstanding A.I.D. loan.

102

TABLE D SENSITIVITY III

PROFORMA BALANCE SHEET FOR THE FINANCIERA DE EXPORTACIONES,S.A. (000's)

YEAR	1	2	3	4	5	6	7	8	9	10
ASSETS										
CASH	100	100	100	100	100	100	100	100	100	100
OUTSTANDING LOAN PORTFOLIO	4,799	10,680	16,210	23,622	23,915	24,238	24,558	24,886	25,213	25,554
LESS RESERVE F/ NORMAL BAD DEBT	24	28	35	54	31	41	41	43	39	43
LESS RESERVE F/ XTRAORD BAD DEBT	15	195	317	462	468	474	481	487	494	500
NET LOAN PORTFOLIO	4,760	10,456	15,858	23,106	23,416	23,723	24,036	24,355	24,680	25,010
FIXED ASSETS	100	100	100	100	100	100	100	100	100	100
DEPRECIATION	10	20	30	40	50	60	70	80	90	100
ORGANIZATIONAL EXPENSES	50	50	50	50	50	50	50	50	50	50
AMORTIZATION	10	20	30	40	50	50	50	50	50	50
TOTAL ASSETS	4,990	10,666	16,048	23,276	23,566	23,863	24,166	24,475	24,790	25,110
LIABILITIES & NET WORTH										
LIABILITIES										
A.I.D. LOAN	2,500	7,000	11,500	18,000	18,000	18,000	18,000	18,000	18,000	18,000
OTHER LONG-TERM LOANS	0	0	0	0	0	0	0	0	0	0
OTHER LOANS	0	0	0	0	0	0	0	0	0	0
TOTAL LIABILITIES	2,500	7,000	11,500	18,000	18,000	18,000	18,000	18,000	18,000	18,000
NET WORTH										
CAPITAL	2,500	3,500	4,000	4,500	4,500	4,500	4,500	4,500	4,500	4,500
RETAINED EARNINGS	(10)	166	548	776	1,066	1,363	1,666	1,975	2,290	2,610
TOTAL NET WORTH	2,490	3,666	4,548	5,276	5,566	5,863	6,166	6,475	6,790	7,110
TOTAL LIABILITIES & NET WORTH	4,990	10,666	16,048	23,276	23,566	23,863	24,166	24,475	24,790	25,110

YEAR	11	12	13	14	15	16	17	18	19	20
ASSETS										
CASH	100	100	100	100	100	100	100	100	100	100
OUTSTANDING LOAN PORTFOLIO	27,928	30,318	31,205	31,602	32,004	32,408	32,817	33,233	33,652	33,476
LESS RESERVE F/ NORMAL BAD DEBT	53	54	49	52	54	54	54	55	56	57
LESS RESERVE F/ XTRAORD BAD DEBT	547	593	611	619	626	634	642	651	659	0
NET LOAN PORTFOLIO	27,328	29,671	30,545	30,931	31,323	31,720	32,121	32,527	32,937	33,419
FIXED ASSETS	100	100	100	100	100	100	100	100	100	100
DEPRECIATION	100	100	100	100	100	100	100	100	100	100
ORGANIZATIONAL EXPENSES	50	50	50	50	50	50	50	50	50	50
AMORTIZATION	50	50	50	50	50	50	50	50	50	50
TOTAL ASSETS	27,428	29,771	30,645	31,031	31,423	31,820	32,221	32,627	33,037	33,519
LIABILITIES & NET WORTH										
LIABILITIES										
A.I.D. LOAN	16,569	15,066	13,489	11,832	10,092	8,266	6,348	4,334	2,220	0
OTHER LONG-TERM LOANS	1,431	2,934	4,511	6,168	7,908	9,734	11,652	13,666	15,780	18,000
OTHER LOANS	2,000	4,000	4,500	4,500	4,500	4,500	4,500	4,500	4,500	4,500
TOTAL LIABILITIES	20,000	22,000	22,500	22,500	22,500	22,500	22,500	22,500	22,500	22,500
NET WORTH										
CAPITAL	4,500	4,500	4,500	4,500	4,500	4,500	4,500	4,500	4,500	4,500
RETAINED EARNINGS	2,928	3,271	3,645	4,031	4,423	4,820	5,221	5,627	6,037	6,519
TOTAL NET WORTH	7,428	7,771	8,145	8,531	8,923	9,320	9,721	10,127	10,537	11,019
TOTAL LIABILITIES & NET WORTH	27,428	29,771	30,645	31,031	31,423	31,820	32,221	32,627	33,037	33,519

TABLE D SENSITIVITY III

PROFORMA INCOME STATEMENT FOR THE FINANCIERA DE EXPORTACIONES, S.A. (000's)

YEAR	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
GROSS INCOME																				
INTEREST																				
LOAN PORTFOLIO	309	909	1,710	2,533	3,024	3,064	3,104	3,145	3,187	3,230	3,402	3,705	3,914	3,996	4,047	4,098	4,150	4,202	4,255	4,313
CLOSING FEES	48	57	70	107	61	81	83	86	78	87	106	107	99	104	108	107	108	110	112	113
INTEREST EXPENSE																				
PAID DIRECTLY TO A.I.D.	63	238	463	738	900	900	900	900	900	900	900	828	753	674	592	505	413	317	217	111
OTHER LONG-TERM LOANS												114	235	361	493	633	779	932	1,093	1,262
OTHER LOANS											160	320	360	360	360	360	360	360	360	360
GROSS INCOME AFTER INTEREST EXP.	295	809	1,318	1,902	2,185	2,245	2,287	2,332	2,366	2,417	2,448	2,549	2,665	2,704	2,709	2,708	2,705	2,703	2,697	2,693
OTHER EXPENSES																				
OPERATING	160	176	194	213	224	235	247	259	272	285	300	315	330	347	364	382	402	422	443	465
NORMAL BAD DEBT	24	28	35	54	31	41	41	43	39	43	53	54	49	52	54	54	54	55	56	57
SPECIAL ACCOUNT	63	238	463	738	900	900	900	900	900	900	900	828	753	674	592	505	413	317	217	111
DEPRECIATION	10	10	10	10	10	10	10	10	10	10	0	0	0	0	0	0	0	0	0	0
AMORTIZATION	10	10	10	10	10	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
TOTAL EXPENSES	266	462	711	1,024	1,174	1,185	1,198	1,212	1,221	1,239	1,252	1,197	1,133	1,073	1,010	941	869	794	715	632
SURPLUS FUNDS RETAINED BY FIDESA	0	0	135	243	416	406	406	404	408	403	374	337	318	281	238	195	149	99	48	328
INCOME BEFORE TAXES	28	347	742	1,121	1,427	1,466	1,495	1,523	1,552	1,581	1,569	1,690	1,850	1,913	1,938	1,962	1,985	2,008	2,030	2,389
TAX	6	138	328	517	671	690	704	719	733	748	742	802	882	913	926	938	950	961	972	1,151
TAX ON CORPORATE CAPITAL	20	20	20	20	20	20	20	20	20	20	20	20	20	20	20	20	20	20	20	20
TAX ON PAID-IN CAPITAL	13	13	13	13	13	13	13	13	13	13	13	13	13	13	13	13	13	13	13	13
NET INCOME AFTER TAXES	(10)	176	382	571	724	744	758	772	787	801	795	855	936	967	979	991	1,003	1,015	1,025	1,205
DIVIDENDS	0	0	0	343	434	446	455	463	472	481	477	513	561	580	588	595	602	609	615	723
RETAINED EARNINGS	(10)	176	382	228	290	297	303	309	315	320	318	342	374	387	392	397	401	406	410	482
USES OF FUNDS SET ASIDE FOR EXTRAORDINARY BAD DEBT																				
SPECIAL ACCT EARMARKED FOR EXTRAORDINARY BAD DEBT	63	252	658	1,055	1,362	1,368	1,374	1,381	1,387	1,394	1,400	1,375	1,347	1,285	1,210	1,131	1,048	960	867	770
EXTRAORDINARY BAD DEBT EXPENSE	48	57	70	107	61	81	83	86	78	87	106	107	99	104	108	107	108	110	112	113
RESERVE FOR EXTRAORDINARY BAD DEBT	15	195	317	462	468	474	481	487	494	500	547	593	611	619	626	634	642	651	659	0
SURPLUS FUNDS AVAILABLE	0	0	271	485	833	813	811	807	815	907	748	674	637	563	476	399	298	199	97	657
-Share to A.I.D.	0	0	135	243	416	406	406	404	408	403	374	337	318	281	238	195	149	99	48	328
-Share to FIDESA	0	0	135	243	416	406	406	404	408	403	374	337	318	281	238	195	149	99	48	328
TOTAL PAYMENT TO A.I.D.	63	238	598	980	1,316	1,306	1,306	1,304	1,308	1,303	1,274	1,166	1,072	956	830	699	562	417	265	439
FINANCIAL RATIOS FOR THE FINANCIERA DE EXPORTACIONES, S.A.																				
NET PROFITS/CAPITAL RATIO (ROC)	-0.4%	5.0%	9.5%	12.7%	16.1%	16.5%	16.8%	17.2%	17.5%	17.8%	17.7%	19.0%	20.8%	21.5%	21.8%	22.0%	22.3%	22.5%	22.8%	26.8%
NET PROFITS/NET WORTH RATIO (ROE)	-0.4%	4.8%	8.4%	10.8%	13.0%	12.7%	12.3%	11.9%	11.6%	11.3%	10.7%	11.0%	11.5%	11.3%	11.0%	10.6%	10.3%	10.0%	9.7%	10.9%
INTEREST & WINDFALL ON A.I.D. LOAN	5.0%	5.0%	6.5%	6.6%	7.3%	7.3%	7.3%	7.2%	7.3%	7.2%	7.1%	7.0%	7.1%	7.1%	7.0%	6.9%	6.8%	6.6%	6.1%	19.8%

TABLE D SENSITIVITY III

BREAKDOWN OF NEW AND OLD LOANS

YEAR	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
EXISTING LOAN PORTFOLIO:	4,760	10,456	15,858	23,106	23,416	23,723	24,036	24,355	24,680	25,010	27,328	29,671	30,545	30,931	31,323	31,720	32,121	32,527	32,937	33,419
INCR (DECR) IN LOAN PORT.:	4,760	5,696	5,402	7,248	310	307	313	319	325	330	2,318	2,342	874	387	392	397	401	406	410	482
REFLOWS FROM YR:																				
1			1,587	1,587	1,587															
2				1,899	1,899	1,899														
3					2,329	2,329	2,329													
4						3,578	3,578	3,578												
5							2,041	2,041	2,041											
6								2,704	2,704	2,704										
7									2,754	2,754	2,754									
8										2,881	2,881	2,881								
9											2,608	2,608	2,608							
10												2,890	2,890	2,890						
11													3,520	3,520	3,520					
12														3,574	3,574	3,574				
13															3,298	3,298	3,298			
14																3,457	3,457	3,457		
15																	3,594	3,594	3,594	
16																		3,575	3,575	3,575
17																			3,583	3,583
18																				3,677
19																				
20																				
FUNDS AVAILABLE FOR LOANS	4,760	5,696	6,988	10,734	6,124	8,113	8,262	8,643	7,825	8,670	10,561	10,721	9,893	10,371	10,783	10,725	10,750	11,032	11,163	11,318
NO. OF LOANS ASSUMING LOAN SIZE OF $400,000:	11.9	14.2	17.5	26.8	15.3	20.3	20.7	21.6	19.6	21.7	26.4	26.8	24.7	25.9	27.0	26.8	26.9	27.6	27.9	28.3
CUMULATIVE:	11.9	26.1	43.6	70.4	85.8	106.0	126.7	148.3	167.9	189.5	215.9	242.7	267.5	293.4	320.4	347.2	374.1	401.6	429.5	457.8

TABLE E SENSITIVITY IV

FINANCIAL STATEMENTS FOR THE FINANCIERA DE EXPORTACIONES, S.A.

ASSUMPTIONS

I) Resources

A) Total Capital: $4.5 million

To be paid in as follows:	Cumulative ($000)
Year 1	2,500
Year 2	3,500
Year 3	4,000
Year 4	4,500

B) A.I.D. loan: $18 million

To be disbursed as follows:	Cumulative ($000)
Year 1	2,500
Year 2	7,000
Year 3	11,500
Year 4	18,000

C) Replacement of the A.I.D. loan starts in year 10 and is equal to the amount of principal repaid to A.I.D. each year

D) Other loans: $4.5 million

To be disbursed as follows:	Cumulative ($000)
Year 11	2,000
Year 12	4,000
Year 13	4,500

II) Terms of the Loans

A) A.I.D. loan:	20 years, 10 years grace on principal
Other long-term loans:	20 years, 10 years grace on principal
Other loans:	Short-term revolving

B) Interest Rates:

A.I.D. Loan:	5%	Paid out
Other long-term loans:	8%	Paid out
Other loans:	8%	Paid out
To Borrowers:	13%	Received
Risk Minimization Fund:	6%	Received

III)	Capitalization of Special Acct.:	5%	(Equivalent to 5% of the A.I.D. loan per year)
IV)	Cash On Hand:	$100,000	
V)	Depreciation of Fixed Assets:	10%/yr.	
VI)	Amortization of Initial Organizational Expenses:	20%/yr.	

VIII-C-30

205

TABLE E SENSITIVITY IV

VII) Bad Debt Reserves:

A) Normal: (% of new loans made each year)	1.5%	
B) Extraordinary: (% of yearly loan portfolio)	2%	(5% of the A.I.D. loan plus last year's Extraordinary Bad Debt Reserv is used to capitalize the account).

VIII) Bad Debt Expense:

A) Normal: (% of new loans made each yr)	1.5%	
B) Extraordinary: (% of new loans made each yr)	1%	Note: If bad debts exceed what has been set aside in the Reserve for Extraordinary Bad Debt, the remaining bad debt is charged to Normal Bad Debt Expense.

IX) Closing fees: Upfront charge of 2% of the value of half of the new loans made every year.

X) Operating Expenses: For first 4 yrs, incr. at 10%/yr.; thereafter, incr. at 5%/yr..

XI) Dividends: None in the initial 3 years; then 60% of "Net Income After Taxes" if this line item is positive

XII) Share of EDFC & AID: Bad debt is initially charged to the Reserve For Normal Bad Debt. Bad Debt in excess of funds available in the Reserve For Normal Bad Debt shall be charged to the "Special Account Earmarked For Extraordinary Bad Debt" which consists of last year's Reserve for Extraordinary Bad Debt and 5% of the current year's A.I.D. loan. After this write-off, the residual funds in the Special Account will be credited to the "Reserve For Extraordinary Bad Debt" which will be maintained at 2% of the net loan portfolio for that yr. Any residual remaining in the Special Account after all expenses, shall be be shared equally between A.I.D. and the EDFC.

XIII) Tax: According to the Panamanian tax code:

Amount ($000)	Tax Rate
0 to 30	20%
30 to 100	30%
100 to 500	45%
500 and up	50%

Note: Tax is computed as follows; 20% on the first $30,000 of profits; 30% on the next $70,000 of profits; 43% of the next $400,000 of profits; 50% on any profits in excess of $500,000

XIV) Tax on corp. capital: Per Panamanian law, there is a 1% tax on corporate capital. The minimum is $10 and the maximum $20,000.

XV) Tax on Paid-in capital: Per Panamanian law, there is a 2.5% tax on paid-in capital. The maximum is $12,500/yr.

XVI) Windfall: Amount of money that A.I.D. receives in excess of the 5% interest rate. It is calculated as a percent of the outstanding A.I.D. loan.

TABLE E SENSITIVITY IV

PROFORMA BALANCE SHEET FOR THE FINANCIERA DE EXPORTACIONES,S.A. (000's)

YEAR	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
ASSETS																				
CASH	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100
OUTSTANDING LOAN PORTFOLIO	4,802	10,657	16,156	23,580	23,810	24,133	24,432	24,740	25,037	25,362	27,726	30,087	30,937	31,308	31,681	32,052	32,427	32,810	33,194	32,992
LESS RESERVE F/ NORMAL BAD DEBT	71	85	104	160	91	121	123	128	116	129	157	159	146	153	159	158	159	163	164	167
LESS RESERVE F/ XTRAORD BAD DEBT	15	196	315	459	465	471	477	483	489	495	541	587	604	611	618	625	633	640	648	0
NET LOAN PORTFOLIO	4,715	10,376	15,737	22,961	23,254	23,541	23,833	24,129	24,432	24,739	27,029	29,341	30,187	30,544	30,904	31,268	31,636	32,007	32,382	32,825
FIXED ASSETS	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100
DEPRECIATION	10	20	30	40	50	60	70	80	90	100	100	100	100	100	100	100	100	100	100	100
ORGANIZATIONAL EXPENSES	50	50	50	50	50	50	50	50	50	50	50	50	50	50	50	50	50	50	50	50
AMORTIZATION	10	20	30	40	50	50	50	50	50	50	50	50	50	50	50	50	50	50	50	50
TOTAL ASSETS	4,945	10,586	15,927	23,131	23,404	23,681	23,963	24,249	24,542	24,839	27,129	29,441	30,287	30,644	31,004	31,368	31,736	32,107	32,482	32,925
LIABILITIES & NET WORTH																				
LIABILITIES																				
A.I.D. LOAN	2,500	7,000	11,500	18,000	18,000	18,000	18,000	18,000	18,000	18,000	16,569	15,066	13,489	11,832	10,092	8,266	6,348	4,334	2,220	0
OTHER LONG-TERM LOANS	0	0	0	0	0	0	0	0	0	0	1,431	2,934	4,511	6,168	7,908	9,734	11,652	13,666	15,780	18,000
OTHER LOANS	0	0	0	0	0	0	0	0	0	0	2,000	4,000	4,500	4,500	4,500	4,500	4,500	4,500	4,500	4,500
TOTAL LIABILITIES	2,500	7,000	11,500	18,000	18,000	18,000	18,000	18,000	18,000	18,000	20,000	22,000	22,500	22,500	22,500	22,500	22,500	22,500	22,500	22,500
NET WORTH																				
CAPITAL	2,500	3,500	4,000	4,500	4,500	4,500	4,500	4,500	4,500	4,500	4,500	4,500	4,500	4,500	4,500	4,500	4,500	4,500	4,500	4,500
RETAINED EARNINGS	(55)	86	427	631	904	1,181	1,463	1,749	2,042	2,339	2,629	2,941	3,287	3,644	4,004	4,368	4,736	5,107	5,482	5,925
TOTAL NET WORTH	2,445	3,586	4,427	5,131	5,404	5,681	5,963	6,249	6,542	6,839	7,129	7,441	7,787	8,144	8,504	8,868	9,236	9,607	9,982	10,425
TOTAL LIABILITIES & NET WORTH	4,945	10,586	15,927	23,131	23,404	23,681	23,963	24,249	24,542	24,839	27,129	29,441	30,287	30,644	31,004	31,368	31,736	32,107	32,492	32,925

TABLE E SENSITIVITY IV

PROFORMA INCOME STATEMENT FOR THE FINANCIERA DE EXPORTACIONES, S.A. (000's)

YEAR	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
GROSS INCOME																				
INTEREST																				
LOAN PORTFOLIO	307	981	1,697	2,515	3,004	3,042	3,079	3,118	3,156	3,196	3,365	3,664	3,869	3,948	3,994	4,041	4,089	4,137	4,185	4,238
CLOSING FEES	47	57	69	107	61	80	82	86	77	86	104	106	98	102	106	106	106	108	110	111
INTEREST EXPENSE																				
PAID DIRECTLY TO A.I.D.	63	238	463	738	900	900	900	900	900	900	900	828	753	674	592	505	413	317	217	111
OTHER LONG-TERM LOANS												114	235	361	493	633	779	932	1,093	1,262
OTHER LOANS											160	320	360	360	360	360	360	360	360	360
GROSS INCOME AFTER INTEREST EXP.	291	800	1,304	1,885	2,165	2,222	2,261	2,303	2,334	2,382	2,409	2,507	2,619	2,654	2,655	2,650	2,643	2,636	2,625	2,616
OTHER EXPENSES																				
OPERATING	160	176	194	213	224	235	247	259	272	285	300	315	330	347	364	382	402	422	443	465
NORMAL BAD DEBT	71	85	104	160	91	121	123	128	116	129	157	159	146	153	159	158	159	163	164	167
SPECIAL ACCOUNT	63	238	463	738	900	900	900	900	900	900	900	828	753	674	592	505	413	317	217	111
DEPRECIATION	10	10	10	10	10	10	10	10	10	10	0	0	0	0	0	0	0	0	0	0
AMORTIZATION	10	10	10	10	10	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
TOTAL EXPENSES	313	518	780	1,131	1,235	1,265	1,279	1,297	1,298	1,324	1,356	1,302	1,230	1,175	1,115	1,045	974	902	824	742
SURPLUS FUNDS RETAINED BY FIDESA	0	0	137	243	417	407	406	404	408	404	375	338	319	282	239	196	150	101	50	324
INCOME BEFORE TAXES	(22)	282	661	997	1,347	1,364	1,388	1,410	1,444	1,462	1,428	1,543	1,708	1,762	1,779	1,800	1,819	1,835	1,851	2,197
TAX	0	109	288	456	630	639	651	662	679	688	671	729	811	838	847	857	867	874	882	1,056
TAX ON CORPORATE CAPITAL	20	20	20	20	20	20	20	20	20	20	20	20	20	20	20	20	20	20	20	20
TAX ON PAID-IN CAPITAL	13	13	13	13	13	13	13	13	13	13	13	13	13	13	13	13	13	13	13	13
NET INCOME AFTER TAXES	(55)	140	341	509	684	692	705	716	733	741	724	782	865	892	900	910	920	928	936	1,109
DIVIDENDS	0	0	0	305	410	415	423	429	440	445	435	469	519	535	540	546	552	557	562	666
RETAINED EARNINGS	(55)	140	341	204	274	277	282	286	293	297	290	313	346	357	360	364	368	371	374	444

USES OF FUNDS SET ASIDE FOR EXTRAORDINARY BAD DEBT

SPECIAL ACCT EARMARKED FOR EXTRAORDINARY BAD DEBT	63	253	659	1,052	1,359	1,365	1,371	1,377	1,383	1,389	1,395	1,369	1,340	1,278	1,202	1,123	1,039	950	857	759
EXTRAORDINARY BAD DEBT EXPENSE	47	57	69	107	61	80	82	86	77	86	104	106	98	102	106	106	106	108	110	111
RESERVE FOR EXTRAORDINARY BAD DEBT	15	196	315	459	465	471	477	483	489	495	541	587	604	611	618	625	633	640	648	0
SURPLUS FUNDS AVAILABLE	0	(0)	275	486	833	814	812	808	817	808	750	676	639	565	478	392	300	202	100	648
-Share to A.I.D.	0	0	137	243	417	407	406	404	408	404	375	338	319	282	239	196	150	101	50	324
-Share to FIDESA	0	0	137	243	417	407	406	404	408	404	375	338	319	282	239	196	150	101	50	324
TOTAL PAYMENT TO A.I.D.	63	238	600	981	1,317	1,307	1,306	1,304	1,308	1,304	1,275	1,167	1,073	957	831	700	563	418	267	435

FINANCIAL RATIOS FOR THE FINANCIERA DE EXPORTACIONES, S.A.

NET PROFITS/CAPITAL RATIO (ROC)	-2.2%	4.0%	8.5%	11.3%	15.2%	15.4%	15.7%	15.9%	16.3%	16.5%	16.1%	17.4%	19.2%	19.8%	20.0%	20.2%	20.4%	20.6%	20.8%	24.6%
NET PROFITS/NET WORTH RATIO (ROE)	-2.2%	3.9%	7.7%	9.9%	12.7%	12.2%	11.8%	11.5%	11.2%	10.8%	10.2%	10.5%	11.1%	10.9%	10.6%	10.3%	10.0%	9.7%	9.4%	10.6%
INTEREST & WINDFALL ON A.I.D. LOAN	5.0%	5.0%	6.5%	6.6%	7.3%	7.3%	7.3%	7.2%	7.3%	7.2%	7.1%	7.0%	7.1%	7.1%	7.0%	6.9%	6.8%	6.6%	6.1%	19.6%

TABLE E SENSITIVITY IV

BREAKDOWN OF NEW AND OLD LOANS

YEAR	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
EXISTING LOAN PORTFOLIO:	4,715	10,376	15,737	22,961	23,254	23,541	23,833	24,129	24,432	24,739	27,029	29,341	30,187	30,544	30,904	31,268	31,636	32,007	32,382	32,625
INCR (DECR) IN LOAN PORT.:	4,715	5,660	5,361	7,224	294	287	292	296	303	307	2,290	2,313	846	357	360	364	368	371	374	444
REFLOWS FROM YR:																				
1			1,572	1,572	1,572															
2				1,887	1,887	1,887														
3					2,311	2,311	2,311													
4						3,561	3,561	3,561												
5							2,021	2,021	2,021											
6								2,682	2,682	2,682										
7									2,728	2,728	2,728									
8										2,853	2,853	2,853								
9											2,578	2,578	2,578							
10												2,857	2,857	2,857						
11													3,483	3,483	3,483					
12														3,534	3,534	3,534				
13															3,255	3,255	3,255			
14																3,410	3,410	3,410		
15																	3,544	3,544	3,544	
16																		3,521	3,521	3,521
17																			3,525	3,525
18																				3,615
19																				
20																				
FUNDS AVAILABLE FOR LOANS	4,715	5,660	6,933	10,682	6,063	8,045	8,185	8,560	7,734	8,570	10,449	10,601	9,764	10,230	10,631	10,562	10,576	10,846	10,964	11,185
NO. OF LOANS ASSUMING LOAN SIZE OF $400,000:	11.8	14.2	17.3	26.7	15.2	20.1	20.5	21.4	19.3	21.4	26.1	26.5	24.4	25.6	26.6	26.4	26.4	27.1	27.4	27.8
CUMULATIVE:	11.8	25.9	43.3	70.0	85.1	105.2	125.7	147.1	166.4	187.9	214.0	240.5	264.9	290.5	317.1	343.5	369.9	397.0	424.4	452.2

TABLE F SENSITIVITY V

FINANCIAL STATEMENTS FOR THE FINANCIERA DE EXPORTACIONES, S.A.

ASSUMPTIONS

I) Resources

A) Total Capital: $4.5 million

To be paid in as follows:	Cumulative ($000)
Year 1	2,500
Year 2	3,500
Year 3	4,000
Year 4	4,500

B) A.I.D. loan: $18 million

To be disbursed as follows:	Cumulative ($000)
Year 1	2,500
Year 2	7,000
Year 3	11,500
Year 4	18,000

C) Replacement of the A.I.D. loan starts in year 10 and is equal to the amount of principal repaid to A.I.D. each year

D) Other loans: $4.5 million

To be disbursed as follows:	Cumulative ($000)
Year 11	2,000
Year 12	4,000
Year 13	4,500

II) Terms of the Loans

A) A.I.D. loan: 20 years, 10 years grace on principal
Other long-term loans: 20 years, 10 years grace on principal
Other loans: Short-term revolving

B) Interest Rates:

A.I.D. Loan:	5%	Paid out
Other long-term loans:	8%	Paid out
Other loans:	8%	Paid out
To Borrowers:	13%	Received
Risk Minimization Fund:	6%	Received

III) Capitalization of Special Acct.: 5% (Equivalent to 5% of the A.I.D. loan per year)

IV) Cash On Hand: $100,000

V) Depreciation of Fixed Assets: 10%/yr.

VI) Amortization of Initial Organizational Expenses: 20%/yr.

VII-C-35

017

TABLE F SENSITIVITY V

VII) Bad Debt Reserves:

A) Normal: 1.0%
(% of new loans made each year)

B) Extraordinary: 2% (5% of the A.I.D. loan plus last year's Extraordinary Bad Debt Reserve is used to capitalize the account).
(% of yearly loan portfolio)

VIII) Bad Debt Expense:

A) Normal: 1.0%
(% of new loans made each yr)

B) Extraordinary: 0.5%
(% of new loans made each yr)

Note: If bad debts exceed what has been set aside in the Reserve for Extraordinary Bad Debt, the remaining bad debt is charged to Normal Bad Debt Expense.

IX) Closing fees: Upfront charge of 2% of the value of half of the new loans made every year.

X) Operating Expenses: For first 4 yrs, incr. at 10%/yr.; thereafter, incr. at 5%/yr..

XI) Dividends: None in the initial 3 years; then 60% of "Net Income After Taxes" if this line item is positive

XII) Share of EDFC & AID: Bad debt is initially charged to the Reserve For Normal Bad Debt. Bad Debt in excess of funds available in the Reserve For Normal Bad Debt shall be charged to the "Special Account Earmarked For Extraordinary Bad Debt" which consists of last year's Reserve for Extraordinary Bad Debt and 5% of the current year's A.I.D. loan. After this write-off, the residual funds in the Special Account will be credited to the "Reserve For Extraordinary Bad Debt" which will be maintained at 2% of the net loan portfolio for that yr. Any residual remaining in the Special Account after all expenses, shall be be shared equally between A.I.D. and the EDFC.

XIII) Tax: According to the Panamanian tax code:

Amount ($000)	Tax Rate
0 to 30	20%
30 to 100	30%
100 to 500	45%
500 and up	50%

Note: Tax is computed as follows: 20% on the first $30,000 of profits; 30% on the next $70,000 of profits; 45% of the next $400,000 of profits; 50% on any profits in excess of $500,000

XIV) Tax on corp. capital: Per Panamanian law, there is a 1% tax on corporate capital. The minimum is $10 and the maximum $20,000.

XV) Tax on Paid-in capital: Per Panamanian law, there is a 2.5% tax on paid-in capital. The maximum is $12,500/yr.

XVI) Windfall: Amount of money that A.I.D. receives in excess of the 5% interest rate. It is calculated as a percent of the outstanding A.I.D. loan.

211

TABLE F SENSITIVITY V

PROFORMA BALANCE SHEET FOR THE FINANCIERA DE EXPORTACIONES,S.A. (000's)

YEAR	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
ASSETS																				
CASH	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100
OUTSTANDING LOAN PORTFOLIO	4,826	10,695	16,210	23,634	23,900	24,228	24,543	24,867	25,184	25,523	27,899	30,282	31,158	31,549	31,945	32,340	32,741	33,148	33,559	33,377
LESS RESERVE F/ NORMAL BAD DEBT	47	57	70	107	61	81	82	86	78	86	105	107	99	103	107	107	107	110	111	113
LESS RESERVE F/ XTRAORD BAD DEBT	39	209	316	461	7	473	480	486	492	499	545	592	609	617	624	632	640	648	656	0
NET LOAN PORTFOLIO	4,740	10,430	15,824	23,066	23,371	23,674	23,981	24,294	24,614	24,938	27,249	29,583	30,450	30,829	31,213	31,601	31,994	32,391	32,792	33,264
FIXED ASSETS	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100
DEPRECIATION	10	20	30	40	50	60	70	80	90	100	100	100	100	100	100	100	100	100	100	100
ORGANIZATIONAL EXPENSES	50	50	50	50	50	50	50	50	50	50	50	50	50	50	50	50	50	50	50	50
AMORTIZATION	10	20	30	40	50	50	50	50	50	50	50	50	50	50	50	50	50	50	50	50
TOTAL ASSETS	4,970	10,640	16,014	23,236	23,521	23,814	24,111	24,414	24,724	25,038	27,349	29,683	30,550	30,929	31,313	31,701	32,094	32,491	32,892	33,364
LIABILITIES & NET WORTH																				
LIABILITIES																				
A.I.D. LOAN	2,500	7,000	11,500	18,000	18,000	18,000	18,000	18,000	18,000	18,000	16,569	15,066	13,489	11,832	10,092	8,266	6,348	4,334	2,220	0
OTHER LONG-TERM LOANS	0	0	0	0	0	0	0	0	0	0	1,431	2,934	4,511	6,168	7,908	9,734	11,652	13.666	15,780	18,000
OTHER LOANS	0	0	0	0	0	0	0	0	0	0	2,000	4,000	4,500	4,500	4,500	4,500	4,500	4,500	4,500	4,500
TOTAL LIABILITIES	2,500	7,000	11,500	18,000	18,000	18,000	18,000	18,000	18,000	18,000	20,000	22,000	22,500	22,500	22,500	22,500	22,500	22,500	22,500	22,500
NET WORTH																				
CAPITAL	2,500	3,500	4,000	4,500	4,500	4,500	4,500	4,500	4,500	4,500	4,500	4,500	4,500	4,500	4,500	4,500	4,500	4,500	4,500	4,500
RETAINED EARNINGS	(30)	140	514	736	1,021	1,314	1,611	1,914	2,224	2,538	2,849	3,183	3,550	3,929	4,313	4,701	5,094	5,491	5,892	6,364
TOTAL NET WORTH	2,470	3,640	4,514	5,236	5,521	5,814	6,111	6,414	6,724	7,038	7,349	7,683	8,050	8,429	8,813	9,201	9,594	9,991	10,392	10,864
TOTAL LIABILITIES & NET WORTH	4,970	10,640	16,014	23,236	23,521	23,814	24,111	24,414	24,724	25,038	27,349	29,693	30,550	30,929	31,313	31,701	32,094	32,491	32,892	33,364

TABLE F SENSITIVITY V

PROFORMA INCOME STATEMENT FOR THE FINANCIERA DE EXPORTACIONES, S.A. (000's)

YEAR	1	2	3	4	5	6	7	8	9	10
GROSS INCOME										
INTEREST										
LOAN PORTFOLIO	308	986	1,706	2,528	3,018	3,058	3,098	3,138	3,179	3,221
CLOSING FEES	47	57	70	107	61	81	82	86	78	86
INTEREST EXPENSE										
PAID DIRECTLY TO A.I.D.	63	238	463	738	900	900	900	900	900	900
OTHER LONG-TERM LOANS										
OTHER LOANS										
GROSS INCOME AFTER INTEREST EXP.	293	805	1,314	1,898	2,180	2,239	2,280	2,324	2,357	2,407
OTHER EXPENSES										
OPERATING	160	176	194	213	224	235	247	259	272	285
NORMAL BAD DEBT	47	57	70	107	61	81	82	86	78	86
SPECIAL ACCOUNT	63	238	463	738	900	900	900	900	900	900
DEPRECIATION	10	10	10	10	10	10	10	10	10	10
AMORTIZATION	10	10	10	10	10	0	0	0	0	0
TOTAL EXPENSES	290	490	746	1,078	1,205	1,226	1,239	1,255	1,260	1,282
SURPLUS FUNDS RETAINED BY FIDESA	0	20	160	270	432	427	426	425	427	425
INCOME BEFORE TAXES	3	335	728	1,089	1,407	1,440	1,467	1,494	1,525	1,551
TAX	1	133	321	502	660	677	691	704	719	732
TAX ON CORPORATE CAPITAL	20	20	20	20	20	20	20	20	20	20
TAX ON PAID-IN CAPITAL	13	13	13	13	13	13	13	13	13	13
NET INCOME AFTER TAXES	(30)	170	374	555	714	730	744	758	773	786
DIVIDENDS	0	0	0	333	428	438	447	455	464	471
RETAINED EARNINGS	(30)	170	374	222	286	292	298	303	309	314

YEAR	11	12	13	14	15	16	17	18	19	20
GROSS INCOME										
INTEREST										
LOAN PORTFOLIO	3,392	3,694	3,902	3,983	4,033	4,083	4,134	4,185	4,237	4,294
CLOSING FEES	105	107	99	103	107	107	107	110	111	113
INTEREST EXPENSE										
PAID DIRECTLY TO A.I.D.	900	828	753	674	592	505	413	317	217	111
OTHER LONG-TERM LOANS		114	235	361	493	633	779	932	1,093	1,262
OTHER LOANS	160	320	360	360	360	360	360	360	360	360
GROSS INCOME AFTER INTEREST EXP.	2,437	2,538	2,653	2,691	2,695	2,693	2,689	2,685	2,678	2,673
OTHER EXPENSES										
OPERATING	300	315	330	347	364	382	402	422	443	465
NORMAL BAD DEBT	105	107	99	103	107	107	107	110	111	113
SPECIAL ACCOUNT	900	828	753	674	592	505	413	317	217	111
DEPRECIATION	0	0	0	0	0	0	0	0	0	0
AMORTIZATION	0	0	0	0	0	0	0	0	0	0
TOTAL EXPENSES	1,305	1,250	1,182	1,125	1,063	994	922	849	771	688
SURPLUS FUNDS RETAINED BY FIDESA	401	364	343	308	265	222	176	127	77	355
INCOME BEFORE TAXES	1,533	1,652	1,814	1,874	1,897	1,920	1,943	1,964	1,984	2,340
TAX	724	783	864	894	905	917	928	939	949	1,127
TAX ON CORPORATE CAPITAL	20	20	20	20	20	20	20	20	20	20
TAX ON PAID-IN CAPITAL	13	13	13	13	13	13	13	13	13	13
NET INCOME AFTER TAXES	777	837	917	948	959	971	982	992	1,003	1,180
DIVIDENDS	466	502	550	569	575	582	589	595	602	708
RETAINED EARNINGS	311	335	367	379	384	389	393	397	401	472

USES OF FUNDS SET ASIDE FOR EXTRAORDINARY BAD DEBT

	1	2	3	4	5	6	7	8	9	10
SPECIAL ACCT EARMARKED FOR EXTRAORDINARY BAD DEBT	63	276	671	1,054	1,361	1,367	1,373	1,380	1,386	1,392
EXTRAORDINARY BAD DEBT EXPENSE	24	28	35	54	31	40	41	43	39	43
RESERVE FOR EXTRAORDINARY BAD DEBT	39	209	316	461	467	473	480	486	492	499
SURPLUS FUNDS AVAILABLE	(0)	39	320	539	863	853	853	851	855	850
-Share to A.I.D.	0	20	160	270	432	427	426	425	427	425
-Share to FIDESA	0	20	160	270	432	427	426	425	427	425
TOTAL PAYMENT TO A.I.D.	63	257	622	1,007	1,332	1,327	1,326	1,325	1,327	1,325

	11	12	13	14	15	16	17	18	19	20
SPECIAL ACCT EARMARKED FOR EXTRAORDINARY BAD DEBT	1,399	1,373	1,345	1,233	1,206	1,129	1,045	957	865	767
EXTRAORDINARY BAD DEBT EXPENSE	53	53	49	52	54	53	54	55	56	56
RESERVE FOR EXTRAORDINARY BAD DEBT	545	592	609	617	624	632	640	648	656	0
SURPLUS FUNDS AVAILABLE	801	728	687	615	530	443	352	255	153	711
-Share to A.I.D.	401	364	343	308	265	222	176	127	77	355
-Share to FIDESA	401	364	343	308	265	222	176	127	77	355
TOTAL PAYMENT TO A.I.D.	1,301	1,193	1,097	982	857	725	599	445	293	466

FINANCIAL RATIOS FOR THE FINANCIERA DE EXPORTACIONES, S.A.

	1	2	3	4	5	6	7	8	9	10
NET PROFITS/CAPITAL RATIO (ROC)	-1.2%	4.8%	9.4%	12.3%	15.9%	16.2%	16.5%	16.8%	17.2%	17.5%
NET PROFITS/NET WORTH RATIO (ROE)	-1.2%	4.7%	8.3%	10.6%	12.9%	12.6%	12.2%	11.8%	11.5%	11.2%
INTEREST & WINDFALL ON A.I.D. LOAN	5.0%	5.4%	6.7%	6.8%	7.4%	7.4%	7.4%	7.4%	7.4%	7.4%

	11	12	13	14	15	16	17	18	19	20
NET PROFITS/CAPITAL RATIO (ROC)	17.3%	18.6%	20.4%	21.1%	21.3%	21.6%	21.8%	22.1%	22.3%	[illegible]
NET PROFITS/NET WORTH RATIO (ROE)	10.6%	10.9%	11.4%	11.2%	10.9%	10.5%	10.2%	9.9%	9.6%	[illegible]
INTEREST & WINDFALL ON A.I.D. LOAN	7.2%	7.2%	7.3%	7.3%	7.2%	7.2%	7.1%	7.0%	6.9%	21.0%

2/3

TABLE F SENSITIVITY V

BREAKDOWN OF NEW AND OLD LOANS

YEAR	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
EXISTING LOAN PORTFOLIO:	4,740	10,430	15,824	23,066	23,371	23,674	23,981	24,294	24,614	24,938	27,249	29,583	30,450	30,829	31,213	31,601	31,994	32,391	32,792	33,264
INCR (DECR) IN LOAN PORT.:	4,740	5,690	5,394	7,242	306	302	308	313	319	324	2,311	2,335	867	379	384	388	393	397	401	472
REFLOWS FROM YR:																				
1			1,580	1,580	1,580															
2				1,897	1,897	1,897														
3					2,325	2,325	2,325													
4						3,573	3,573	3,573												
5							2,036	2,036	2,036											
6								2,699	2,699	2,699										
7									2.747	2,747	2,747									
8										2,873	2,873	2,873								
9											2,600	2,600	2,600							
10												2,881	2.881	2.881						
11													3,510	3,510	3,510					
12														3,563	3,563	3,563				
13															3,286	3,286	3,286			
14																3,445	3,445	3,445		
15																	3,581	3,581	3,581	
16																		3.561	3,561	3,561
17																			3,568	3,568
18																				3,661
19																				
20																				
FUNDS AVAILABLE FOR LOANS	4,740	5,690	6,974	10,719	6,107	8,096	8,241	8,620	7,800	8,644	10,531	10,689	9,859	10,334	10,743	10,682	10,705	10,983	11,111	11,262
NO. OF LOANS ASSUMING LOAN SIZE OF $400,000:	11.8	14.2	17.4	26.8	15.3	20.2	20.6	21.6	19.5	21.6	26.3	26.7	24.6	25.8	26.9	26.7	26.8	27.5	27.8	28.2
CUMULATIVE:	11.8	26.1	43.5	70.3	85.6	105.8	126.4	148.0	167.5	189.1	215.4	242.1	266.8	292.6	319.5	346.2	372.9	400.4	429.2	456.3

TABLE C SENSITIVITY VI

FINANCIAL STATEMENTS FOR THE FINANCIERA DE EXPORTACIONES, S.A.

ASSUMPTIONS

I) Resources

A) Total Capital: $4.5 million

To be paid in as follows:	Cumulative ($000)
Year 1	2,500
Year 2	3,500
Year 3	4,000
Year 4	4,500

B) A.I.D. loan: $18 million

To be disbursed as follows:	Cumulative ($000)
Year 1	2,500
Year 2	7,000
Year 3	11,500
Year 4	18,000

C) Replacement of the A.I.D. loan starts in year 10 and is equal to the amount of principal repaid to A.I.D. each year

D) Other loans: $4.5 million

To be disbursed as follows:	Cumulative ($000)
Year 11	2,000
Year 12	4,000
Year 13	4,500

II) Terms of the Loans

A) A.I.D. loan:	20 years, 10 years grace on principal
Other long-term loans:	20 years, 10 years grace on principal
Other loans:	Short-term revolving

B) Interest Rates:

A.I.D. Loan:	5%	Paid out
Other long-term loans:	8%	Paid out
Other loans:	8%	Paid out
To Borrowers:	13%	Received
Risk Minimization Fund:	6%	Received

III) Capitalization of Special Acct.: 5% (Equivalent to 5% of the A.I.D. loan per year)

IV) Cash On Hand: $100,000

V) Depreciation of Fixed Assets: 10%/yr.

VI) Amortization of Initial Organizational Expenses: 20%/yr.

TABLE 6 SENSITIVITY VI

VII) Bad Debt Reserves:

A) Normal: 1.0%
(% of new loans made each year)

B) Extraordinary: 2%
(% of yearly loan portfolio)

(5% of the A.I.D. loan plus last year's Extraordinary Bad Debt Reserve is used to capitalize the account).

VIII) Bad Debt Expense:

A) Normal: 1.0%
(% of new loans made each yr)

B) Extraordinary: 1.5%
(% of new loans made each yr)

Note: if bad debts exceed what has been set aside in the Reserve for Extraordinary Bad Debt, the remaining bad debt is charged to Normal Bad Debt Expense.

IX) Closing fees: Upfront charge of 2% of the value of half of the new loans made every year.

X) Operating Expenses: For first 4 yrs, incr. at 10%/yr.; thereafter, incr. at 5%/yr..

XI) Dividends: None in the initial 3 years; then 60% of "Net Income After Taxes" if this line item is positive

XII) Share of EDFC & AID: Bad debt is initially charged to the Reserve For Normal Bad Debt. Bad Debt in excess of funds available in the Reserve For Normal Bad Debt shall be charged to the "Special Account Earmarked For Extraordinary Bad Debt" which consists of last year's Reserve for Extraordinary Bad Debt and 5% of the current year's A.I.D. loan. After this write-off, the residual funds in the Special Account will be credited to the "Reserve For Extraordinary Bad Debt" which will be maintained at 2% of the net loan portfolio for that yr. Any residual remaining in the Special Account after all expenses, shall be be shared equally between A.I.D. and the EDFC.

XIII) Tax: According to the Panamanian tax code:

Amount ($000)	Tax Rate
0 to 30	20%
30 to 100	30%
100 to 500	45%
500 and up	50%

Note: Tax is computed as follows; 20% on the first $30,000 of profits; 30% on the next $70,000 of profits; 45% of the next $400,000 of profits; 50% on any profits in excess of $500,000

XIV) Tax on corp. capital: Per Panamanian law, there is a 1% tax on corporate capital. The minimum is $10 and the maximum $20,000.

XV) Tax on Paid-in capital: Per Panamanian law, there is a 2.5% tax on paid-in capital. The maximum is $12,500/yr.

XVI) Windfall: Amount of money that A.I.D. receives in excess of the 5% interest rate. It is calculated as a percent of the outstanding A.I.D. loan.

216

TABLE 3 SENSITIVITY VI

PROFORMA BALANCE SHEET FOR THE FINANCIERA DE EXPORTACIONES,S.A. (000's)

YEAR	1	2	3	4	5	6	7	8	9	10
ASSETS										
CASH	100	100	100	100	100	100	100	100	100	100
OUTSTANDING LOAN PORTFOLIO	4,787	10,627	16,165	23,577	23,835	24,153	24,458	24,770	25,076	25,404
LESS RESERVE F/ NORMAL BAD DEBT	47	57	69	107	61	81	82	86	78	86
LESS RESERVE F/ XTRAORD BAD DEBT	0	152	316	460	466	472	478	484	490	496
NET LOAN PORTFOLIO	4,740	10,416	15,780	23,010	23,308	23,600	23,898	24,200	24,509	24,821
FIXED ASSETS	100	100	100	100	100	100	100	100	100	100
DEPRECIATION	10	20	30	40	50	60	70	80	90	100
ORGANIZATIONAL EXPENSES	50	50	50	50	50	50	50	50	50	50
AMORTIZATION	10	20	30	40	50	50	50	50	50	50
TOTAL ASSETS	4,970	10,628	15,970	23,180	23,458	23,740	24,028	24,320	24,619	24,921
LIABILITIES & NET WORTH										
LIABILITIES										
A.I.D. LOAN	2,500	7,000	11,500	18,000	18,000	18,000	18,000	18,000	18,000	18,000
OTHER LONG-TERM LOANS	0	0	0	0	0	0	0	0	0	0
OTHER LOANS	0	0	0	0	0	0	0	0	0	0
TOTAL LIABILITIES	2,500	7,000	11,500	18,000	18,000	18,000	18,000	18,000	18,000	18,000
NET WORTH										
CAPITAL	2,500	3,500	4,000	4,500	4,500	4,500	4,500	4,500	4,500	4,500
RETAINED EARNINGS	(30)	128	470	680	958	1,240	1,528	1,820	2,119	2,421
TOTAL NET WORTH	2,470	3,628	4,470	5,180	5,458	5,740	6,028	6,320	6,619	6,921
TOTAL LIABILITIES & NET WORTH	4,970	10,628	15,970	23,180	23,458	23,740	24,028	24,320	24,619	24,921

YEAR	11	12	13	14	15	16	17	18	19	20
ASSETS										
CASH	100	100	100	100	100	100	100	100	100	100
OUTSTANDING LOAN PORTFOLIO	27,766	30,134	30,996	31,373	31,752	32,132	32,516	32,907	33,299	33,104
LESS RESERVE F/ NORMAL BAD DEBT	105	106	98	103	107	106	106	109	110	112
LESS RESERVE F/ XTRAORD BAD DEBT	542	589	606	613	621	628	635	643	651	0
NET LOAN PORTFOLIO	27,119	29,439	30,292	30,657	31,025	31,398	31,775	32,155	32,538	32,992
FIXED ASSETS	100	100	100	100	100	100	100	100	100	100
DEPRECIATION	100	100	100	100	100	100	100	100	100	100
ORGANIZATIONAL EXPENSES	50	50	50	50	50	50	50	50	50	50
AMORTIZATION	50	50	50	50	50	50	50	50	50	50
TOTAL ASSETS	27,219	29,539	30,392	30,757	31,125	31,498	31,875	32,255	32,638	33,092
LIABILITIES & NET WORTH										
LIABILITIES										
A.I.D. LOAN	16,569	15,066	13,489	11,832	10,092	8,266	6,348	4,334	2,220	0
OTHER LONG-TERM LOANS	1,431	2,934	4,511	6,168	7,908	9,734	11,652	13,666	15,780	18,000
OTHER LOANS	2,000	4,000	4,500	4,500	4,500	4,500	4,500	4,500	4,500	4,500
TOTAL LIABILITIES	20,000	22,000	22,500	22,500	22,500	22,500	22,500	22,500	22,500	22,500
NET WORTH										
CAPITAL	4,500	4,500	4,500	4,500	4,500	4,500	4,500	4,500	4,500	4,500
RETAINED EARNINGS	2,719	3,039	3,392	3,757	4,125	4,498	4,875	5,255	5,638	6,092
TOTAL NET WORTH	7,219	7,539	7,892	8,257	8,625	8,998	9,375	9,755	10,138	10,592
TOTAL LIABILITIES & NET WORTH	27,219	29,539	30,392	30,757	31,125	31,498	31,875	32,255	32,638	33,092

TABLE 6 SENSITIVITY VI

PROFORMA INCOME STATEMENT FOR THE FINANCIERA DE EXPORTACIONES, S.A. (000's)

YEAR	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
GROSS INCOME																				
INTEREST																				
LOAN PORTFOLIO	308	985	1,703	2,521	3,011	3,049	3,087	3,126	3,166	3,206	3,376	3,676	3,883	3,962	4,009	4,058	4,106	4,155	4,205	4,259
CLOSING FEES	47	57	69	107	61	81	82	86	78	86	105	106	98	103	107	106	106	109	110	112
INTEREST EXPENSE																				
PAID DIRECTLY TO A.I.D.	63	238	463	738	900	900	900	900	900	900	900	828	753	674	592	505	413	317	217	111
OTHER LONG-TERM LOANS												114	235	361	493	633	779	932	1,093	1,262
OTHER LOANS											160	320	360	360	360	360	360	360	360	360
GROSS INCOME AFTER INTEREST EXP.	293	805	1,310	1,891	2,171	2,230	2,269	2,312	2,344	2,392	2,421	2,520	2,633	2,669	2,671	2,666	2,660	2,655	2,645	2,638
OTHER EXPENSES																				
OPERATING	160	176	194	213	224	235	247	259	272	285	300	315	330	347	364	382	402	422	443	465
NORMAL BAD DEBT	47	57	69	107	61	81	82	86	78	86	105	106	98	103	107	106	106	109	110	112
SPECIAL ACCOUNT	63	238	463	738	900	900	900	900	900	900	900	828	753	674	592	505	413	317	217	111
DEPRECIATION	10	10	10	10	10	10	10	10	10	10	0	0	0	0	0	0	0	0	0	0
AMORTIZATION	10	10	10	10	10	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
TOTAL EXPENSES	290	490	746	1,077	1,204	1,225	1,239	1,255	1,259	1,281	1,304	1,249	1,182	1,124	1,063	993	921	848	770	686
SURPLUS FUNDS RETAINED BY FIDESA	0	0	98	216	401	387	385	383	389	382	348	311	295	257	212	169	123	73	22	297
INCOME BEFORE TAXES	3	314	662	1,030	1,368	1,391	1,416	1,440	1,473	1,493	1,465	1,581	1,745	1,802	1,821	1,842	1,863	1,880	1,898	2,247
TAX	1	123	288	472	641	652	665	677	693	704	689	748	830	858	867	878	888	897	906	1,081
TAX ON CORPORATE CAPITAL	20	20	20	20	20	20	20	20	20	20	20	20	20	20	20	20	20	20	20	20
TAX ON PAID-IN CAPITAL	13	13	13	13	13	13	13	13	13	13	13	13	13	13	13	13	13	13	13	13
NET INCOME AFTER TAXES	(30)	158	341	525	695	706	719	731	747	757	743	801	883	911	921	932	942	950	959	1,134
DIVIDENDS	0	0	0	315	417	424	431	438	448	454	446	481	530	547	552	559	565	570	576	581
RETAINED EARNINGS	(30)	158	341	210	278	282	287	292	299	303	297	320	353	365	368	373	377	380	384	454

USES OF FUNDS SET ASIDE FOR EXTRAORDINARY BAD DEBT

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
SPECIAL ACCT EARMARKED FOR EXTRAORDINARY BAD DEBT	63	238	615	1,053	1,360	1,366	1,372	1,378	1,384	1,390	1,396	1,371	1,342	1,280	1,205	1,125	1,041	953	860	762
EXTRAORDINARY BAD DEBT EXPENSE	71	85	104	161	91	121	123	129	116	129	157	160	147	154	160	159	159	163	165	167
RESERVE FOR EXTRAORDINARY BAD DEBT	0	152	316	460	466	472	478	484	490	496	542	589	606	613	621	628	635	643	651	0
SURPLUS FUNDS AVAILABLE	0	0	195	432	803	773	771	765	777	765	697	622	589	513	424	338	246	146	44	594
-Share to A.I.D.	0	0	98	216	401	387	385	383	389	382	348	311	295	257	212	169	123	73	22	297
-Share to FIDESA	0	0	98	216	401	387	385	383	389	382	348	311	295	257	212	169	123	73	22	297
TOTAL PAYMENT TO A.I.D.	63	238	560	954	1,301	1,287	1,285	1,283	1,289	1,282	1,248	1,140	1,048	931	804	674	536	391	239	408

FINANCIAL RATIOS FOR THE FINANCIERA DE EXPORTACIONES, S.A.

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
NET PROFITS/CAPITAL RATIO (ROC)	-1.2%	4.5%	8.5%	11.7%	15.4%	15.7%	16.0%	16.2%	16.6%	16.8%	16.5%	17.8%	19.6%	20.3%	20.5%	20.7%	20.9%	21.1%	21.3%	25.2%
NET PROFITS/NET WORTH RATIO (ROE)	-1.2%	4.4%	7.6%	10.1%	12.7%	12.3%	11.9%	11.6%	11.3%	10.9%	10.3%	10.6%	11.2%	11.0%	10.7%	10.4%	10.0%	9.7%	9.5%	10.7%
INTEREST & WINDFALL ON A.I.D. LOAN	5.0%	5.0%	6.1%	6.5%	7.2%	7.1%	7.1%	7.1%	7.2%	7.1%	6.9%	6.9%	7.0%	6.9%	6.8%	6.7%	6.5%	6.2%	5.5%	13.4%

TABLE 6 SENSITIVITY VI

BREAKDOWN OF NEW AND OLD LOANS

YEAR	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
EXISTING LOAN PORTFOLIO:	4,740	10,418	15,780	23,010	23,308	23,600	23,898	24,200	24,509	24,821	27,119	29,439	30,292	30,657	31,025	31,398	31,775	32,155	32,538	32,992
INCR (DECR) IN LOAN PORT.:	4,740	5,678	5,361	7,230	298	292	297	302	309	313	2,297	2,320	853	365	368	373	377	380	384	454
REFLOWS FROM YR:																				
1			1,580	1,580	1,580															
2				1,893	1,893	1,893														
3					2,314	2,314	2,314													
4						3,568	3,568	3,568												
5							2,028	2,029	2,028											
6								2,689	2,689	2,689										
7									2,736	2,736	2,736									
8										2,862	2,862	2,862								
9											2,587	2,587	2,587							
10												2,867	2,867	2,867						
11													3,494	3,494	3,494					
12														3,546	3,546	3,546				
13															3,267	3,267	3,267			
14																3,424	3,424	3,424		
15																	3,558	3,558	3,558	
16																		3,536	3,536	3,536
17																			3,542	3,542
18																				3,633
19																				
20																				
FUNDS AVAILABLE FOR LOANS	4,740	5,678	6,941	10,703	6,084	8,067	8,207	8,587	7,761	8,600	10,482	10,637	9,801	10,271	10,675	10,609	10,626	10,898	11,020	11,165
NO. OF LOANS ASSUMING LOAN SIZE OF $400,000:	11.8	14.2	17.4	26.8	15.2	20.2	20.5	21.5	19.4	21.5	26.2	26.6	24.5	25.7	26.7	26.5	26.6	27.2	27.6	27.9
CUMULATIVE:	11.8	26.0	43.4	70.2	85.4	105.5	126.1	147.5	166.9	188.4	214.6	241.2	265.7	291.4	318.1	344.6	371.2	398.4	426.0	453.9

TABLE H SENSITIVITY VII

FINANCIAL STATEMENTS FOR THE FINANCIERA DE EXPORTACIONES, S.A.

ASSUMPTIONS

I) Resources

A) Total Capital: $4.5 million

To be paid in as follows:	Cumulative ($000)
Year 1	2,500
Year 2	3,500
Year 3	4,000
Year 4	4,500

B) A.I.D. loan: $18 million

To be disbursed as follows:	Cumulative ($000)
Year 1	2,500
Year 2	7,000
Year 3	11,500
Year 4	18,000

C) Replacement of the A.I.D. loan starts in year 10 and is equal to the amount of principal repaid to A.I.D. each year

D) Other loans: $4.5 million

To be disbursed as follows:	Cumulative ($000)
Year 11	2,000
Year 12	4,000
Year 13	4,500

II) Terms of the Loans

A) A.I.D. loan: 20 years, 10 years grace on principal
Other long-term loans: 20 years, 10 years grace on principal
Other loans: Short-term revolving

B) Interest Rates:

A.I.D. Loan:	6%	Paid out
Other long-term loans:	8%	Paid out
Other loans:	8%	Paid out
To Borrowers:	13%	Received
Risk Minimization Fund:	6%	Received

III) Capitalization of Special Acct.: 4% (Equivalent to 4% of the A.I.D. loan per year)

IV) Cash On Hand: $100,000

V) Depreciation of Fixed Assets: 10%/yr.

VI) Amortization of Initial Organizational Expenses: 20%/yr.

VII-C-45

212

TABLE H SENSITIVITY VII

VII) Bad Debt Reserves:

A) Normal: (% of new loans made each year)	1.0%	
B) Extraordinary: (% of yearly loan portfolio)	2%	(4% of the A.I.D. loan plus last year's Extraordinary Bad Debt Reserve is used to capitalize the account).

VIII) Bad Debt Expense:

A) Normal: (% of new loans made each yr)	1.0%	
B) Extraordinary: (% of new loans made each yr)	1.0%	Note: If bad debts exceed what has been set aside in the Reserve for Extraordinary Bad Debt, the remaining bad debt is charged to Normal Bad Debt Expense.

IX) Closing fees: Upfront charge of 2% of the value of half of the new loans made every year.

X) Operating Expenses: For first 4 yrs, incr. at 10%/yr.; thereafter, incr. at 5%/yr .

XI) Dividends: None in the initial 3 years; then 60% of "Net Income After Taxes" if this line item is positive

XII) Share of EDFC & AID: Bad debt is initially charged to the Reserve For Normal Bad Debt. Bad Debt in excess of funds available in the Reserve For Normal Bad Debt shall be charged to the "Special Account Earmarked For Extraordinary Bad Debt" which consists of last year's Reserve for Extraordinary Bad Debt and 5% of the current year's A.I.D. loan. After this write-off, the residual funds in the Special Account will be credited to the "Reserve For Extraordinary Bad Debt" which will be maintained at 2% of the net loan portfolio for that yr. Any residual remaining in the Special Account after all expenses, shall be be shared equally between A.I.D. and the EDFC.

XIII) Tax: According to the Panamanian tax code:

Amount ($000)	Tax Rate
0 to 30	20%
30 to 100	30%
100 to 500	45%
500 and up	50%

Note: Tax is computed as follows; 20% on the first $30,000 of profits; 30% on the next $70,000 of profits; 45% of the next $400,000 of profits; 50% on any profits in excess of $500,000

XIV) Tax on corp. capital: Per Panamanian law, there is a 1% tax on corporate capital. The minimum is $10 and the maximum $20,000.

XV) Tax on Paid-in capital: Per Panamanian law, there is a 2.5% tax on paid-in capital. The maximum is $12,500/yr.

XVI) Windfall: Amount of money that A.I.D. receives in excess of the 5% interest rate. It is calculated as a percent of the outstanding A.I.D. loan.

VIII-C-46

221

TABLE H SENSITIVITY VII

PROFORMA BALANCE SHEET FOR THE FINANCIERA DE EXPORTACIONES,S.A. (000's)

YEAR	1	2	3	4	5	6	7	8	9	10
ASSETS										
CASH	100	100	100	100	100	100	100	100	100	100
OUTSTANDING LOAN PORTFOLIO	4,790	10,611	16,145	23,547	23,789	24,091	24,380	24,676	24,966	25,276
LESS RESERVE F/ NORMAL BAD DEBT	47	57	69	107	61	80	82	86	77	86
LESS RESERVE F/ XTRAORD BAD DEBT	3	136	315	460	465	471	476	482	488	494
NET LOAN PORTFOLIO	4,740	10,418	15,761	22,981	23,263	23,540	23,822	24,108	24,400	24,697
FIXED ASSETS	100	100	100	100	100	100	100	100	100	100
DEPRECIATION	10	20	30	40	50	60	70	80	90	100
ORGANIZATIONAL EXPENSES	50	50	50	50	50	50	50	50	50	50
AMORTIZATION	10	20	30	40	50	50	50	50	50	50
TOTAL ASSETS	4,970	10,628	15,951	23,151	23,413	23,680	23,952	24,228	24.510	24,797
LIABILITIES & NET WORTH										
LIABILITIES										
A.I.D. LOAN	2,500	7,000	11,500	18,000	18,000	18,000	18,000	18,000	18,000	18.000
OTHER LONG-TERM LOANS	0	0	0	0	0	0	0	0	0	0
OTHER LOANS	0	0	0	0	0	0	0	0	0	0
TOTAL LIABILITIES	2,500	7,000	11,500	18,000	18,000	18,000	18,000	18,000	18,000	18,000
NET WORTH										
CAPITAL	2,500	3,500	4,000	4,500	4,500	4,500	4,500	4.500	4,500	4,500
RETAINED EARNINGS	(30)	128	451	651	913	1,180	1,452	1,728	2,010	2,297
TOTAL NET WORTH	2,470	3,628	4,451	5,151	5,413	5,680	5,952	6,228	6,510	6,797
TOTAL LIABILITIES & NET WORTH	4,970	10,628	15,951	23,151	23,413	23,680	23,952	24,228	24,510	24,797

YEAR	11	12	13	14	15	16	17	18	19	20
ASSETS										
CASH	100	100	100	100	100	100	100	100	100	100
OUTSTANDING LOAN PORTFOLIO	27,621	29,975	30,822	31,185	31,553	31,923	32,299	32,663	33,071	32,877
LESS RESERVE F/ NORMAL BAD DEBT	104	106	97	102	106	105	106	108	109	111
LESS RESERVE F/ XTRAORD BAD DEBT	540	586	602	609	617	624	631	639	646	0
NET LOAN PORTFOLIO	26,978	29,283	30,122	30,474	30,831	31,193	31,562	31,936	32,315	32,766
FIXED ASSETS	100	100	100	100	100	100	100	100	100	100
DEPRECIATION	100	100	100	100	100	100	100	100	100	100
ORGANIZATIONAL EXPENSES	50	50	50	50	50	50	50	50	50	50
AMORTIZATION	50	50	50	50	50	50	50	50	50	50
TOTAL ASSETS	27,078	29,383	30.222	30,574	30,931	31,293	31,662	32,036	32,415	32,866
LIABILITIES & NET WORTH										
LIABILITIES										
A.I.D. LOAN	16,569	15,066	13,489	11,832	10,092	8,266	6,348	4,334	2,220	0
OTHER LONG-TERM LOANS	1,431	2,934	4,511	6,168	7,908	9,734	11,652	13,666	15,780	18,000
OTHER LOANS	2,000	4,000	4,500	4,500	4,500	4,500	4,500	4,500	4,500	4,500
TOTAL LIABILITIES	20,000	22,000	22,500	22,500	22,500	22,500	22,500	22,500	22,500	22,500
NET WORTH										
CAPITAL	4,500	4,500	4,500	4,500	4,500	4,500	4.500	4,500	4,500	4,500
RETAINED EARNINGS	2,578	2,883	3,222	3,574	3,931	4,293	4,662	5,036	5,415	5,866
TOTAL NET WORTH	7,078	7,383	7,722	8,074	8,431	8,793	9,162	9,536	9,915	10,366
TOTAL LIABILITIES & NET WORTH	27,078	29,383	30,222	30,574	30,931	31,293	31,662	32,036	32,415	32,866

TABLE H SENSITIVITY VII

PROFORMA INCOME STATEMENT FOR THE FINANCIERA DE EXPORTACIONES, S.A. (000's)

YEAR	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
GROSS INCOME																				
INTEREST																				
LOAN PORTFOLIO	308	985	1,702	2,518	3,006	3,042	3,079	3,115	3,153	3,191	3,359	3,657	3,861	3,939	3,935	4,032	4,079	4,127	4,176	4,230
CLOSING FEES	47	57	69	107	61	80	82	86	77	86	104	106	97	102	106	105	106	108	109	111
INTEREST EXPENSE																				
PAID DIRECTLY TO A.I.D.	75	285	555	885	1,080	1,080	1,080	1,080	1,080	1,080	1,080	994	904	809	719	606	496	381	267	173
OTHER LONG-TERM LOANS												114	235	361	493	633	779	932	1,093	1,262
OTHER LOANS											360	320	360	360	360	360	361	360	360	361
GROSS INCOME AFTER INTEREST EXP.	280	757	1,216	1,740	1,986	2,042	2,081	2,121	2,150	2,197	2,223	2,374	2,460	2,511	2,527	2,539	2,550	2,563	2,572	2,586
OTHER EXPENSES																				
OPERATING	160	176	194	213	224	235	247	259	272	285	300	315	330	347	364	382	402	422	443	465
NORMAL BAD DEBT	47	57	69	107	61	80	82	86	77	86	104	106	97	102	106	105	106	108	109	111
SPECIAL ACCOUNT	50	190	370	590	720	720	720	720	720	720	720	663	603	549	473	404	331	254	173	59
DEPRECIATION	10	10	10	10	10	10	10	10	10	10	0	0	0	0	0	0	0	0	0	0
AMORTIZATION	10	10	10	10	10	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
TOTAL EXPENSES	277	443	653	930	1,024	1,045	1,058	1,074	1,079	1,101	1,124	1,083	1,030	998	944	892	838	784	725	635
SURPLUS FUNDS RETAINED BY FIDESA	0	0	61	169	327	317	316	314	318	314	285	255	244	215	180	146	109	69	28	312
INCOME BEFORE TAXES	3	314	624	980	1,289	1,314	1,338	1,361	1,390	1,410	1,384	1,506	1,674	1,737	1,764	1,793	1,821	1,848	1,875	2,234
TAX	1	123	269	447	602	614	626	637	652	662	649	710	794	826	839	853	868	881	895	1,074
TAX ON CORPORATE CAPITAL	20	20	20	20	20	20	20	20	20	20	20	20	20	20	20	20	20	20	20	20
TAX ON PAID-IN CAPITAL	13	13	13	13	13	13	13	13	13	13	13	13	13	13	13	13	13	13	13	13
NET INCOME AFTER TAXES	(30)	158	322	500	655	668	680	691	705	716	703	764	847	875	892	907	921	934	948	1,127
DIVIDENDS	0	0	0	300	393	401	408	415	423	429	422	458	508	527	535	544	553	561	569	676
RETAINED EARNINGS	(30)	158	322	200	262	267	272	276	282	286	281	305	339	352	357	363	368	374	379	451

USES OF FUNDS SET ASIDE FOR EXTRAORDINARY BAD DEBT

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
SPECIAL ACCT EARMARKED FOR EXTRAORDINARY BAD DEBT	50	193	506	905	1,180	1,185	1,191	1,196	1,202	1,208	1,214	1,202	1,168	1,142	1,083	1,020	955	885	812	735
EXTRAORDINARY BAD DEBT EXPENSE	47	57	69	107	61	80	82	86	77	86	104	106	97	102	106	105	106	108	109	111
RESERVE FOR EXTRAORDINARY BAD DEBT	3	136	315	460	465	471	476	482	488	494	540	586	602	[illegible]	617	624	631	639	646	[illegible]
SURPLUS FUNDS AVAILABLE	0	0	121	339	654	634	633	629	637	629	570	511	488	430	360	291	218	138	56	624
-Share to A.I.D.	0	0	61	169	327	317	316	314	318	314	285	255	244	215	180	146	109	69	28	312
-Share to FIDESA	0	0	61	169	327	317	316	314	318	314	285	255	244	215	180	146	109	69	28	312
TOTAL PAYMENT TO A.I.D.	75	285	616	1,054	1,407	1,397	1,396	1,394	1,398	1,394	1,365	1,250	1,148	1,025	890	751	605	450	293	445

FINANCIAL RATIOS FOR THE FINANCIERA DE EXPORTACIONES, S.A.

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
NET PROFITS/CAPITAL RATIO (ROC)	-1.2%	4.5%	8.1%	11.1%	14.6%	14.8%	15.1%	15.4%	15.7%	15.9%	15.6%	17.0%	18.9%	19.5%	19.8%	20.2%	20.5%	20.8%	21.1%	25.0%
NET PROFITS/NET WORTH RATIO (ROE)	-1.2%	4.4%	7.2%	9.7%	12.1%	11.8%	11.4%	11.1%	10.8%	10.5%	9.9%	10.3%	11.0%	10.9%	10.6%	10.3%	10.1%	9.8%	9.6%	10.9%
INTEREST & WINDFALL ON A.I.D. LOAN	6.0%	6.0%	6.7%	7.1%	7.8%	7.8%	7.8%	7.7%	7.8%	7.7%	7.6%	7.5%	7.6%	7.6%	7.5%	7.4%	7.3%	7.1%	6.7%	20.1%

TABLE H SENSITIVITY VII

BREAKDOWN OF NEW AND OLD LOANS

YEAR	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
EXISTING LOAN PORTFOLIO:	4,740	10,418	15,761	22,981	23,263	23.540	23.822	24,108	24,400	24,697	26,978	29,283	30,122	30,474	30,831	31.193	31,562	31,936	32,315	32,766
INCR (DECR) IN LOAN PORT.:	4,740	5,678	5,342	7,220	282	277	282	286	292	296	2,281	2.305	839	352	357	363	368	374	379	451
REFLOWS FROM YR:																				
1			1,580	1,580	1,580															
2				1,893	1,893	1,893														
3					2,307	2,307	2,307													
4						3,564	3,564	3,564												
5							2,021	2,021	2,021											
6								2,681	2,681	2,681										
7									2,725	2,725	2,725									
8										2,851	2,851	2,851								
9											2,573	2,573	2,573							
10												2.851	2,851	2,851						
11													3,476	3,476	3,476					
12														3,527	3,527	3.527				
13															3,246	3.246	3,246			
14																3,402	3,402	3,402		
15																	3,535	3,535	3,535	
16																		3.512	3,512	3,512
17																			3.517	3.517
18																				3.698
19																				
20																				
FUNDS AVAILABLE FOR LOANS	4,740	5,678	6,922	10,693	6,062	8,042	8,174	8,552	7,718	8,552	10,429	10,589	9,739	10,205	10,606	10,537	10,552	10,823	10,944	11,088
NO. OF LOANS ASSUMING LOAN SIZE OF $400,000:	11.8	14.2	17.3	26.7	15.2	20.1	20.4	21.4	19.3	21.4	26.1	26.4	24.3	25.5	26.5	26.3	26.4	27.1	27.4	27.7
CUMULATIVE:	11.8	26.0	43.4	70.1	85.2	105.3	125.8	147.2	166.5	187.8	213.9	240.4	264.7	290.2	316.7	343.1	369.5	396.5	423.9	451.6

TABLE I SENSITIVITY VIII

FINANCIAL STATEMENTS FOR THE FINANCIERA DE EXPORTACIONES, S.A.

ASSUMPTIONS

I) Resources

A) Total Capital: $4.5 million

To be paid in as follows:	Cumulative ($000)
Year 1	2,500
Year 2	3,500
Year 3	4,000
Year 4	4,500

B) A.I.D. loan: $18 million

To be disbursed as follows:	Cumulative ($000)
Year 1	2,500
Year 2	7,000
Year 3	11,500
Year 4	18,000

C) Replacement of the A.I.D. loan starts in year 10 and is equal to the amount of principal repaid to A.I.D. each year

VII-C-50

D) Other loans: $4.5 million

To be disbursed as follows:	Cumulative ($000)
Year 11	2,000
Year 12	4,000
Year 13	4,500

II) Terms of the Loans

A) A.I.D. loan:	20 years, 10 years grace on principal
Other long-term loans:	20 years, 10 years grace on principal
Other loans:	Short-term revolving

B) Interest Rates:

A.I.D. Loan:	5%	Paid out
Other long-term loans:	8%	Paid out
Other loans:	8%	Paid out
To Borrowers:	12%	Received
Risk Minimization Fund:	6%	Received

III)	Capitalization of Special Acct.:	5%	(Equivalent to 5% of the A.I.D. loan per year)
IV)	Cash On Hand:	$100,000	
V)	Depreciation of Fixed Assets:	10%/yr.	
VI)	Amortization of Initial Organizational Expenses:	20%/yr.	

225

TABLE I SENSITIVITY VIII

VII) Bad Debt Reserves:

A) Normal: 1.0%
(% of new loans made each year)

B) Extraordinary: 2% (5% of the A.I.D. loan plus last year's Extraordinary Bad Debt Reserve is used to capitalize the account).
(% of yearly loan portfolio)

VIII) Bad Debt Expense:

A) Normal: 1.0%
(% of new loans made each yr)

B) Extraordinary: 1.0% Note: If bad debts exceed what has been set aside in the Reserve for Extraordinary Bad Debt, the remaining bad debt is charged to Normal Bad Debt Expense.
(% of new loans made each yr)

IX) Closing fees: Upfront charge of 2% of the value of half of the new loans made every year.

X) Operating Expenses: For first 4 yrs, incr. at 10%/yr.; thereafter, incr. at 5%/yr..

XI) Dividends: None in the initial 3 years; then 60% of "Net Income After Taxes" if this line item is positive

XII) Share of EDFC & AID: Bad debt is initially charged to the Reserve For Normal Bad Debt. Bad Debt in excess of funds available in the Reserve For Normal Bad Debt shall be charged to the "Special Account Earmarked For Extraordinary Bad Debt" which consists of last year's Reserve for Extraordinary Bad Debt and 5% of the current year's A.I.D. loan. After this write-off, the residual funds in the Special Account will be credited to the "Reserve For Extraordinary Bad Debt" which will be maintained at 2% of the net loan portfolio for that yr. Any residual remaining in the Special Account after all expenses, shall be be shared equally between A.I.D. and the EDFC.

XIII) Tax: According to the Panamanian tax code:

Amount ($000)	Tax Rate
0 to 30	20%
30 to 100	30%
100 to 500	45%
500 and up	50%

Note: Tax is computed as follows; 20% on the first $30,000 of profits; 30% on the next $70,000 of profits; 45% of the next $400,000 of profits; 50% on any profits in excess of $500,000

XIV) Tax on corp. capital: Per Panamanian law, there is a 1% tax on corporate capital. The minimum is $10 and the maximum $20,000.

XV) Tax on Paid-in capital: Per Panamanian law, there is a 2.5% tax on paid-in capital. The maximum is $12,500/yr.

XVI) Windfall: Amount of money that A.I.D. receives in excess of the 5% interest rate. It is calculated as a percent of the outstanding A.I.D. loan.

226

TABLE I SENSITIVITY VIII

PROFORMA BALANCE SHEET FOR THE FINANCIERA DE EXPORTACIONES,S.A. (000's)

YEAR	1	2	3	4	5	6	7	8	9	10
ASSETS										
CASH	100	100	100	100	100	100	100	100	100	100
OUTSTANDING LOAN PORTFOLIO	4,776	10,602	16,042	23,417	23,626	23,894	24,148	24,408	24,659	24,931
LESS RESERVE F/ NORMAL BAD DEBT	47	56	69	106	60	80	81	85	76	84
LESS RESERVE F/ XTRAORD BAD DEBT	15	197	313	457	462	467	472	477	482	487
NET LOAN PORTFOLIO	4,715	10,349	15,660	22,853	23,104	23,348	23,595	23,846	24,101	24,359
FIXED ASSETS	100	100	100	100	100	100	100	100	100	100
DEPRECIATION	10	20	30	40	50	60	70	80	90	100
ORGANIZATIONAL EXPENSES	50	50	50	50	50	50	50	50	50	50
AMORTIZATION	10	20	30	40	50	50	50	50	50	50
TOTAL ASSETS	4,945	10,559	15,850	23,023	23,254	23,489	23,725	23,966	24,211	24,459
LIABILITIES & NET WORTH										
LIABILITIES										
A.I.D. LOAN	2,500	7,000	11,500	18,000	18,000	18,000	18,000	18,000	18,000	18,000
OTHER LONG-TERM LOANS	0	0	0	0	0	0	0	0	0	0
OTHER LOANS	0	0	0	0	0	0	0	0	0	0
TOTAL LIABILITIES	2,500	7,000	11,500	18,000	18,000	18,000	18,000	18,000	18,000	18,000
NET WORTH										
CAPITAL	2,500	3,500	4,000	4,500	4,500	4,500	4,500	4,500	4,500	4,500
RETAINED EARNINGS	(55)	59	350	523	754	988	1,225	1,466	1,711	1,959
TOTAL NET WORTH	2,445	3,559	4,350	5,023	5,254	5,488	5,725	5,966	6,211	6,459
TOTAL LIABILITIES & NET WORTH	4,945	10,559	15,850	23,023	23,254	23,488	23,725	23,966	24,211	24,459

YEAR	11	12	13	14	15	16	17	18	19	20
ASSETS										
CASH	100	100	100	100	100	100	100	100	100	100
OUTSTANDING LOAN PORTFOLIO	27,233	29.536	30,327	30,630	30,933	31,234	31,537	31,844	32,150	31,987
LESS RESERVE F/ NORMAL BAD DEBT	103	104	96	100	104	103	103	105	106	107
LESS RESERVE F/ XTRAORD BAD DEBT	532	577	593	599	605	610	616	622	628	0
NET LOAN PORTFOLIO	26,598	28,854	29,638	29.931	30,225	30,521	30,818	31,117	31,416	31,780
FIXED ASSETS	100	100	100	100	100	100	100	100	100	100
DEPRECIATION	100	100	100	100	100	100	100	100	100	100
ORGANIZATIONAL EXPENSES	50	50	50	50	50	50	50	50	50	50
AMORTIZATION	50	50	50	50	50	50	50	50	50	50
TOTAL ASSETS	26,698	28.954	29,738	30,031	30.325	30,621	30,918	31,217	31,516	31,880
LIABILITIES & NET WORTH										
LIABILITIES										
A.I.D. LOAN	16,569	15,066	13,459	11,832	10,092	8.266	6,348	4,334	2,220	0
OTHER LONG-TERM LOANS	1,431	2,934	4,511	6,168	7,908	9.734	11,652	13,666	15,780	18,000
OTHER LOANS	2,000	4.000	4,500	4,500	4,500	4,500	4,500	4,500	4,500	4,500
TOTAL LIABILITIES	20,000	22,000	22,500	22,500	22,500	22,500	22,500	22.500	22,500	22,500
NET WORTH										
CAPITAL	4,500	4.500	4,500	4,500	4,500	4,500	4,500	4,500	4,500	4,500
RETAINED EARNINGS	2,198	2,454	2,738	3,031	3,325	3,621	3,918	4,217	4,516	4,880
TOTAL NET WORTH	6,698	6.954	7,238	7,531	7,825	8,121	8,418	8,717	9,016	9,380
TOTAL LIABILITIES & NET WORTH	26,698	28.954	29,738	30,031	30.325	30,621	30,918	31,217	31,516	31,880

VTT-C-52

227

TABLE I SENSITIVITY VIII

PROFORMA INCOME STATEMENT FOR THE FINANCIERA DE EXPORTACIONES, S.A. (000's)

YEAR	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
GROSS INCOME																				
INTEREST																				
LOAN PORTFOLIO	283	904	1,561	2,311	2,757	2,787	2,817	2,847	2,877	2,908	3,057	3,327	3,510	3,574	3.609	3,645	3,680	3,716	3,752	3,792
CLOSING FEES	47	56	69	106	60	80	81	85	76	84	103	104	96	100	104	103	103	105	106	107
INTEREST EXPENSE																				
PAID DIRECTLY TO A.I.D.	63	238	463	738	900	900	900	900	900	900	900	828	753	674	592	505	413	317	217	111
OTHER LONG-TERM LOANS												114	235	361	493	633	779	932	1,093	1,262
OTHER LOANS											150	320	360	360	360	360	360	360	360	360
GROSS INCOME AFTER INTEREST EXP.	268	723	1,167	1,680	1.917	1,967	1,997	2,031	2.053	2,092	2,100	2,169	2,257	2,279	2.268	2.250	2,231	2.212	2,188	2,156
OTHER EXPENSES																				
OPERATING	160	176	194	213	224	235	247	259	272	285	300	315	330	347	364	382	402	422	443	465
NORMAL BAD DEBT	47	56	69	106	60	80	81	85	76	84	103	104	96	100	104	103	103	105	106	107
SPECIAL ACCOUNT	63	238	463	738	900	900	900	900	900	900	900	828	753	674	592	505	413	317	217	111
DEPRECIATION	10	10	10	10	10	10	10	10	10	10	0	0	0	0	0	0	0	0	0	0
AMORTIZATION	10	10	10	10	10	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
TOTAL EXPENSES	290	490	745	1,077	1,204	1,224	1,237	1,253	1,258	1,280	1,303	1,247	1,179	1,121	1,060	990	918	844	766	683
SURPLUS FUNDS RETAINED BY FIDESA	0	0	138	244	418	408	407	405	409	405	376	340	321	284	241	198	152	103	52	316
INCOME BEFORE TAXES	(22)	233	560	846	1,131	1,150	1,167	1,183	1,204	1,218	1,174	1,261	1,399	1.442	1,449	1.458	1,466	1.471	1.475	1,799
TAX	0	87	237	380	523	532	541	548	559	566	544	587	656	678	682	686	690	692	694	856
TAX ON CORPORATE CAPITAL	20	20	20	20	20	20	20	20	20	20	20	20	20	20	20	20	20	20	20	20
TAX ON PAID-IN CAPITAL	13	13	13	13	13	13	13	13	13	13	13	13	13	13	13	13	13	13	13	13
NET INCOME AFTER TAXES	(55)	114	291	434	576	586	594	602	613	619	597	641	710	731	735	740	743	746	748	910
DIVIDENDS	0	0	0	260	346	351	356	361	368	372	358	385	426	439	441	444	446	447	449	546
RETAINED EARNINGS	(55)	114	291	173	230	234	238	241	245	248	239	256	284	293	294	296	297	298	299	364

USES OF FUNDS SET ASIDE FOR EXTRAORDINARY BAD DEBT

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
SPECIAL ACCT EARMARKED FOR EXTRAORDINARY BAD DEBT	63	253	659	1,051	1,357	1,362	1,367	1,372	1,377	1,382	1,387	1,360	1,330	1,267	1,190	1,109	1,024	934	839	739
EXTRAORDINARY BAD DEBT EXPENSE	47	56	69	106	60	80	81	85	76	84	103	104	96	100	104	103	103	105	106	107
RESERVE FOR EXTRAORDINARY BAD DEBT	15	197	313	457	462	467	472	477	482	487	532	577	593	599	605	610	616	622	628	0
SURPLUS FUNDS AVAILABLE	0	(0)	277	487	835	815	814	810	819	811	752	679	642	569	482	396	305	206	105	632
-Share to A.I.D.	0	0	138	244	418	408	407	405	409	405	376	340	321	284	241	198	152	103	52	316
-Share to FIDESA	0	0	138	244	418	408	407	405	409	405	376	340	321	284	241	198	152	103	52	316
TOTAL PAYMENT TO A.I.D.	63	238	601	981	1,318	1,308	1,307	1,305	1,309	1,305	1,276	1,168	1,074	959	833	703	566	421	269	427

FINANCIAL RATIOS FOR THE FINANCIERA DE EXPORTACIONES, S.A.

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
NET PROFITS/CAPITAL RATIO (ROC)	-2.2%	3.2%	7.3%	9.6%	12.8%	13.0%	13.2%	13.4%	13.6%	13.8%	13.3%	14.2%	15.8%	16.3%	16.3%	16.4%	16.5%	16.6%	16.6%	20.2%
NET PROFITS/NET WORTH RATIO (ROE)	-2.2%	3.2%	6.7%	8.6%	11.0%	10.7%	10.4%	10.1%	9.9%	9.6%	8.9%	9.2%	9.8%	9.7%	9.4%	9.1%	8.8%	8.6%	8.3%	9.7%
INTEREST & WINDFALL ON A.I.D. LOAN	5.0%	5.0%	6.5%	6.7%	7.3%	7.3%	7.3%	7.3%	7.3%	7.3%	7.1%	7.0%	7.1%	7.1%	7.0%	7.0%	6.8%	6.6%	6.2%	19.2%

VII-C-53

228

TABLE I SENSITIVITY VIII

BREAKDOWN OF NEW AND OLD LOANS

YEAR	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
EXISTING LOAN PORTFOLIO:	4,715	10,349	15,660	22,853	23,104	23,348	23,595	23,846	24,101	24,359	26,598	28,654	29,635	29,931	30,225	30,521	30,818	31,117	31,416	31,780
INCR (DECR) IN LOAN PORT.:	4,715	5,634	5,311	7,193	250	244	248	251	255	258	2,239	2,256	284	293	294	296	297	298	299	364
REFLOWS FROM YR:																				
1			1,572	1,572	1,572															
2				1,878	1,878	1,878														
3					2,294	2,294	2,294													
4						3,548	3,548	3,548												
5							1,998	1,998	1,998											
6								2,655	2,655	2,655										
7									2,696	2,696	2,696									
8										2,817	2,817	2,817								
9											2,535	2,535	2,535							
10												2,808	2,808	2,808						
11													3,429	3,429	3,429					
12														3,472	3,472	3,472				
13															3,195	3,185	3,155			
14																3,334	3,334	3,334		
15																	3,460	3,460	3,460	
16																		3,429	3,429	3,429
17																			3,426	3,426
18																				3,507
19																				
20																				
FUNDS AVAILABLE FOR LOANS	4,715	5,634	6,883	10,643	5,994	7,964	8,088	8,451	7,604	8,425	10,287	10,416	9,556	10,002	10,380	10,287	10,277	10,522	10,614	10,725
NO. OF LOANS ASSUMING LOAN SIZE OF $400,000:	11.8	14.1	17.2	26.6	15.0	19.9	20.2	21.1	19.0	21.1	25.7	26.0	23.9	25.0	26.0	25.7	25.7	26.3	26.5	26.8
CUMULATIVE:	11.8	25.9	43.1	69.7	84.7	104.6	124.8	145.9	164.9	186.0	211.7	237.8	261.6	286.7	312.6	338.3	364.0	390.3	416.9	443.7

TABLE J SENSITIVITY IX

FINANCIAL STATEMENTS FOR THE FINANCIERA DE EXPORTACIONES, S.A.

ASSUMPTIONS

I) Resources

A) Total Capital: $4.5 million

To be paid in as follows:	Cumulative ($000)
Year 1	2,500
Year 2	3,500
Year 3	4,000
Year 4	4,500

B) A.I.D. loan: $18 million

To be disbursed as follows:	Cumulative ($000)
Year 1	2,500
Year 2	7,000
Year 3	11,500
Year 4	18,000

C) Replacement of the A.I.D. loan starts in year 10 and is equal to the amount of principal repaid to A.I.D. each year

D) Other loans: $4.5 million

To be disbursed as follows:	Cumulative ($000)
Year 11	2,000
Year 12	4,000
Year 13	4,500

II) Terms of the Loans

A) A.I.D. loan:	20 years, 10 years grace on principal
Other long-term loans:	20 years, 10 years grace on principal
Other loans:	Short-term revolving

B) Interest Rates:

A.I.D. Loan:	5%	Paid out
Other long-term loans:	8%	Paid out
Other loans:	8%	Paid out
To Borrowers:	14%	Received
Risk Minimization Fund:	6%	Received

III)	Capitalization of Special Acct.:	5%	(Equivalent to 5% of the A.I.D. loan per year)
IV)	Cash On Hand:	$100,000	
V)	Depreciation of Fixed Assets:	10%/yr.	
VI)	Amortization of Initial Organizational Expenses:	20%/yr.	

232

TABLE J SENSITIVITY IX

VII) Bad Debt Reserves:

A) Normal: (% of new loans made each year)	1.0%	
B) Extraordinary: (% of yearly loan portfolio)	2%	(5% of the A.I.D. loan plus last year's Extraordinary Bad Debt Reserve is used to capitalize the account).

VIII) Bad Debt Expense:

A) Normal: (% of new loans made each yr)	1.0%	
B) Extraordinary: (% of new loans made each yr)	1.0%	Note: If bad debts exceed what has been set aside in the Reserve for Extraordinary Bad Debt, the remaining bad debt is charged to Normal Bad Debt Expense.

IX) Closing fees: Upfront charge of 2% of the value of half of the new loans made every year.

X) Operating Expenses: For first 4 yrs, incr. at 10%/yr.; thereafter, incr. at 5%/yr..

XI) Dividends: None in the initial 3 years; then 60% of "Net Income After Taxes" if this line item is positive

XII) Share of EDFC & AID: Bad debt is initially charged to the Reserve For Normal Bad Debt. Bad Debt in excess of funds available in the Reserve For Normal Bad Debt shall be charged to the "Special Account Earmarked For Extraordinary Bad Debt" which consists of last year's Reserve for Extraordinary Bad Debt and 5% of the current year's A.I.D. loan. After this write-off, the residual funds in the Special Account will be credited to the "Reserve For Extraordinary Bad Debt" which will be maintained at 2% of the net loan portfolio for that yr. Any residual remaining in the Special Account after all expenses, shall be be shared equally between A.I.D. and the EDFC.

XIII) Tax: According to the Panamanian tax code:

Amount ($000)	Tax Rate
0 to 30	20%
30 to 100	30%
100 to 500	45%
500 and up	50%

Note: Tax is computed as follows: 20% on the first $30,000 of profits; 30% on the next $70,000 of profits; 45% of the next $400,000 of profits; 50% on any profits in excess of $500,000

XIV) Tax on corp. capital: Per Panamanian law, there is a 1% tax on corporate capital. The minimum is $10 and the maximum $20,000.

XV) Tax on Paid-in capital: Per Panamanian law, there is a 2.5% tax on paid-in capital. The maximum is $12,500/yr.

XVI) Windfall: Amount of money that A.I.D. receives in excess of the 5% interest rate. It is calculated as a percent of the outstanding A.I.D. loan.

231

TABLE J SENSITIVITY II

PROFORMA BALANCE SHEET FOR THE FINANCIERA DE EXPORTACIONES,S.A. (000's)

YEAR	1	2	3	4	5	6	7	8	9	10
ASSETS										
CASH	100	100	100	100	100	100	100	100	100	100
OUTSTANDING LOAN PORTFOLIO	4,823	10,736	16,326	23,788	24,102	24,481	24,846	25,225	25,599	25,997
LESS RESERVE F/ NORMAL BAD DEBT	48	57	70	108	62	82	84	88	90	85
LESS RESERVE F/ XTRAORD BAD DEBT	15	195	319	464	471	478	486	493	500	509
NET LOAN PORTFOLIO	4,760	10,483	15,936	23,216	23,569	23,920	24,279	24.645	25,019	25,401
FIXED ASSETS	100	100	100	100	100	100	100	100	100	100
DEPRECIATION	10	20	30	40	50	60	70	80	90	100
ORGANIZATIONAL EXPENSES	50	50	50	50	50	50	50	50	50	50
AMORTIZATION	10	20	30	40	50	50	50	50	50	50
TOTAL ASSETS	4,990	10,693	16,126	23,386	23,719	24,060	24,409	24,765	25,129	25,501
LIABILITIES & NET WORTH										
LIABILITIES										
A.I.D. LOAN	2,500	7,000	11,500	18,000	18,000	18,000	18,000	18,000	18,000	18,000
OTHER LONG-TERM LOANS	0	0	0	0	0	0	0	0	0	0
OTHER LOANS	0	0	0	0	0	0	0	0	0	0
TOTAL LIABILITIES	2,500	7,000	11,500	18,000	18,000	18,000	18,000	18,000	18,000	18,000
NET WORTH										
CAPITAL	2,500	3,500	4,000	4,500	4,500	4,500	4,500	4,500	4,500	4,500
RETAINED EARNINGS	(10)	193	626	886	1,219	1,560	1,909	2,265	2,629	3,001
TOTAL NET WORTH	2,490	3,693	4,626	5,386	5,719	6,060	6,409	6,765	7,129	7,501
TOTAL LIABILITIES & NET WORTH	4,990	10,693	16,126	23,386	23,719	24,060	24,409	24,765	25.129	25,501

YEAR	11	12	13	14	15	16	17	18	19	20
ASSETS										
CASH	100	100	100	100	100	100	100	100	100	100
OUTSTANDING LOAN PORTFOLIO	28,435	30,886	31,836	32,304	32,779	33,258	33,744	34,241	34,744	34,635
LESS RESERVE F/ NORMAL BAD DEBT	107	109	101	106	110	110	111	114	115	117
LESS RESERVE F/ XTRAORD BAD DEBT	555	603	622	631	641	650	659	669	679	0
NET LOAN PORTFOLIO	27,772	30,173	31,112	31,567	32,028	32,497	32,974	33,458	33,949	34,518
FIXED ASSETS	100	100	100	100	100	100	100	100	100	100
DEPRECIATION	100	100	100	100	100	100	100	100	100	100
ORGANIZATIONAL EXPENSES	50	50	50	50	50	50	50	50	50	50
AMORTIZATION	50	50	50	50	50	50	50	50	50	50
TOTAL ASSETS	27,872	30,273	31,212	31,667	32,128	32,597	33,074	33.558	34,049	34,618
LIABILITIES & NET WORTH										
LIABILITIES										
A.I.D. LOAN	16,569	15,066	13,489	11,832	10,092	8,266	6,348	4,334	2,220	0
OTHER LONG-TERM LOANS	1,431	7,[illegible]	4,511	6,168	7,908	9,734	11,652	13,666	15,780	18,000
OTHER LOANS	2,000	[illegible]	4,500	4,500	4,500	4,500	4,500	4,500	4,500	4,500
TOTAL LIABILITIES	20,000	22,000	22,500	22.500	22,500	22,500	22,500	22,500	22,500	22,500
NET WORTH										
CAPITAL	4,500	4,500	4,500	4,500	4,500	4,500	4,500	4,500	4,500	4,500
RETAINED EARNINGS	~~3,372~~	3,773	4,212	4,667	5,128	5,597	6,074	6,558	7,049	7,618
TOTAL NET WORTH	7,872	8,273	8,712	9,157	9,628	10,097	10,574	11,058	11,549	12,118
TOTAL LIABILITIES & NET WORTH	27,872	30,273	31,212	31,667	32,128	32.597	33,074	33,558	34,049	34,618

VII-C-57

232

TABLE J — SENSITIVITY IX

PROFORMA INCOME STATEMENT FOR THE FINANCIERA DE EXPORTACIONES, S.A. (000's)

YEAR	1	2	3	4	5	6	7	8	9	10
GROSS INCOME										
INTEREST										
LOAN PORTFOLIO	333	1,067	1,849	2,741	3,275	3,324	3,374	3,425	3,476	3,529
CLOSING FEES	48	57	70	108	62	82	84	88	80	88
INTEREST EXPENSE										
PAID DIRECTLY TO A.I.D.	63	238	463	738	900	900	900	900	900	900
OTHER LONG-TERM LOANS										
OTHER LOANS										
GROSS INCOME AFTER INTEREST EXP.	318	887	1,457	2,111	2,437	2,506	2,558	2,612	2,656	2,718
OTHER EXPENSES										
OPERATING	160	176	194	213	224	235	247	259	272	285
NORMAL BAD DEBT	48	57	70	108	62	82	84	88	80	88
SPECIAL ACCOUNT	63	238	463	738	900	900	900	900	900	900
DEPRECIATION	10	10	10	10	10	10	10	10	10	10
AMORTIZATION	10	10	10	10	10	0	0	0	0	0
TOTAL EXPENSES	290	491	746	1,078	1,206	1.227	1,240	1,256	1,261	1.284
SURPLUS FUNDS RETAINED BY FIDESA	0	0	134	242	415	406	405	403	406	402
INCOME BEFORE TAXES	28	396	845	1,275	1,647	1,685	1,722	1,758	1,801	1,836
TAX	6	160	380	594	780	799	818	836	858	875
TAX ON CORPORATE CAPITAL	20	20	20	20	20	20	20	20	20	20
TAX ON PAID-IN CAPITAL	13	13	13	13	13	13	13	13	13	13
NET INCOME AFTER TAXES	(10)	203	433	648	834	853	872	890	911	929
DIVIDENDS	0	0	0	389	500	512	523	534	547	557
RETAINED EARNINGS	(10)	203	433	259	334	341	349	356	364	371

YEAR	11	12	13	14	15	16	17	18	19	20
GROSS INCOME										
INTEREST										
LOAN PORTFOLIO	3,722	4,056	4,290	4,383	4,452	4,517	4,583	4,650	4,719	4,793
CLOSING FEES	107	109	101	106	110	110	111	114	115	117
INTEREST EXPENSE										
PAID DIRECTLY TO A.I.D.	900	828	753	674	592	505	413	317	217	111
OTHER LONG-TERM LOANS		114	235	361	493	633	779	932	1,093	1,262
OTHER LOANS	160	320	360	360	360	360	360	360	360	360
GROSS INCOME AFTER INTEREST EXP.	2,769	2,902	3,043	3,099	3,117	3,130	3,142	3,154	3,164	3,176
OTHER EXPENSES										
OPERATING	300	315	330	347	364	382	402	422	443	465
NORMAL BAD DEBT	107	109	101	106	110	110	111	114	115	117
SPECIAL ACCOUNT	900	828	753	674	592	505	413	317	217	111
DEPRECIATION	0	0	0	0	0	0	0	0	0	0
AMORTIZATION	0	0	0	0	0	0	0	0	0	0
TOTAL EXPENSES	1,307	1,252	1,185	1,127	1,066	997	925	853	775	693
SURPLUS FUNDS RETAINED BY FIDESA	373	336	317	280	236	193	147	97	46	336
INCOME BEFORE TAXES	1,935	1,986	2,175	2,251	2,287	2,325	2,363	2,399	2,435	2,820
TAX	975	950	1,045	1,082	1,100	1,120	1,138	1,156	1,174	1,367
TAX ON CORPORATE CAPITAL	20	20	20	20	20	20	20	20	20	20
TAX ON PAID-IN CAPITAL	13	13	13	13	13	13	13	13	13	13
NET INCOME AFTER TAXES	928	1,003	1,098	1,136	1,154	1,173	1,192	1,210	1,228	1,420
DIVIDENDS	557	602	659	681	692	704	715	726	737	852
RETAINED EARNINGS	371	401	439	454	462	469	477	[illegible]	491	568

USES OF FUNDS SET ASIDE FOR EXTRAORDINARY BAD DEBT

YEAR	1	2	3	4	5	6	7	8	9	10
SPECIAL ACCT EARMARKED FOR EXTRAORDINARY BAD DEBT	63	252	658	1,056	1,364	1,371	1,378	1,386	1,393	1,400
EXTRAORDINARY BAD DEBT EXPENSE	48	57	70	108	62	82	84	88	80	88
RESERVE FOR EXTRAORDINARY BAD DEBT	15	195	319	464	471	478	486	493	500	508
SURPLUS FUNDS AVAILABLE	0	(0)	269	484	831	811	809	805	813	804
-Share to A.I.D.	0	0	134	242	415	406	405	403	406	402
-Share to FIDESA	0	0	134	242	415	406	405	403	406	402
TOTAL PAYMENT TO A.I.D.	63	238	597	980	1,315	1,306	1,305	1,303	1,306	1,302

YEAR	11	12	13	14	15	16	17	18	19	20
SPECIAL ACCT EARMARKED FOR EXTRAORDINARY BAD DEBT	1,408	1,384	1,357	1,297	1,223	1,145	1,063	977	886	790
EXTRAORDINARY BAD DEBT EXPENSE	107	109	101	106	110	110	111	114	115	117
RESERVE FOR EXTRAORDINARY BAD DEBT	555	603	622	631	641	650	659	669	679	0
SURPLUS FUNDS AVAILABLE	745	671	633	559	472	385	293	194	92	673
-Share to A.I.D.	373	336	317	280	236	193	147	97	46	336
-Share to FIDESA	373	336	317	280	236	193	147	97	46	336
TOTAL PAYMENT TO A.I.D.	1,273	1,164	1,070	954	828	697	560	414	263	447

FINANCIAL RATIOS FOR THE FINANCIERA DE EXPORTACIONES, S.A.

YEAR	1	2	3	4	5	6	7	8	9	10
NET PROFITS/CAPITAL RATIO (ROC)	-0.4%	5.8%	10.8%	14.4%	18.5%	19.0%	19.4%	19.8%	20.2%	20.6%
NET PROFITS/NET WORTH RATIO (ROE)	-0.4%	5.5%	9.4%	12.0%	14.6%	14.1%	13.6%	13.2%	12.8%	12.4%
INTEREST & WINDFALL ON A.I.D. LOAN	5.0%	5.0%	6.5%	6.6%	7.3%	7.3%	7.2%	7.2%	7.3%	7.2%

YEAR	11	12	13	14	15	16	17	18	19	20
NET PROFITS/CAPITAL RATIO (ROC)	20.6%	22.3%	24.4%	25.2%	25.6%	26.1%	26.5%	26.9%	27.3%	31.6%
NET PROFITS/NET WORTH RATIO (ROE)	11.8%	12.1%	12.6%	12.4%	12.0%	11.6%	11.3%	10.9%	10.6%	11.7%
INTEREST & WINDFALL ON A.I.D. LOAN	7.1%	7.0%	7.1%	7.1%	7.0%	6.9%	6.8%	6.5%	6.1%	20.2%

TABLE J SENSITIVITY IX

BREAKDOWN OF NEW AND OLD LOANS

YEAR	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
EXISTING LOAN PORTFOLIO:	4,760	10,483	15,936	23,216	23,569	23,920	24,279	24,645	25,019	25,401	27,772	30,173	31,112	31,567	32,028	32,497	32,974	33,458	33,949	34,518
INCR (DECR) IN LOAN PORT.:	4,760	5,723	5,453	7,279	354	351	359	366	374	381	2,371	2,401	939	454	462	469	477	484	491	568
REFLOWS FROM YR:																				
1			1,587	1,587	1,587															
2				1,908	1,908	1,9(														
.					2,347	2,347	2,347													
4						3,591	3,591	3,591												
.							2,065	2,065	2,065											
6								2,732	2,732	2,732										
.									2,787	2,787	2,787									
8										2,918	2,918	2.918								
9											2,653	2,653	2,653							
10												2,940	2,940	2,940						
11													3,576	3,576	3,576					
12														3,637	3,637	3,637				
13															3,369	3,369	3,369			
14																3,536	3,536	3,536		
15																	3,682	3,682	3,682	
16																		3,671	3,671	3,671
17																			3,668	3,688
18																				3,791
19																				
20																				
FUNDS AVAILABLE FOR LOANS	4,760	5,723	7,040	10,774	6,195	8,197	8,361	8,754	7,959	8,819	10,729	10,912	10,108	10,608	11,045	11,012	11,064	11,372	11,531	11,717
NO. OF LOANS ASSUMING LOAN SIZE OF $400,000:	11.9	14.3	17.6	26.9	15.5	20.5	20.9	21.9	19.9	22.0	26.8	27.3	25.3	26.5	27.6	27.5	27.7	28.4	28.8	29.3
CUMULATIVE:	11.9	26.2	43.8	70.7	86.2	106.7	127.6	149.5	169.4	191.5	218.3	245.6	270.8	297.3	325.0	352.5	380.1	408.6	437.4	466.7

234

TABLE [illegible] SENSITIVITY [illegible]

FINANCIAL STATEMENTS FOR THE FINANCIERA DE EXPORTACIONES, S.A.

ASSUMPTIONS

I) Resources

A) Total Capital: $4.5 million

To be paid in as follows:	Cumulative ($000)
Year 1	2,500
Year 2	3,500
Year 3	4,000
Year 4	[illegible]

B) A.I.D. loan: $18 million

To be disbursed as follows:	Cumulative ($000)
Year 1	2,500
Year 2	7,000
Year 3	11,500
Year 4	18,000

C) Replacement of the A.I.D. loan starts in year 10 and is equal to the amount of principal repaid to A.I.D. each year

D) Other loans: $4.5 million

To be disbursed as follows:	Cumulative ($000)
Year 11	2,000
Year 12	4,000
Year 13	4,500

II) Terms of the Loans

A) A.I.D. loan:	20 years, 10 years grace on principal
Other long-term loans:	20 years, 10 years grace on principal
Other loans:	Short-term revolving

B) Interest Rates:

A.I.D. Loan:	5%	Paid out
Other long-term loans:	8%	Paid out
Other loans:	8%	Paid out
To Borrowers:	13%	Received
Risk Minimization Fund:	6%	Received

III) Capitalization of Special Acct.: 5% (Equivalent to 5% of the A.I.D. loan per year)

IV) Cash On Hand: $100,000

V) Depreciation of Fixed Assets: 10%/yr.

VI) Amortization of Initial Organizational Expenses: 20%/yr.

TABLE F SENSITIVITY X

VII) Bad Debt Reserves:

A) Normal: (% of new loans made each year)	1.0%	
B) Extraordinary: (% of yearly loan portfolio)	2%	(5% of the A.I.D. loan plus last year's Extraordinary Bad Debt Reserve is used to capitalize the account).

VIII) Bad Debt Expense:

A) Normal: (% of new loans made each yr)	1.0%	
B) Extraordinary: (% of new loans made each yr)	1.0%	Note: If bad debts exceed what has been set aside in the Reserve for Extraordinary Bad Debt, the remaining bad debt is charged to Normal Bad Debt Expense.

IX) Closing fees: Upfront charge of 2% of the value of half of the new loans made every year.

X) Operating Expenses: Increase at 10% per year.

XI) Dividends: None in the initial 3 years; then 60% of "Net Income After Taxes" if this line item is positive

XII) Share of EDFC & AID: Bad debt is initially charged to the Reserve For Normal Bad Debt. Bad Debt in excess of funds available in the Reserve For Normal Bad Debt shall be charged to the "Special Account Earmarked For Extraordinary Bad Debt" which consists of last year's Reserve for Extraordinary Bad Debt and 5% of the current year's A.I.D. loan. After this write-off, the residual funds in the Special Account will be credited to the "Reserve For Extraordinary Bad Debt" which will be maintained at 2% of the net loan portfolio for that yr. Any residual remaining in the Special Account after all expenses, shall be be shared equally between A.I.D. and the EDFC.

XIII) Tax: According to the Panamanian tax code:

Amount ($000)	Tax Rate
0 to 30	20%
30 to 100	30%
100 to 500	45%
500 and up	50%

Note: Tax is computed as follows: 20% on the first $30,000 of profits; 30% on the next $70,000 of profits; 45% of the next $400,000 of profits; 50% on any profits in excess of $500,000

XIV) Tax on corp. capital: Per Panamanian law, there is a 1% tax on corporate capital. The minimum is $10 and the maximum $20,000.

XV) Tax on Paid-in capital: Per Panamanian law, there is a 2.5% tax on paid-in capital. The maximum is $12,500/yr.

XVI) Windfall: Amount of money that A.I.D. receives in excess of the 5% interest rate. It is calculated as a percent of the outstanding A.I.D. loan.

TABLE V SENSITIVITY X

PROFORMA BALANCE SHEET FOR THE FINANCIERA DE EXPORTACIONES, S.A. (000's)

YEAR	1	2	3	4	5	6	7	8	9	10
ASSETS										
CASH	100	100	100	100	100	100	100	100	100	100
OUTSTANDING LOAN PORTFOLIO	4,802	10,671	16,185	23,604	23,863	24,181	24,483	24,789	25,086	25,399
LESS RESERVE F/ NORMAL BAD DEBT	47	57	70	107	61	81	82	86	78	86
LESS RESERVE F/ XTRAORD BAD DEBT	15	196	316	461	467	473	478	484	490	496
NET LOAN PORTFOLIO	4,740	10,418	15,800	23,036	23,335	23,628	23,923	24,219	24,518	24,817
FIXED ASSETS	100	100	100	100	100	100	100	100	100	100
DEPRECIATION	10	20	30	40	50	60	70	80	90	100
ORGANIZATIONAL EXPENSES	50	50	50	50	50	50	50	50	50	50
AMORTIZATION	10	20	30	40	50	50	50	50	50	50
TOTAL ASSETS	4,970	10,628	15,990	23,206	23,485	23,768	24,053	24,339	24,628	24,917
LIABILITIES & NET WORTH										
LIABILITIES										
A.I.D. LOAN	2,500	7,000	11,500	18,000	18,000	18,000	18,000	18,000	18,000	18,000
OTHER LONG-TERM LOANS	0	0	0	0	0	0	0	0	0	0
OTHER LOANS	0	0	0	0	0	0	0	0	0	0
TOTAL LIABILITIES	2,500	7,000	11,500	18,000	18,000	18,000	18,000	18,000	18,000	18,000
NET WORTH										
CAPITAL	2,500	3,500	4,000	4,500	4,500	4,500	4,500	4,500	4,500	4,500
RETAINED EARNINGS	(30)	128	490	706	985	1,268	1,553	1,839	2,128	2,417
TOTAL NET WORTH	2,470	3,628	4,490	5,206	5,485	5,768	6,053	6,339	6,628	6,917
TOTAL LIABILITIES & NET WORTH	4,970	10,628	15,990	23,206	23,485	23,768	24,053	24,339	24,628	24,917

YEAR	11	12	13	14	15	16	17	18	19	20
ASSETS										
CASH	100	100	100	100	100	100	100	100	100	100
OUTSTANDING LOAN PORTFOLIO	27,743	30,087	30,917	31,254	31,586	31,907	32,222	32,531	32,827	32,529
LESS RESERVE F/ NORMAL BAD DEBT	105	106	98	102	106	105	105	107	108	109
LESS RESERVE F/ XTRAORD BAD DEBT	542	585	604	611	617	624	630	636	642	0
NET LOAN PORTFOLIO	27,096	29,393	30,215	30,541	30,863	31,179	31,486	31,788	32,077	32,420
FIXED ASSETS	100	100	100	100	100	100	100	100	100	100
DEPRECIATION	100	100	100	100	100	100	100	100	100	100
ORGANIZATIONAL EXPENSES	50	50	50	50	50	50	50	50	50	50
AMORTIZATION	50	50	50	50	50	50	50	50	50	50
TOTAL ASSETS	27,196	29,493	30,315	30,641	30,963	31,279	31,588	31,888	32,177	32,520
LIABILITIES & NET WORTH										
LIABILITIES										
A.I.D. LOAN	16,569	15,066	13,489	11,832	10,092	8,256	6,348	4,334	2,220	0
OTHER LONG-TERM LOANS	1,431	2,934	4,511	6,168	7,909	9,734	11,652	13,666	15,780	18,000
OTHER LOANS	2,000	4,000	4,500	4,500	4,500	4,500	4,500	4,500	4,500	4,500
TOTAL LIABILITIES	20,000	22,000	22,500	22,500	22,500	22,500	22,500	22,500	22,500	22,500
NET WORTH										
CAPITAL	4,500	4,500	4,500	4,500	4,500	4,500	4,500	4,500	4,500	4,500
RETAINED EARNINGS	2,696	2,993	3,315	3,641	3,963	4,279	4,598	4,888	5,177	5,520
TOTAL NET WORTH	7,196	7,493	7,815	8,141	8,463	8,779	9,098	9,388	9,677	10,020
TOTAL LIABILITIES & NET WORTH	27,196	29,493	30,315	30,641	30,963	31,279	31,588	31,888	32,177	32,520

TABLE K SENSITIVITY I

PROFORMA INCOME STATEMENT FOR THE FINANCIERA DE EXPORTACIONES, S.A. (000's)

YEAR	1	2	3	4	5	6	7	8	9	10
GROSS INCOME										
INTEREST										
LOAN PORTFOLIO	308	985	1,704	2,524	3,014	3,053	3,091	3,129	3,168	3,207
CLOSING FEES	47	57	70	107	61	81	82	86	78	86
INTEREST EXPENSE										
PAID DIRECTLY TO A.I.D.	63	238	463	738	900	900	900	900	900	900
OTHER LONG-TERM LOANS										
OTHER LOANS										
GROSS INCOME AFTER INTEREST EXP.	293	805	1,311	1,894	2,175	2,234	2,273	2,315	2,346	2,393
OTHER EXPENSES										
OPERATING	160	176	194	213	234	258	283	312	343	377
NORMAL BAD DEBT	47	57	70	107	61	81	82	86	78	86
SPECIAL ACCOUNT	63	238	463	738	900	900	900	900	900	900
DEPRECIATION	10	10	10	10	10	10	10	10	10	10
AMORTIZATION	10	10	10	10	10	0	0	0	0	0
TOTAL EXPENSES	290	490	746	1,078	1,215	1,248	1,276	1,308	1,331	1,373
SURPLUS FUNDS RETAINED BY FIDESA	0	0	136	243	417	407	406	404	408	404
INCOME BEFORE TAXES	3	314	702	1,059	1,376	1,392	1,403	1,412	1,423	1,424
TAX	1	123	308	487	645	653	659	663	669	669
TAX ON CORPORATE CAPITAL	20	20	20	20	20	20	20	20	20	20
TAX ON PAID-IN CAPITAL	13	13	13	13	13	13	13	13	13	13
NET INCOME AFTER TAXES	(30)	158	361	540	699	706	712	716	722	722
DIVIDENDS	0	0	0	324	419	424	427	430	433	433
RETAINED EARNINGS	(30)	158	361	216	279	283	285	287	289	289

YEAR	11	12	13	14	15	16	17	18	19	20
GROSS INCOME										
INTEREST										
LOAN PORTFOLIO	3,374	3,672	3,874	3,949	3,991	4,033	4,073	4,113	4,151	4,192
CLOSING FEES	105	106	98	102	106	105	105	107	108	109
INTEREST EXPENSE										
PAID DIRECTLY TO A.I.D.	900	828	753	674	592	505	413	317	217	111
OTHER LONG-TERM LOANS		114	235	361	493	633	779	932	1,093	1,262
OTHER LOANS	160	320	360	360	360	360	360	360	360	360
GROSS INCOME AFTER INTEREST EXP.	2,419	2,515	2,624	2,656	2,652	2,641	2,626	2,611	2,590	2,568
OTHER EXPENSES										
OPERATING	415	456	502	552	608	668	735	809	890	979
NORMAL BAD DEBT	105	106	98	102	106	105	105	107	108	109
SPECIAL ACCOUNT	900	828	753	674	592	505	413	317	217	111
DEPRECIATION	0	0	0	0	0	0	0	0	0	0
AMORTIZATION	0	0	0	0	0	0	0	0	0	0
TOTAL EXPENSES	1,420	1,391	1,353	1,329	1,305	1,278	1,254	1,234	1,215	1,199
SURPLUS FUNDS RETAINED BY FIDESA	375	338	320	283	240	197	151	102	51	322
INCOME BEFORE TAXES	1,374	1,462	1,591	1,610	1,587	1,559	1,524	1,479	1,426	1,691
TAX	644	699	752	762	750	737	719	697	669	802
TAX ON CORPORATE CAPITAL	20	20	20	20	20	20	20	20	20	20
TAX ON PAID-IN CAPITAL	13	13	13	13	13	13	13	13	13	13
NET INCOME AFTER TAXES	698	742	806	815	804	790	772	750	724	856
DIVIDENDS	419	445	483	489	482	474	463	450	434	514
RETAINED EARNINGS	279	297	322	326	322	315	309	300	289	342

USES OF FUNDS SET ASIDE FOR EXTRAORDINARY BAD DEBT

	1	2	3	4	5	6	7	8	9	10
SPECIAL ACCT EARMARKED FOR EXTRAORDINARY BAD DEBT	63	253	658	1,053	1,361	1,367	1,373	1,378	1,384	1,390
EXTRAORDINARY BAD DEBT EXPENSE	47	57	70	107	61	81	82	86	78	86
RESERVE FOR EXTRAORDINARY BAD DEBT	15	196	316	461	467	473	478	484	490	496
SURPLUS FUNDS AVAILABLE	0	(0)	273	486	833	813	812	808	816	808
-Share to A.I.D.	0	0	136	243	417	407	406	404	408	404
-Share to FIDESA	0	0	136	243	417	407	406	404	408	404
TOTAL PAYMENT TO A.I.D.	63	238	599	980	1,317	1,307	1,306	1,304	1,308	1,304

	11	12	13	14	15	16	17	18	19	20
SPECIAL ACCT EARMARKED FOR EXTRAORDINARY BAD DEBT	1,396	1,370	1,341	1,279	1,202	1,122	1,037	947	852	753
EXTRAORDINARY BAD DEBT EXPENSE	105	106	98	102	106	105	105	107	108	109
RESERVE FOR EXTRAORDINARY BAD DEBT	542	598	604	611	617	624	630	636	642	9
SURPLUS FUNDS AVAILABLE	750	676	639	566	479	393	302	204	103	643
-Share to A.I.D.	375	338	320	283	240	197	151	102	51	322
-Share to FIDESA	375	338	320	283	240	197	151	102	51	322
TOTAL PAYMENT TO A.I.D.	1,275	1,167	1,073	957	831	701	564	419	268	433

FINANCIAL RATIOS FOR THE FINANCIERA DE EXPORTACIONES, S.A.

	1	2	3	4	5	6	7	8	9	10
NET PROFITS/CAPITAL RATIO (ROC)	-1.2%	4.5%	9.0%	12.0%	15.5%	15.7%	15.8%	15.9%	16.0%	16.1%
NET PROFITS/NET WORTH RATIO (ROE)	-1.2%	4.4%	8.1%	10.4%	12.7%	12.2%	11.8%	11.3%	10.9%	10.4%
INTEREST & WINDFALL ON A.I.D. LOAN	5.0%	5.0%	6.5%	6.6%	7.3%	7.3%	7.3%	7.2%	7.3%	7.2%

	11	12	13	14	15	16	17	18	19	20
NET PROFITS/CAPITAL RATIO (ROC)	15.5%	16.5%	17.9%	18.1%	17.9%	17.6%	17.2%	16.7%	16.1%	19.0%
NET PROFITS/NET WORTH RATIO (ROE)	9.7%	9.9%	10.3%	10.0%	9.5%	9.0%	8.5%	8.0%	7.5%	8.5%
INTEREST & WINDFALL ON A.I.D. LOAN	7.1%	7.0%	7.1%	7.1%	7.0%	6.9%	6.5%	6.6%	6.2%	19.5%

TABLE V SENSITIVITY I

BREAKDOWN OF NEW AND OLD LOANS

YEAR	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
EXISTING LOAN PORTFOLIO:	4,740	10,418	15,800	23,036	23,335	23,628	23,923	24,219	24,518	24,817	27,096	29,393	30,215	30,541	30,863	31,179	31,488	31,788	32,077	32,420
INCR (DECR) IN LOAN PORT.:	4,740	5,678	5,381	7,236	299	293	295	297	299	299	2,279	2,297	822	326	322	316	309	300	289	342
REFLOWS FROM YR:																				
1			1,580	1,580	1,580															
2				1,893	1,893	1,893														
3					2,320	2,320	2,320													
4						3,570	3,570	3,570												
5							2,031	2,031	2,031											
6								2,692	2,692	2,692										
7									2,739	2,739	2,739									
8										2,863	2,863	2,863								
9											2,587	2,587	2,587							
10												2,864	2,864	2,864						
11													3,489	3,489	3,489					
12														3,537	3,537	3,537				
13															3,254	3,254	3,254			
14																3,405	3,405	3,405		
15																	3,534	3,534	3,534	
16																		3,504	3,504	3,504
17																			3,501	3,501
18																				3,581
19																				
20																				
FUNDS AVAILABLE FOR LOANS	4,740	5,678	6,961	10,709	6,093	8,075	8,216	8,589	7,760	8,592	10,467	10,610	9,762	10,216	10,602	10,512	10,502	10,743	10,828	10,925
NO. OF LOANS ASSUMING LOAN SIZE OF $400,000:	11.8	14.2	17.4	26.8	15.2	20.2	20.5	21.5	19.4	21.5	26.2	26.5	24.4	25.5	26.5	26.3	26.3	26.9	27.1	27.3
CUMULATIVE:	11.8	26.0	43.4	70.2	85.5	105.6	126.2	147.7	167.1	188.5	214.7	241.2	265.6	291.2	317.7	344.0	370.2	397.1	424.1	451.5

239

GALINDO, ARIAS & LOPEZ

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TELEFONO 63-5633
CABLE: GALA
TELEX: TRT 2048
INTEL 2394
FACSIMILE 63-5335

OFICINA
EDIF. FIDUCIARIO 7º PISO
AVENIDA 7A. ESPAÑA No. 200

Panama, December 17th, 1985

Mr. Marcos Fernández
General Manager
BANCO DISA, S. A.
Panama City
Republic of Panama

Dear Mr. Fernández:

We refer to our conversation regarding the different business entities and organizational arrangements which could be used for the purpose of investing and managing certain funds to be provided by the Agency for International Development ("AID") toghether with some private investors, with the purpose of offering loans and other related financial arrangements to the industrial sector in Panama. It is our understanding that the AID has offered, in principle, a long term loan of up to US$18,000,000 provided private investors are willing to put up to US$4,000,000 in risk capital.

Considering the above, it appears to us that there are three different matters to be considered, to wit:

* Type of business entity;
* Form of business organization; and
* Management arrangements.

1. <u>Type of business entity</u>:

The Panamanian commercial legislation allows for the establishment of several types of business entities, to wit: Sociedades Anónimas ("corporations"), Sociedades de Responsabilidad Limitada ("limited companies"), Sociedades en Comandita ("partnerships"), etc. However, almost all business activities in Panama are carried out through Sociedades Anónimas ("corporations"), organized under Law 32 of 1927. This is due to the fact that its ownership participation is represented by shares which may be freely transferred, and, further, because organizing a corporation, as well as managing it, is a relatively simple matter. Consequently, it seems to us that the legal vehicle more convenient for investing the fund is a Sociedad Anónima.

2. <u>Form of business organization</u>:

The proposed activity to be carried out, that of making loans to the industrial private sectors, is a commercial activity under Panamanian law and as such requires the appropriate license. This license could be of three different types:

Bank License
"Financiera" License
General Commercial License

a) <u>Bank License</u>:

The banking license is issued only to entities which intend to obtain funds from the public through deposits or otherwise, and to lend such funds at its own risk. Since in the present case the corporation will not receive deposits from the public, it will not require a banking license.

vll

b) "Financiera" License:

Law 69 of 1978 defines a "financiera" as a corporation which makes personal loans which in turn are defined as loans to finance the acquisition of personal assets. Consequently, the proposed corporation does not fall under the definition of "financiera", and therefore, may not operate under this type of license.

c) General Commercial License:

In view of the above, the proposed corporation will only need a commercial license in order to engage in the proposed activity of making loans to the industrial private sector.

3. Management arrangements:

With respect to the management of the funds, the corporation could establish its own managerial staff or could entrust same to a third party through a trust or some other type of contractual arrangement. However, since a trust would actually entail that the private investor will relinquish all authority as to whom and how the loans would be made, this alternative will be most probably objected by them. On the other hand, it could be of interest to all involved that a third party, probably a bank, be charged with the day-to-day responsibility of making collections and keeping record of the transactions, rather than hiring an staff to carry out this matters. However, this would be mostly a commercial decision and not a legal one.

We have made a brief analysis in very general terms of the different alternatives for investing and managing the funds and have given certain suggestions when they seem appropiate. However, we are sure that additional questions will be raised and that further explanations will be needed on these matters, therefore, we remain at your service for any further consultation.

Yours very truly,

GALINDO, ARIAS & LOPEZ

Ricardo Alberto Arias

JAIME A. ARIAS C.
RICARDO ALBERTO ARIAS
MARIO GALINDO H.
CARLOS LUCAS LOPEZ T.
TOMAS H. HERRERA D.
JAIME MORA S.
ALFONSO ARIAS
ABEL ESPINO PORRAS
DIDIMO M. RIOS
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INTEL 2194

OFICINA
EDIF. FIDUCIARIO 7º PISO
AVENIDA 7A. ESPAÑA No. 200

June 11th, 1986

Mr. Marco Fernández
General Manager
BANCO DISA, S. A.
Panama City, Panama

Dear Mr. Fernández:

We refer to our letter of December 15th, 1985 and to our recent conversation on the establishment of a corporation to provide financing to the export sector of Panama, which corporation would be funded through risk capital from the private sector and a loan from the Agency for International Development (AID). Particularly, we refer to the form of business organization, that is, type of license, that said corporation should operate under.

It is our understanding that the proposed corporation will not engage in general banking business and that, particularly, it will not accept deposits from the public. In view of this, it seems to us unnecessary for the corporation to operate under a banking license. However, it will be necessary for the corporation to obtain a general commercial license under which to carry on its commercial activities. Even though this would limit somewhat the type of activities that the corporation would carry, for example: it would not be possible for it to issue commercial letters of credit since in the financial world this activity is reserved to banks, the corporation, by acting under a general commercial license will be able to conduct most of the business activities involving the financing of an export oriented industry, for example, making medium and long term loans, guaranteeing its obligations to suppliers or to financial institutions and investing in risk capital. In this last respect, we beg to point out that banks are limited by law on the amount of the resources that they may invest in risk capital, a limitation that does not apply to corporations operating under a general commercial licenses.

244

In view of the above, we are of the opinion that the proposed corporation should act under a general commercial license and not under a general banking license.

Yours truly,

GALINDO, ARIAS & LOPEZ

Ricardo Alberto Arias

LAAD
DE CENTRO AMERICA, S. A

Ref: LAAC-008

January 17, 1986

Mr. Joaquín Vallarino, Sr.
EMBOTELLADORA COCA COLA DE PANAMA
Apartado Postal 503
Panamá 9A, REPUBLICA DE PANAMA

Dear Jake:

I was pleased to hear that you would be interested in discussing some joint ventures with LAAD. We are quite interested in expanding our operations in Panama, and may have funds to do it with fairly soon. However, no matter what level of funding we may receive, it will not be enough for the demand we already see in four Central American countries and Panama. We have always been frustrated in the past, and will be in the future, by requests for financing for large projects whose needs are beyond our capacity to meet. There is a limit to the amount we can provide any single borrower and we have country limits as well.

We have, from time to time, undertaken to participate in a portion of larger loans and have offered to try to locate the balance of the financing from other sources. We have rarely been successful in these undertakings. Commercial banks will not provide term money and public institutions simply take too long making up their mind. We have done some join financing with private financieras in Central America, but not at the level we really needed.

The Financiera de Exportación would, I think, be an ideal institution to work with. Having worked with you, and some of your colleagues in this new company, in the past, I know that your Financiera will make sound loans with competent borrowers and once having acquired all requisite information, will make rapid decisions.

The potential project with Hershey sounds very interesting and seems to me to be just the sort of project that might require financing from several lenders whose operating procedures are compatible.

We are looking at some projects in Panama, which we would like to discuss with you within a month or so.

12 CALLE 1-46 ZONA 10 4º NIVEL APARTADO POSTAL 110-A TELEFONOS 61441-317547 CABLE LAADEVCO, GUATEMALA, GUATEMALA

LAAD
DE CENTRO AMERICA, S.A.

Mr. Joaquín Vallarino
Page No. 2
January 17, 1986

I am sure the new financiera will be a great success and we are looking forward to cooperating with you.

Best regards,

Tom

THOMAS W. MOONEY

TWM/mss

cc: Mr. Frank Skowronski - AID Mission - Panama

247

THE BANKING SYSTEM AND OTHER SOURCES OF FUNDS

I. BACKGROUND

Until the advent of the Revolutionary Government in 1968 Panama enjoyed a steady and reasonably satisfactory economic growth. It is estimated that the average annual rate of growth from mid 1950 to 1968 was about 7 percent.

The Revolutionary Government, which took power in 1968, believed that the pattern of past growth was dependant on import substitution in manufacturing and income from the Panama Canal. In addition, it felt that the export of bananas could not be sustained and believed that the distribution of income in Panama was grossly distorted. Thus, it embarked on a strategy of infrastructure support and export expansion in order to create a surplus within the metropolitan area which would be invested in the rural areas to reduce poverty.

In the period from 1969 to 1972, the public sector expanded rapidly. Large sums were invested in new airports, dams, roads and ports. Foreign owned utility companies were nationalized. Banana lands were purchased and major land reform program was inaugurated. Furthermore, the Government undertook a large expansion of social services, particularly in health and education, covering all the rural population.

Subsequently, in the period from 1972 to 1976, the main emphasis of Government policy was on self-sufficiency in basic agricultural products, direct engagement in productive activities and protection of the lower income groups through price control measures and laws safe-guarding the interests of labor. GOP entered directly into production activities by owning and operating banana plantations, sugar refineries, cement plants and citrus factories.

However, the expansion of social services, investment in infrastructure, and considerable loss in publicly owned productive enterprises put a heavy strain on Government finance. Coincidentally, in this period, there was a slow down in world trade and a significant increase in the price of oil. These developments, combined with the unsettling effects of the Panama Canal negotiations and loss of confidence in the private sector because of direct Government involvement in production, price controls and labor legislation brought about a severe recession which are still visible today.

Private investment declined from 21 percent of GDP in 1974 to 8 percent in 1977. Real private investment in housing and construction which had reached the peak of US$170 million in 1974, declined to US$50 million in 1976 and 1977. In spite of a gradual recovery in 1979, is still below the 1973 figure. Private investment in capital goods dropped from US$112 million in 1974 to US$45 million in 1977. In the same period, gross capital formation

247

declined by 35 percent. In the four years from 1973 to 1977, annual growth of GDP was below 2 percent thereby resulting in a fall of per capita output. Unemployment on the national level reached 16 percent and in certain areas, 25 percent.

In order to reverse this unfavourable trend, the Revolutionary Government, in 1976, embarked on a readjustment and reversal of its policies. In order to encourage private investment, it provided new incentives, banned strikes, froze collective bargaining and raised controlled prices. It was also decided not to further involve the Government in production but to disengage, to the extent possible, from those industries under Government ownership. As a further stimulus to private investment, The National Finance Corporation (COFINA) was established to provide equity as well as loans to the private sector.

At present, the economic condition of Panama has somewhat improved. The growth of GDP in constant 1970 prices was 0.4 percent in 1983, -0.4 percent in 1984 and 3.3 percent in 1985. 1/ However, overseas demand still remains weak. Private investors take a wait and see attitude. Tourism is severely depressed and unemployment high.

GOP's present policy is to encourage private investment in manufacturing; particularly in the labor intensive and export-oriented areas.

II. DOMESTIC CREDIT BY THE COMMERCIAL BANKING SYSTEM

A. General

Because of its central geographic location and favorable banking laws, Panama has rapidly developed into a major banking center of the world. There are 110 commercial banks in Panama, of which 70 are general license banks that can engage in offshore as well as domestic banking and 40 are international banks allowed to engage in business only outside of Panama. Almost all the major banks of the world have a presence in Panama. The unit of exchange in Panama is the U.S. dollar. Panama does not have a central bank and imposes no restictions on the inflow and outflow of money. Up until 1982, the growth of the banking system in Panama was rapid both in the number of banks and assets. From 1982 to 1984, the number of banks stabilized and total assets of the banking system decreased from US$47.4 billion to US$37.3 billion; a decline of 21.3 percent. 1/

The bulk of the banking activities have taken place outside of Panama. In December 1984, out of a total loan portfolio of US$23.2 billion, US$3.7 billion or 15.9 percent was in domestic loans. 1/

1/ Data from Contraloría General de la República.

-49

B. The Role of the Major Banks

The bulk of domestic bank loans is extended by seven banks which, in 1984, had about 60 percent of the market against the other 63 banks which provided the remaining 40 percent.

Figure 1 shows the banks which have outstanding domestic loan balances of over US$100 million.

With the exception of the BNP, which is owned by the Government of Panama and the Banco General, all other major banks are foreign owned.

FIGURE 1

COMMERCIAL BANKS WITH DOMESTIC LOAN PORTFOLIO OF OVER US$100 MILLION IN 1984 1/
(Millions of Dollars)

	1983	1984
1) BNP	877	1,033
2) Chase Manhattan	372	374
3) Bank of America	214	172
4) Citibank	224	228
5) Banco Exterior	186	205
6) Banco Fiduciario	132	133
7) Banco General 2/	-	120
Total	-	2,265
TOTAL BANKING SYSTEM	3,529	3,748

1/ Source - Peat, Marwick, Mitchell & Co. Balance Sheet of Banks Operating in Panama.

2/ Its domestic loan portfolio is principally in mortgages.

C. Recourse to Foreign Savings

Because of the absence of restrictions on the movement of capital, absence of exchange risks and foreign deposits being substantially more than foreign loans, Panama is in the enviable position of easy access to foreign savings for domestic loans. From 1980-1985, foreign deposits were 47, 39, 42, 53, 54 and 46 percent higher than foreign credits (See Appendix 1). During this same time period, domestic credits and deposits never varied by more than 5 percent, except in 1984 when domestic credits exceeded domestic deposits by 10 percent.

250

The public sector has availed itself to a much larger extent of foreign deposits particularly from 1974 onwards. However, the utilization of foreign funds by the private sector has also been significant following the patten of the relationship of total credit to total deposits. From 1973 - 1975, domestic credit was over 60 percent more than domestic deposits. (In 1974, credit was US$1.2 billion, deposits were US$728 million) (Appendix 2). Only in 1980 was the situation reversed and in 1982 domestic credit was only 3/4 of domestic deposits. The development reflects the recession in the economy of Panama and weak demand. Since 1983, domestic credits have exceeded domestic deposits.

The annual growth of domestic credit in Panama was over 32 percent from 1970 to 1974. It dropped to 13 percent in 1975 and declined to 4 percent in 1978 when it started gradually increasing again to 24 percent in 1981. From 1982 to 1984, growth has been limited to 5-7 percent range. (Appendix 3)

D. Sectoral Distribution of Credit

The major portion of domestic credit in Panama is allocated to Commerce. However, its share, which from 1970 to 1973 was about 55 percent, has declined significantly and has been about 30 percent in the last few years.

Housing assumed greater importance with a rise from 9 percent of total credit in 1970 to 19 percent in 1975. In the last few years, it has remained steady at about 17 percent.

All through the period 1970 - 1982, the share of agriculture has remained constant at about 7 percent. Domestic credit for industry declined from 7 percent to 4 percent between 1970 and 1973. It rose to 10 percent in 1980 and declined to 7 percent in 1984. Finally, credit to public entities has expanded rapidly from 3 percent in 1970, to 15 percent in 1975 and to 28 percent in 1984.

E. Specialized Financial Institutions For Development Credit

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

1. COFINA

COFINA is a wholly Government-owned entity and was established in 1975 to perform the normal functions of a development bank. However, it has fallen on hard times, has a bad reputation in the banking and business community and has ceased all lending activities.

251

COFINA suffered from excessive change of management excessive turnover of its senior staff poor project evaluation, inadequate project supervision and, most serious of all, extension of credit based on political considerations.

COFINA was not immune to accusations of outright favoritism and corruption. The constitution of COFINA allowed for 8 Board members appointed by the President of the Republic. The majority of the Board members came from the private sector. The public sector was represented by the Minister of Commerce and Industry and the General Manager of BNP

The operating policy approved by the Board allowed for, (a) Maximum exposure of US$4 million or 20 percent of capital and reserves to one client inclusive of guarantees and equity; (b) Up to 70 percent financing of total project cost and, in no case, more than 80 percent; (c) Equity participation in an enterprise up to 20 percent not to exceed 75 percent of capital and reserves; (d) Equity participation in an enterprise not to exceed 25 percent of that companies capital stocks. (e) COFINA's debts, inclusive of guarantees, would not exceed 5 times its capital and reserves

COFINA was to concentrate on the financing needs of medium and large manufacturing industries. It would at first provide financing for fixed capital and invite the commercial banks to provide working capital. The rate of interest charged by COFINA was 13 percent plus a 1 percent management fee.

The major sources of funds for COFINA were the GOP and the World Bank. USAID and commercial banks also participated to a lesser extent.

At present COFINA is bankrupt and has essentially closed down.

2. Industrial Bank of the Banco Nacional de Panama

This bank finances small and medium size industries. The majority of its loans have maturities of over three years. Generally, repayment extends to 7 or 8 years and, contrary to the practice of the commercial banks which apply a fluctuating rate of interest based on LIBOR, the Industrial Bank charges a fixed rate of interest.

The technical, economic and financial review of projects is carried out internally by the technical staff of the bank. However, the approach of the bank is far removed from the developmental financing approach. All loans are highly secured against other assets of the borrower. The average loan is about US$400,000, but loans of up to US$6 million have been made.

The Inter American Development Bank (IDB) has been the major source of funds for the Industrial Bank. The relationship started in 1964 with a loan of US$1 million, four subsequent loans of US$5 million, US$3 million, US$12 million, and US$15 million were granted in 1973, 1976, 1980, and 1983. IDB funds make up about 60 percent of the loans made by the Industrial Bank.

3. <u>DISA</u>

DISA is a private industrial credit institution founded in 1964 by a group of prominent Panamanian businessmen with an initial paid-in capital of US$1 million. The source of funds for DISA was USAID and US Export-Import Bank (EXIMBANK). An initial USAID loan of US$5.1 million to be repaid in 20 years bearing an interest rate of 2 percent was supplemented with a second loan of US$4 million with the same maturity and 3 percent interest. The EXIMBANK credit was for US$2.5 million.

Two striking features of DISA operations are: (a) A disproportionately large amount of DISA's credit was made to its major shareholders; (b) Because of a 9 percent ceiling imposed by the Government on the rate of interest that DISA could charge its sub-borrowers and with the increase of interest rates on deposits, it reduced its loan portfolio and maintained larger deposits instead of making industrial loans.

Between June 1980 and 1982, the loan portfolio declined from US$3.4 million to US$1.96 million. Cash went up from US$3.1 million to US$4.3 million. Loans repayable were reduced from US$3.6 million to US$2.4 million. In the meantime stockholders equity increased from US$4 million to US$4.7 million.

It is reported that DISA wishes to again become active in industrial lending. The decline in interest rates and the circumventions of the 9 percent ceiling by various charges (such as management fee, etc.) could make industrial lending as profitable as maintaining deposits.

4. <u>BDA</u>

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

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

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

By 1982, the Bank had received over 31 million dollars in capital contributions (US$5.6 million in 1982) from the GOP. The other major source of funds of BDA have been the IDB which lent BDA a total of US$75.7 million; US$45 million of which was provided in 1981.

The 1983 program called for 36 million dollars in loans (down 27 percent from 1982), and no capital contribution from the GOP. Efforts will continue to increase the individual farmer client base and to strengthen basic field services.

III. FINDINGS

In summary, the commercial banks have more foreign funds on deposit than foreign loans outstanding. Domestically, loans exceed deposits by approximately 5 percent (Sept. 1985 figure). Thus, banks do have excess liquidity but it is of a short-term nature. In addition, they are attempting to match their Panamanian assets and liabilities in order to reduce their country exposure. Only the Industrial Bank of the BNP and the BDA currently offer medium- and long-term credit.

The BDA focusses primarily on basic agricultural lending and the Industrial Bank requires a large amount of collateral to cover any outstanding loan. Thus, true developmental lending for the manufacturing and processing sectors of the Panamanian economy does not exist. If such lending could be provided, it would assist in stimulating growth in the above-mentioned areas.

Appendix 1

CREDIT AND DEPOSIT BY THE BANKING SYSTEM 1980 - 1985
(In millions of dollars)

Year	Credits			Deposits		
	Total	Domestic	Foreign	Total	Domestic	Foreign
1980	15,278	2,531	12,747	21,145	2,406	18,739
1981	20,445	3,146	17,299	27,242	3,202	24,040
1982	21,232	3,350	17,882	28,986	3,526	25,460
1983	18,367	3,533	14,834	26,080	3,365	22,695
1942	17,029	3,764	13,265	23,809	3,371	20,438
1985	17,121	3,904	13,217	22,992	3,715	19,277

Source: National Banking Commission

DOMESTIC CREDIT AND DEPOSITS BY PRIVATE
AND PUBLIC SECTORS 1970-1985
(in millions of dollars)

Year	Credits			Deposits		
	Total	Private	Public	Total	Private	Public
1970	420	408	12	341	323	18
1971	563	533	30	427	398	29
1972	766	714	52	602	543	59
1973	1,026	970	56	657	588	69
1974	1,352	1,232	120	796	728	68
1975	1,525	1,289	236	849	803	46
1976	1,628	1,288	340	995	953	42
1977	1,765	1,364	401	1,199	1,092	107
1978	1,843	1,439	404	1,553	1,349	204
1979	2,133	1,630	503	1,802	1,692	110
1980	2,530	1,983	547	2,406	2,279	127
1981	3,146	2,351	795	3,202	3,006	195
1982	3,351	2,450	901	3,526	3,304	222
1983	2,533	2,477	1,056	3,365	3,121	244
1984	3,763	2,530	1,233	3,371	3,166	205
1985	3,904	2,591	1,313	3,715	3,483	232

Source: National Banking Commission

256

Long Term Technical Assistance

Job Description - Contract Advisor

1. Duration and Location

Four year position to be located in Panama City, Panama.

2. Qualifications

A professional banker is required with extensive experience in developmental lending and project appraisal. Leadership ability and personal characteristics to work effectively with colleagues in performing advisory functions for FIDESA. Ten or more years of professional banking experience in an international setting involving development finance.

3. Duties

The main responsibilities of the Contract Advisor will include:

a) Assisting the Managing Director of FIDESA in the planning and implementation of the Project. This includes providing guidance to other FIDESA employees and carrying out analysis of the overall aspects of the project, evaluating results, and when required, assisting in reformulating project components.

b) Serving as the principle advisor to the Managing Director of FIDESA in all banking activities.

c) Assisting in project structuring and loan evaluation.

d) Assisting in identifying potential new export areas for FIDESA involvement.

e) Assisting in identifying and placing FIDESA employees in short-term training courses in the United States.

f) Serving as the professional link between the FIDESA Board of Directors and USAID management.

g) Facilitating the flow of information between FIDESA officials and potential borrowers.

257

TRAINING PLAN
(Estimated Training Dates)

						1987												1989					
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug.	Sept	Oct	Nov D
General Manager							___	___	(1)					___	___(2)								
Loan & Investment Officer (General)										___	___(2)		___(4)						___	___(1)			
Loan & Investment Officer (Agribusiness Specialty)																		___(4)					
Operations & Administration Officer									___	(3)													

(1) Harvard; Investment Appraisal & Management

(2) World Bank; Development Lending

(3) American Bankers Assoc.; Internal Controls

(4) American Bankers Assoc.; Credit Policies

(5) Harvard; Strategic Planning

TRAINING PLAN
(Estimated Training Dates)

	1989 Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec	1990 Jan	Feb	Mar	Apr	May	Jun	Jul	Aug.	Sept	Oct	Nov	D
General Manager						___(5)									___(4)									
Loan & Investment Officer (General)											___(5)													
Loan & Investment Officer (Agribusiness Specialty)							________(1)			_______(2)														
Operations & Administration Officer							________(1)																	

(1) Harvard; Investment Appraisal & Management

(2) World Bank; Development Lending

(3) American Bankers Assoc.; Internal Controls

(4) American Bankers Assoc.; Credit Policies

(5) Harvard; Strategic Planning

259