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AUDIT OF USAID/PANAMA'S  
EMERGENCY RESTORATION OF  
SMALL BUSINESSES PROGRAM MANAGED BY  
THE FOUNDATION FOR ECONOMIC  
AND SOCIAL DEVELOPMENT

Audit Report No. 1-525-91-13-N  
December 31, 1990

**AGENCY FOR INTERNATIONAL DEVELOPMENT**

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December 31, 1990

MEMORANDUM

TO: D/USAID/Panama, Thomas W. Stukel

FROM: RIG/A/T Acting, Lou Mundy *Lou Mundy*

SUBJECT: Audit of USAID/Panama's Emergency Restoration of Small Businesses Program, Managed by The Foundation for Economic and Social Development, February 22, 1990 to July 21, 1990

This report presents the results of a non-Federal financial audit of the Emergency Restoration of Small Business Program (Program) managed by the Foundation for Economic and Social Development (Foundation). The audit was for the period February 22, 1990 to July 21, 1990. The accounting firm of Price Waterhouse prepared the report which is dated September 19, 1990.

On February 22, 1990, the U.S. Agency for International Development (A.I.D.) signed Cooperative Grant Agreement No. 525-0301-A-9001-00 with the Foundation. Under the Agreement, the Foundation received \$5.0 million for the provision of loans to viable small businesses in Panama. These loans were to repair infrastructure and replace equipment and inventories stolen, damaged, or destroyed following the U.S. military action on December 20, 1989.

The objectives of the audit were to determine whether: (1) the Foundation's fund accountability statement presents fairly Program receipts and expenditures for the period February 22, 1990 to July 21, 1990, (2) the internal control structure of the Foundation was adequate for Program purposes, (3) the Foundation complied with applicable laws, regulations and agreement terms, (4) the Foundation complied with the goals of the Program, and (5) the Foundation experienced any problems and constraints during Program implementation.

Price Waterhouse found that the fund accountability statement presents fairly, in all material respects, the receipts and disbursements of the Project. Additionally, the auditors found no material weaknesses in the Foundation's internal control structure.

With respect to compliance, the auditors reported one instance of material noncompliance with agreement terms and applicable laws and regulations. Specifically, the Foundation did not follow its loan processing procedures in that loan funds totaling \$871,800 were

disbursed to participating banks before the beneficiaries fulfilled certain loan requirements.

With respect to Program performance objectives, the auditors concluded that the Foundation had achieved the primary goals of the Program although there were some delays in disbursing the loans to beneficiaries due to the lengthy time taken by the Foundation to screen, review and process the loan applications.

The audit report was discussed with management officials of the Foundation who generally agreed with the report.

We are not including the recommendation from the Price Waterhouse report in the Office of the Inspector General's audit recommendation follow-up system because all beneficiaries have subsequently submitted the required documentation to the participating banks and because the Program ended July 21, 1990.

FOUNDATION FOR ECONOMIC AND SOCIAL DEVELOPMENT (FUNDES)

AUDIT OF THE EMERGENCY  
RESTORATION OF SMALL BUSINESSES PROGRAM  
USAID/PANAMA PROGRAM NO. 525-0301-A-9001-00  
MANAGED BY THE FOUNDATION FOR ECONOMIC  
AND SOCIAL DEVELOPMENT (FUNDES)

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*Price Waterhouse*



September 19, 1990

Mr. Reginald Howard  
Regional Inspector General for Audit  
U.S. Agency for International Development  
Tegucigalpa, Honduras, C.A.

Dear Mr. Howard:

This report presents the results of our concurrent financial audit of the Emergency Restoration of Small Businesses Program, (the Program) managed by the Foundation for Economic and Social Development (FUNDES) for the period from February 22, 1990 to July 21, 1990 under Cooperative Grant Agreement No. 525-0301-A-9001-00 between the U.S. Agency for International Development and the Foundation for Economic and Social Development (FUNDES).

**BACKGROUND**

On February 22, 1990, the U.S. Agency for International Development (A.I.D.) signed a Cooperative Grant Agreement with FUNDES for the amount of \$5.0 million. Under the Agreement, FUNDES is responsible for providing loans to viable small businesses in Panama to repair infrastructure and replace equipment and inventories stolen, damaged, or destroyed following the U.S. military action on December 20, 1989.

FUNDES is a private, nonprofit organization created in 1984 to support economic and social development projects particularly in the areas of small business and agro-industry. The administration of FUNDES includes an Advisory Board made up of six members, a Board of Directors and an Executive Director. FUNDES' organization is divided into four committees: Loan Guaranty, Micro-Industry, Training, and a newly formed A.I.D. Committee.

Under the current Grant, FUNDES identified eligible beneficiaries for project loans and present loan packages to banks participating in the FUNDES loan guaranty program. The loans provided under the Program were made available for funding infrastructure repair, equipment, inventory and for operating costs. The terms of the loans are from six months to three years and the maximum loan provided was \$50,000.

#### AUDIT OBJECTIVES AND SCOPE

The overall objectives of the audit was to perform a concurrent financial audit of the activities and operations of the Emergency Restoration of Small Businesses Program (the Program) managed by The Foundation for Economic and Social Development (FUNDES), for the period from February 22, 1990 to July 31, 1990.

Our audit was performed in accordance with generally accepted auditing standards and with the United States Comptroller General's "Government Auditing Standards" (1988 Revision) and accordingly included a review of documentation, accounting records, internal control structure and such other auditing procedures as we considered necessary in the circumstances to determine whether:

1. The fund accountability statement of the Emergency Restoration of Small Businesses Program, managed by the Foundation for Economic and Social Development (FUNDES), presents fairly the Program's receipts and expenditures from February 22, 1990 to July 21, 1990 in accordance with the terms of the Cooperative Grant Agreement with A.I.D.
2. FUNDES' internal control structure was adequate for the Program's purposes.
3. FUNDES complied with applicable laws, regulations and agreement terms.

#### Performance Evaluation

Our performance evaluation was directed primarily toward: 1) determining the extent to which FUNDES complied with the specific goals of the Program; and 2) identifying problems and constraints experienced by FUNDES during Program implementation.

The following major audit procedures were performed as necessary to meet the stated audit objectives.

### Receipts

We confirmed directly with A.I.D. the funds provided to FUNDES under Cooperative Grant Agreement No. 525-0301-A-9001-00.

### Disbursements

We examined a representative number of disbursements made by FUNDES under the Program to verify that they were appropriately supported and recorded in FUNDES' accounting records.

### Other Procedures

1. We reviewed the procedures utilized by FUNDES for the management of the small business Program activities.
2. We reviewed the Program's bank account reconciliations and confirmed the balances.
3. We conducted tests to verify that the use of funds provided was in compliance with applicable laws, regulations, and agreement terms.
4. On a selective basis, we reviewed loan applications received by FUNDES to verify compliance with procedures for determining the applicant's eligibility for loans.
5. We made on-site visits to observe the conditions of the businesses damaged or destroyed, and determine the status of the loans provided to the beneficiaries of the Program.

## RESULTS OF AUDIT

### Fund Accountability Statement

In our opinion, the fund accountability statement of the Emergency Restoration of Small Businesses Program, managed by FUNDES, presents fairly, in all material respects, the Program's receipts and expenditures for the period from February 22, 1990 to July 21, 1990, in accordance with the terms of the respective Cooperative Grant Agreement with A.I.D.

### Internal Control Structure

In planning and performing our audit of the fund accountability statement of the Program for the period from February 22, 1990 to July 21, 1990, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the fund accountability statement and not to provide assurance on the internal control structure.

As a result of our work, we noted no matters involving the internal control structure and its operation that we consider to be material weaknesses. However, we noted certain matters involving the internal control structure and its operation that we have reported in writing upon identification to A.I.D.

#### Compliance with Applicable Laws, Regulations, and Agreement Terms

We tested transactions and records for the period from March 7, 1990 to July 21, 1990, which included receipts and disbursements, and observed on-site activities for compliance with the applicable laws, regulations and agreement terms, except for the following:

FUNDES failed to follow certain established procedures for processing loans by disbursing funds to the participating banks before the beneficiaries fulfilled certain loan requirements.

As a result of our work, our test indicate that with respect to the items tested, FUNDES complied, in all material respects with applicalbe laws, regulations and agreement terms.

With respect to items not tested, nothing came to our attention that caused us to believe that FUNDES had not complied with applicable laws, regulations and agreement terms.

#### Performance Evaluation

Overall, the results of our audit revealed that FUNDES achieved the primary goals of the Program which was to 1) maintain employment by assisting small, private businesses to replace or repair stolen, damaged, or destroyed infrastructure, equipment and inventories, and 2) finance short-term loans. These objectives were substantilly accomplished within the originally targetted 150-day period, despite the fact that the Program was carried out under emergency conditions in the unstable environment existing in Panama following the military actions of December 20, 1989.

Although the results of our audit revealed that FUNDES achieved the primary goals of the Program, we found that there were some delays in disbursing the loans to the beneficiaries. We found that the major delay was attributed to the lengthy time taken by FUNDES to screen, review and process the loan applications.

*Price Waterhouse*

FOUNDATION FOR ECONOMIC AND SOCIAL DEVELOPMENT (FUNDES)

AUDIT OF THE EMERGENCY  
RESTORATION OF SMALL BUSINESSES PROGRAM  
USAID/PANAMA PROGRAM NO. 525-0301-A-9001-00  
MANAGED BY THE FOUNDATION FOR ECONOMIC  
AND SOCIAL DEVELOPMENT (FUNDES)

FUND ACCOUNTABILITY STATEMENT  
FOR THE PERIOD FROM FEBRUARY 22, 1990 TO JULY 21, 1990

REPORT OF INDEPENDENT ACCOUNTANTS

We have audited the accompanying fund accountability statement of the Emergency Restoration of Small Businesses Program managed by FUNDES under Cooperative Grant Agreement No. 525-0301-A-9001-00, for the period from February 22, 1990 to July 21, 1990. The fund accountability statement is the responsibility of FUNDES management. Our responsibility is to express an opinion on this fund accountability statement based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and the U.S. Comptroller General's "Government Auditing Standards" (1988 Revision). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the fund accountability statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the fund accountability statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall fund accountability statement. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the fund accountability statement referred to above presents fairly, in all material respects, the receipts and disbursements for the Emergency Restoration of Small Businesses Program, managed by FUNDES under Cooperative Grant Agreement No. 525-0301-A-9001-00, for the period from February 22, 1990 to July 21, 1990, in accordance with the terms of the respective Cooperative Grant Agreement with A.I.D.

This report is intended solely for the use of the U.S. Agency for International Development and FUNDES. This restriction is not intended to limit the distribution of this report which, upon acceptance by the Office of the Inspector General, is a matter of public record.

*Price Waterhouse*

September 19, 1990

FOUNDATION FOR ECONOMIC AND SOCIAL DEVELOPMENT (FUNDES)

RESTORATION OF SMALL BUSINESSES PROGRAM MANAGED BY THE  
FOUNDATION FOR ECONOMIC AND SOCIAL DEVELOPMENT (FUNDES)

USAID/PANAMA PROGRAM NO. 525-0301

FUND ACCOUNTABILITY STATEMENT  
FOR THE PERIOD FROM FEBRUARY 22, 1990 TO JULY 21, 1990  
(EXPRESSED IN U.S. DOLLARS-NOTE 1)

	Budget	Receipts and Disbursements	Balance (over) under Budget
Grant receipts	<u>\$5,000,000</u>	<u>\$4,960,000</u>	<u>\$40,000</u>
Total receipts (Note 3)	<u>5,000,000</u>	<u>4,960,000</u>	<u>40,000</u>
Disbursements:			
Administrative Costs:			
Salaries	65,480	65,508	(28)
Advertising	28,780	27,844	936
Audit services (Note 3)	40,000		40,000
Transportation	7,160	6,356	804
Training	6,090	6,052	38
Other direct costs	<u>42,490</u>	<u>36,757</u>	<u>5,733</u>
Sub-total	<u>190,000</u>	<u>142,517</u>	<u>47,483</u>
Loans (Note 4):			
Loans - Panama City	4,085,000	4,170,535	(85,535)
Loans - Colon	<u>725,000</u>	<u>642,232</u>	<u>82,768</u>
	<u>4,810,000</u>	<u>4,812,767</u>	<u>(2,767)</u> (Note 5)
Total	<u>\$5,000,000</u>	<u>\$4,955,284</u>	<u>\$44,716</u>

FOUNDATION FOR ECONOMIC AND SOCIAL DEVELOPMENT (FUNDES)

AUDIT OF THE EMERGENCY  
RESTORATION OF SMALL BUSINESSES PROGRAM  
USAID/PANAMA PROGRAM NO. 525-0301-A-9001-00  
MANAGED BY THE FOUNDATION FOR ECONOMIC  
AND SOCIAL DEVELOPMENT (FUNDES)

NOTES TO THE FUND ACCOUNTABILITY STATEMENT  
FOR THE PERIOD FROM FEBRUARY 22, 1990 TO JULY 21, 1990

NOTE 1 - SUMMARY OF ACCOUNTING POLICIES

The significant accounting policies adopted by FUNDES to manage the Program are summarized as follows:

Basis of Accounting:

The accrual basis of accounting is used in recording the expenditures of the Program.

The records of the Program are kept in United States dollars.

NOTE 2 - HISTORY AND OPERATIONS OF THE PROGRAM

On February 22, 1990, the U.S. Agency for International Development (A.I.D.), signed a Cooperative Grant Agreement with FUNDES for the amount of \$5.0 million. Under the Grant Agreement, FUNDES is responsible for providing loans to viable small businesses in Panama to repair infrastructure and replace equipment and inventories stolen, damaged, or destroyed following the U.S. military action on December 20, 1989.

FUNDES is a private, nonprofit organization created in 1984 to support economic and social development projects particularly in the areas of small business and agro-industry. The administration of FUNDES includes an Advisory Board made up of six members, a Board of Directors and an Executive Director. FUNDES' organization is divided into four committees: Loan Guaranty, Micro-Industry, Training, and a newly formed A.I.D. Committee.

Under the current Grant Agreement, FUNDES identified eligible beneficiaries for project loans and presented loan packages to banks which will participate in the FUNDES loan guaranty program. The loans provided under the Program will be available for funding infrastructure repair, equipment, inventory, and operating costs. The terms of the loans will be from six months to three years and the maximum loan provided will be \$50,000.

NOTE 3 - FUNDS RECEIVED

FUNDES received \$4,960,000 corresponding to the Grant Agreement from A.I.D. These funds were deposited in the account held with the Banco Nacional de Panamá and the remaining \$40,000 corresponds to the audit service fees handled directly by A.I.D.

NOTE 4 - LOANS RECEIVABLE

Loans were granted according to the terms and conditions of the Grant Agreement at an annual interest rates of 7% until December 31, 1990. Starting on January 1, 1991 interest rate will increase to 12%. The terms of the loans are for a minimum of six (6) months and a maximum of three (3) years. Personal and property guarantees are required to meet loan requirements. The maximum amount of each loan is \$50,000.

NOTE 5 - TRANSFER OF FUNDS

The amount of \$2,767 corresponds to funds transferred from the administrative budget line-item through approval from A.I.D.

FOUNDATION FOR ECONOMIC AND SOCIAL DEVELOPMENT (FUNDES)

AUDIT OF THE EMERGENCY  
RESTORATION OF SMALL BUSINESSES PROGRAM  
USAID/PANAMA PROGRAM NO.525-0301-A-9001-00  
MANAGED BY THE FOUNDATION FOR ECONOMIC  
AND SOCIAL DEVELOPMENT (FUNDES)

INTERNAL CONTROL STRUCTURE

REPORT OF INDEPENDENT ACCOUNTANTS

We have audited the accompanying fund accountability statement of the Emergency Restoration of Small Businesses Program, for the period from February 22, 1990 to July 21, 1990 and have issued our report thereon dated September 19, 1990.

We conducted our audit in accordance with generally accepted auditing standards and the U.S. Comptroller General's "Government Auditing Standards" (1988 Revision). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the fund accountability statement is free of material misstatement.

In planning and performing our audit of the fund accountability statement of the Program, during the period from February 22, 1990 to July 21, 1990, we considered the internal control structure of the Program in order to determine our auditing procedures for the purpose of expressing our opinion on the fund accountability statement and not to provide assurance on the internal control structure.

The management of FUNDES is responsible for establishing and maintaining an internal control structure for the Program. In fulfilling this responsibility, estimates and judgements by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected.

Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we have classified the significant internal control structure policies and procedures in the following categories:

- Accounting process
- Budgetary process
- Receipt and disbursement systems
- Payroll procedures

For all of the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the fund accountability statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control structure and its operation that we consider to be material weaknesses as defined above.

However, we noted certain matters involving the internal control structure and its operation that we have reported in writing upon identification to A.I.D.

This report is intended solely for the use of the U.S. Agency for International Development and FUNDES. This restriction is not intended to limit the distribution of this report which, upon acceptance by the Office of the Inspector General, is a matter of public record.

*Pricewaterhouse*

September 19, 1990

FOUNDATION FOR ECONOMIC AND SOCIAL DEVELOPMENT (FUNDES)

AUDIT OF THE EMERGENCY  
RESTORATION OF SMALL BUSINESSES PROGRAM  
USAID/PANAMA PROGRAM NO. 525-0301-A-9001-00  
MANAGED BY THE FOUNDATION FOR ECONOMIC  
AND SOCIAL DEVELOPMENT (FUNDES)

COMPLIANCE WITH LAWS, REGULATIONS AND AGREEMENT TERMS

We have audited the accompanying fund accountability statement of the Emergency Restoration of Small Businesses Project, managed by FUNDES under Cooperative Grant Agreement No. 525-0301-A-9001-00, for the period from February 22, 1990 to July 21, 1990 and have issued our report thereon dated September 19, 1990.

We conducted our audit in accordance with generally accepted auditing standards and the U.S. Comptroller General's "Government Auditing Standards" (1988 Revision). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the fund accountability statement is free of material misstatement.

Compliance with applicable laws, regulations, and agreement terms is the responsibility of FUNDES' management. As part of obtaining reasonable assurance about whether the fund accountability statement is free of material misstatement, we performed tests of the FUNDES' compliance with certain provisions of applicable laws, regulations, agreement terms. However, our objective was not to provide an opinion on overall compliance with such provisions.

Material instances of noncompliance are failures to follow requirements, or violations of prohibitions, contained in statutes, regulations, contracts or grants that cause us to conclude that the aggregation of the misstatements resulting from those failures or violations is material to the fund accountability statement. The results of our tests of compliance disclosed the following material instance of noncompliance.

FUNDES failed to follow certain established procedures for processing loans by disbursing funds to the participating banks before the beneficiaries fulfilled certain loan requirements.

We considered this instance of noncompliance in forming our opinion whether FUNDES fund accountability statement is presented fairly, in all material respects, in conformity with the terms of the Grant Agreement, and this report does not affect our report dated September 19, 1990 on the fund accountability statement.

Except as described above, the results of our tests indicate that, with respect to the items tested, FUNDES complied, in all material respects, with the provisions referred to in the third paragraph of this report. With respect to items not tested, nothing came to our attention that caused us to believe that FUNDES had not complied, in all material respects, with those provisions.

This report is intended solely for the use of U.S. Agency for International Development and FUNDES. This restriction is not intended to limit the distribution of this report which, upon acceptance by the Office of the Inspector General, is a matter of public record.

*Price Waterhouse*

September 19, 1990

FOUNDATION FOR ECONOMIC AND SOCIAL DEVELOPMENT (FUNDES)

AUDIT OF THE EMERGENCY  
RESTORATION OF SMALL BUSINESSES PROGRAM  
USAID/PANAMA PROGRAM NO. 525-0301-A 9001-00  
MANAGED BY THE FOUNDATION FOR ECONOMIC  
AND SOCIAL DEVELOPMENT (FUNDES)

COMPLIANCE WITH LAWS, REGULATIONS AND AGREEMENT TERMS

FINDINGS

1. FUNDES failed to follow certain established procedures for processing loans by disbursing funds to the participating banks before the beneficiaries fulfilled certain requirements.

Condition:

FUNDES processed and disbursed 31 loans for a total amount of \$871,800 to participant banks without receiving the required documentation and guarantees from the loan beneficiaries.

Criteria:

According to procedures established by FUNDES for disbursing loans, loan checks were to be delivered to participating banks only when the beneficiaries had fulfilled certain loan requirements.

Cause:

FUNDES' management wanted to process as many loans as possible before the project completion date of July 21, 1990.

Effect:

The control procedures in processing the loans were reduced due to the failure to obtain all required documentation and guarantees.

Recommendation:

Considering that all 31 loan beneficiaries have since submitted the required documentation and guarantees to the banks, we recommend that FUNDES receive written authorization from A.I.D., for disbursing funds to the participating banks before the beneficiaries fulfilled certain requirements established under the Agreement.

FOUNDATION FOR ECONOMIC AND SOCIAL DEVELOPMENT (FUNDES)

AUDIT OF THE EMERGENCY  
RESTORATION OF SMALL BUSINESSES PROGRAM  
USAID/PANAMA PROGRAM NO. 525-0301-A-9001-00  
MANAGED BY THE FOUNDATION FOR ECONOMICS  
AND SOCIAL DEVELOPMENT (FUNDES)

PERFORMANCE EVALUATION

Summary of Program Results

Overall, the results of our audit revealed that FUNDES achieved the primary goals of the Program which were to 1) maintain employment by assisting small, private businesses to replace or repair stolen, damaged, or destroyed infrastructure, equipment and inventories, and 2) finance short-term loans. These objectives were substantially accomplished within the originally targetted 150-day period, despite the fact that the Program was carried out under emergency conditions in the unstable environment existing in Panama following the military actions of December 20, 1989.

According to the goals/achievements established under the terms of the Grant Agreement with A.I.D., loans provided under the Program were to benefit 200 to 400 beneficiaries and save approximately 2,000 full-time jobs in the economy. Between February 22 and July 21, 1990, FUNDES received a total of 452 loan applications and approved 250 for a total amount of \$4,947,615. However, only 244 loans amounting to \$4,812,767 were actually made due to budget limitations. The average loan amount provided to the beneficiaries of the Program was \$21,000. In addition, the Program generated approximately 2,600 jobs. The following presents the status of the loans approved, denied and withdrawn as of July 21, 1990:

<u>Category</u>	<u>Number</u>	<u>Amount</u>
Loans approved	250	\$4,947,615
Loans denied	114	1,773,385
Loans withdrawn	<u>88</u>	<u>282,500</u>
	<u>452</u>	<u>\$7,003,500</u>

Our auditors made visits to 116 applicants whose loans were approved by FUNDES to observe the conditions of the businesses damaged or destroyed, review the procedures followed by the credit analysts and field technicians to determine the eligibility of the participants, and verify the status of the loans in process. Our auditors did not find any major irregularities. (Appendix II presents photographs of several small business we visited).

Although the results of our audit revealed that FUNDES achieved the primary goals of the Program, we found that there were some delays with regard to the final disbursement of loans to the beneficiaries. According to the Grant Agreement A.I.D. intended that loans provided under this Program would be fully disbursed to the beneficiaries within 90 - 120 days. However, we found that approximately 50% of the loan packages for a total amount of \$2.4 million were not presented to the banks until July 1990. As a result, many of the beneficiaries did not receive the loan funds until July and August, 1990, more than 150 days after the Program began.

## DISCUSSION

### Delays in Disbursing loans

The procedures followed by FUNDES to receive and process the loan applications consisted of a number of steps that resulted in some delays with regard to final disbursement of loans to beneficiaries of the Program. The steps were as follows:

#### Step 1

FUNDES solicits applications for loans through the mass media.

#### Step 2

Applications are received, screened and reviewed for completeness and accuracy by FUNDES' credit analysts.

#### Step 3

If an application is satisfactory, field technicians make on-site inspections to assess the accuracy of the information on the applications, and to verify damage done by vandalism and looting.

#### Step 4

Confirmed applications were submitted to a Credit Committee and reviewed for credit worthiness and other eligibility factors.

#### Step 5

Application packages approved by FUNDES' Credit Committee were submitted to participating banks for loan processing and disbursements.

The major delay was attributed to the lengthy time taken by FUNDES to screen, review and process the loan applications. For example, between February 22, 1990 to April 30, 1990, FUNDES received a total of 165 loan applications. Of the 165 applications received 40 were approved, 9 were rejected while the remaining 116 applications (70%) were in the process of being screened and reviewed. Furthermore, of the 40 applications approved, only two loans were submitted to the participating banks for final disbursement to the beneficiaries. (Appendix I provides a summary on the status of the loan applications processed by FUNDES during the months of March to July 1990).

During the months of May, June, and July 1990, the number of loan applications reviewed and approved by FUNDES increased substantially and were processed in a more timely manner. However, due to the increasing number of loan applications necessary to review during those months, combined with the earlier delays, most of the loan packages were not submitted to the banks until July, 1990. As a result, most of the loans were not disbursed to the beneficiaries until July and August, 1990.

The following chart presents a summary of the status of loan packages submitted by FUNDES to the participating banks during the months of March through July 1990:

<u>MONTH</u>	<u>NUMBER OF LOAN PACKAGES PRESENTED TO BANKS</u>	<u>AMOUNT</u>
March	0	0
April	2	40,452
May	41	809,018
June	76	1,463,956
July	<u>125</u>	<u>2,499,341</u>
TOTAL	<u>244</u>	<u>\$4,812,767</u>

FOUNDATION FOR ECONOMIC AND SOCIAL DEVELOPMENT (FUNDES)RESTORATION OF SMALL BUSINESSES PROGRAM MANAGED BY THE  
FOUNDATION FOR ECONOMIC AND SOCIAL DEVELOPMENT (FUNDES)USAID/PANAMA PROGRAM No. 525-0301

MONTHLY STATUS OF APPLICATIONS PROCESS BY FUNDES						
	MARCH	APRIL	MAY	JUNE	JULY	TOTAL
APPLICATIONS REVIEWED AND APPROVED BY THE CREDIT COMMITTEE	8	32	75	107	28	250
APPLICATIONS REVIEWED AND APPROVED BY THE CREDIT COMMITTEE BUT SUBJECT TO ADDITIONAL REQUIREMENTS	8	(6)	-	(2)	-	-
APPLICATIONS REVIEWED BY THE CREDIT COMMITTEE AND DELAYED UNTIL CERTAIN ADDITIONAL INFORMATION IS PROVIDED	-	20	(9)	(10)	(1)	-
APPLICATIONS REJECTED BY THE CREDIT COMMITTEE	4	9	18	45	38	114
APPLICATIONS WITHDRAWN VOLUNTARY	-	-	14	40	34	88
APPLICATIONS IN PROCESS OF INVESTIGATION AND GATHERING OF REQUIRED DOCUMENTATION	84	6	7	(4)	(93)	-
<b>TOTAL</b>	<b>104</b>	<b>61</b>	<b>105</b>	<b>176</b>	<b>6</b>	<b>452</b>

FOUNDATION FOR ECONOMIC AND SOCIAL DEVELOPMENT (FUNDES)

AUDIT OF THE EMERGENCY  
RESTORATION OF SMALL BUSINESSES PROGRAM  
USAID/PANAMA PROGRAM NO. 525-0301-A-9001-00  
MANAGED BY THE FOUNDATION FOR ECONOMIC  
AND SOCIAL DEVELOPMENT (FUNDES)

The following pages shows the photographs of some of the small business that were looted during the vandalism that followed the military action that took place on December 20, 1989. Financial assistance was offered to these small businesses under the Emergency Restoration of Small Business Program managed by FUNDES. These pictures partially demonstrate the situation of the businesses after the destruction and robbery, and the repair and remodelling after receiving the loan.

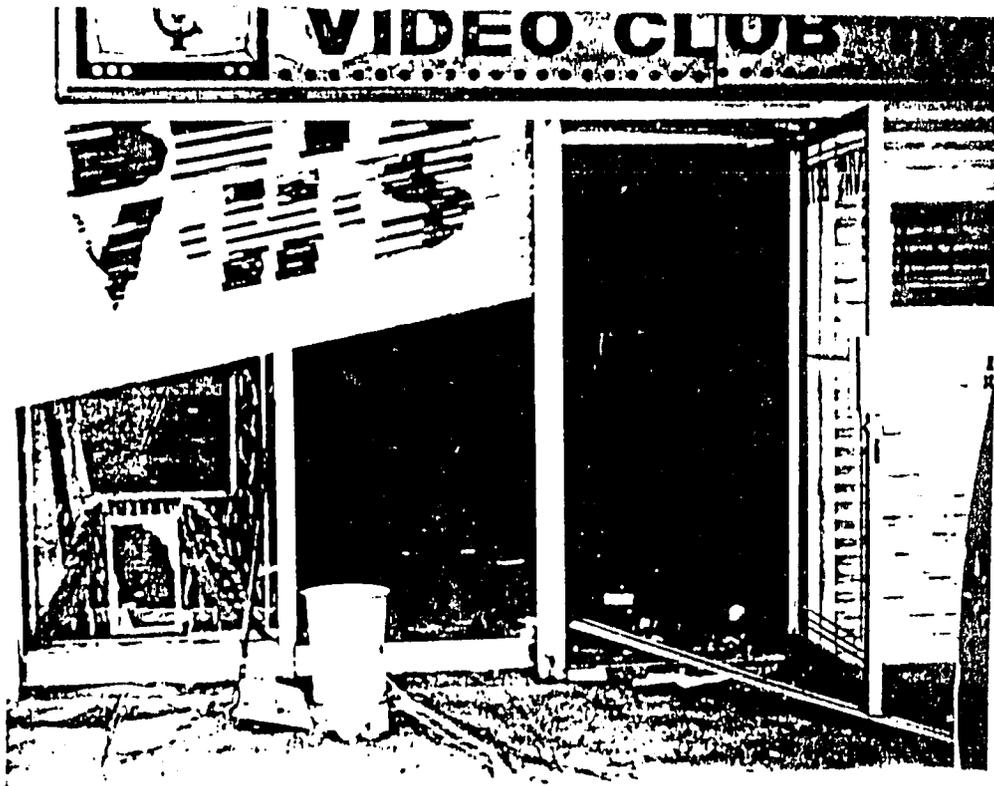
WHICH IS DEDICATED TO THE SALE OF FURNITURE  
AND CURTAINS  
AFTER THE LOOTING



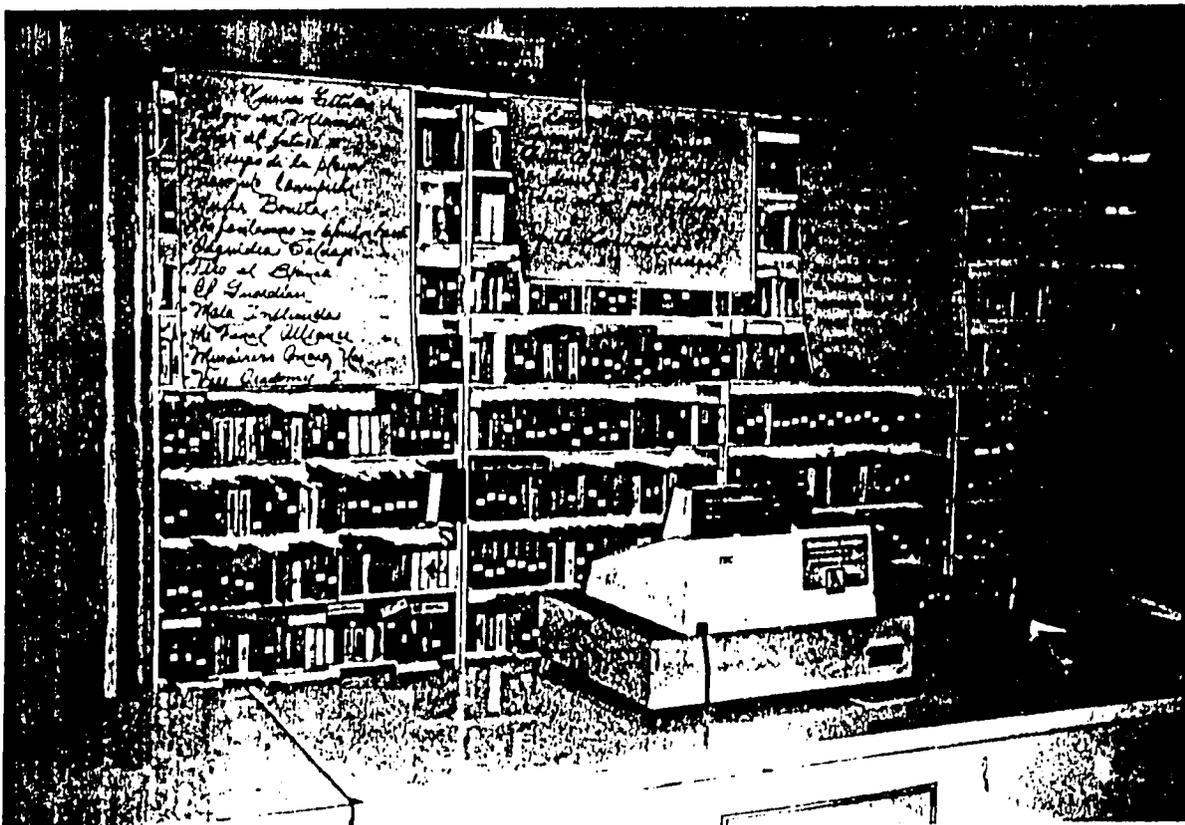
REMODELED BUSINESS PREMISES



BUSINESS SITE OF VIDEO CLUB IMPACTO WHICH IS  
DEDICATED TO THE RENTING OF VIDEO CASSETTE  
AFTER THE LOOTING



REMODELED BUSINESS PREMISES



BUSINESS SITE OF PRODUCTOS DIVERSOS WHICH SELLS  
OFFICE AND STATIONERY SUPPLIES  
AFTER THE LOOTING



REMODELED BUSINESS PREMISES

