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EVALUATION REPORT

# Employment planning and Generation: The BNP Supervised Credit Program

by

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# Chapter I

## THE EMPLOYMENT PLANNING AND GENERATION PROJECT

### Project Design

### Introduction

Employment Planning and Generation, a $12.85 million project of the governments of the United States and Panama, was signed on August 6, 1981. This four-year program includes $5.97 million in loans and grants from USAID, while $6.88 million in counterpart funds have been committed by the Government of Panama. This combined support is distributed among three subprojects which converge on a common objective: stimulating employment generation.

The components consist of an innovative approach to solving the problem of widespread urban unemployment in Panama by uniting policy research, manpower information, and lending to small and medium scale firms:

1. The Policy Analysis and Research System (PARS).

The EPG project will establish a unit within the Ministry of Commerce and Industry (MICI). It will analyze existing GOP policies and programs, and propose modifications or the introduction of new programs supporting employment generation. The PAR System will consist of a policy-level group to be known as the National Employment and Development Commission. It will also include a technical secretariat (the technical/administrative unit) which will be responsible for planning and promotion of research projects. USAID grant funds in the amount of $625,000 will be provided for these purposes. They will be supplemented by a GOP commitment of $280,000.

2. The Manpower Information System (MIS).

A second dimension of the EPG project pertains to the acquisition, storage, and retrieval in useful form of labor force data and statistics. These will assist both public and private sector agencies to identify and anticipate labor requirements for both unskilled and semi-skilled workers. The mechanism to be employed is a Manpower Information System (MIS) to be developed within the Ministry of Labor, which will aim toward achieving a better match between Panama's labor supply and demand. AID grant funds ($200,000) will be used to finance technical assistance and training costs. The GOP counterpart ($98,000) will finance operation of the system, which is to be based upon existing census reports and survey data.

3. The Supervised Credit Program (SCP)

The primary obstacle to the rapid generation of employment within

the cities of Panama is perceived to be the absence of medium term credit to the largest group of prospective employers: small and medium scale enterprises in the private sector. To point the way toward a solution, an intermediate credit institution will be established within the National Bank of Panama. Loans up to $100,000 will be provided at interest below current market rates for periods up to ten years.

The program will be administered by the bank's Employment Development Division, which is also responsible for the USAID Municipal Development Fund. The Division will make equipment and working capital loans available to labor intensive small and medium size firms in industry, commerce and services sectors throughout Panama. USAID grant funds ($150,000) will provide technical assistance to establish the program. Approximately 3,000 new jobs (1,600 direct, 1,4000 indirect) are expected to result from $10 million loaned ($5 million from USAID, $5 million from GOP) in supervised credit to be lent to 300-350 firms over the life of the project.

The Problem: Urban Unemployment

While unemployment in Panama was estimated at 10% of the labor force at the beginning of this decade, it had reached 14-22% in the urban corridor connecting Panama City with Colon. This corridor is the target of the country's migration pattern: it currently contains 50% of the population, and this proportion will expand to 60% by the year 2000.

USAID's primary target group, poor families whose incomes are barely sufficient to meet basic needs, currently shows a 60-40 split between rural and urban areas. With increasing urbanization, this pattern will tend to become reversed. These statistics, like those concerned with unemployment, are believed to be deficient and probably underestimate the magnitude of the problem.

USAID estimates indicate that unemployment rose from 5.0% in 1970 to 15.4% in 1979, when there were believed to be 92,000 persons without work. The metropolitan corridor was believed to contain 75%, with the balance spread between the Central region (15%), the Western region(9%) and the Eastern region (1%). This estimate makes no allowance for the underemployed, who may add another 150,000 persons to the total!

The Solution Proposed: Employment Generation

In addition to population growth and redistribution, Panama's employment situation has been worsened by a trend to a more capital intensive economic structure. During the 1970's total investment in Panama's economy was approximately $3 billion. During this period, approximately 92,726 jobs were produced at an average cost of $31,750 invested per job. During the following decade, it would be necessary for investments to triple in order to bring unemployment down to 5% (i.e., 42,500 unemployed).

These assumptions underline the need for a more labor intensive economic structure, capable of producing a greater number of jobs at reduced cost. Available data indicate that small and medium size firms are more labor intensive than large firms. It is evident that they are most prominent in commerce and services where they account for more than 75% of all firms and 15% of the labor force.

The position of small and medium enterprises (SME) in Panama's economy remains relatively weak because of (1) government policies including price and wage controls, investment incentives and import and export regulation which have discriminated against them, and (2) difficulties in gaining access to credit, technical and managerial assistance. The EPG program is intended to reduce both types of impediments by altering policies and providing credit and other forms of support.

The EPG project launches a triple assault on this problem by proposing (1) timely recognition of its dimensions through information processing within the GOP; (2) review of relevant policies by an appropriate government agency; (3) experimentation with a model loan program offering a private sector solution to unemployment through support for small and medium enterprises.

Despite the conceptual integration of the three parts of the EPG project, the distribution of funds for the separate components is asymmetrical:

Financial Plan
(US $000)

| | USAID DL | USAID DG | GOP | TOTAL |
|---|---|---|---|---|
| Employment Policy and Planning | | | | |
| PARS | | 625 | 280 | 905 |
| MIS | | 200 | 98 | 298 |
| Supervised Credit Program | | | | |
| SCP | 5000 | 150 | 6500 | 11650 |
| TOTAL | 5000 | 975 | 6878 | 12853 |

The supervised loan program was to receive 91% of total EPG project support.

Status of the Project: Mid-1983.

The EPG project is at the mid-point of its life expectancy. At the end of two years, all of its components have become fully operational. The project design calls for a mid-term evaluation, which provides the occasion for the inquiry to be reported below. Like the project financing, however, the evaluation will be quite asymmetrical.

The reasons for this are multiple. Although it was conceived as a package, the parts of the program have been pursued independently and at separate speeds. The responsibility for the Manpower Information System has been separated from the balance of EPG and assigned, successively, to several USAID staff members. The PAR System has recently received a comprehensive evaluation by an outside consultant, Belisario Gonzales, whose report and recommendations are presently under discussion.

The primary task of the present evaluation has been to describe and analyze the performance of the National Bank of Panama's supervised credit program. As a consequence, the other two EPG components will be restricted to the brief treatment accorded in the following paragraphs.

1. The PAR System.

An inter-agency Employment Development Commission was established in 1981 with the following membership:

A. Ministry of Commerce and Industry
B. Ministry of Planning and Economic Policy
C. Ministry of Labor and Social Welfare

D National Bank of Panama
E. National Council of Private Enterprise
F. National Council of Labor Organizations
G. Banking Commission.

The Employment Development Commission held its first meeting on November 11, 1981. There were twelve subsequent meetings through 1982.

A technical-administrative unit (T/AU) has been set up under the direction of Jasmin de Lopez. It has identified the following topics as suitable for investigation with PARS support:

A. Small scale enterprises.
B. Fiscal and tax incentives policies.
C. Employment/unemployment.
D. Export promotion policies.
E. Financial and credit policies.
F. Pricing policies.

Terms of reference have been prepared for the first two policy-related research projects designated above. The Fiscal and tax incentives policies study has been competitively awarded to Clapp and Mayne, Inc. Bids will be solicited for the Small scale enterprises study within the next several months.

There is a general consensus that the PARS activities have lagged behind their projected level of completion at the two-year mark. Primary responsibility has been placed upon contracting difficulties. Of the $905,000 made available to the project, only $66,927 had been disbursed by the end of the first quarter, 1983.

Since no studies have yet been completed, it is not possible for the PAR System to have generated either policy impacts or employment. A number of revisions are presently being proposed as a result of the evaluation just completed. It is expected, for example, that the Employment Development Commission will exercise greater leadership in directing research.

2. The Manpower Information System.

The major thrust of this program has been to get government agencies with a common interest in manpower information to cooperate with each other to their mutual advantage under the leadership of the Ministry of Labor and Social Welfare. This is to be accomplished through the exchange and consolidation of data sources and reduction of categories and measurements currently in use to uniform standards where possible.

The end product of this effort is the establishment of a Human Resources Information System (Sistema de Informacion de Recursos Humanos, or SIRH). A computerized data bank will apparently become the final goal of the SIRH program, but an interim accomplishment will be the establishment of a Documentation Center, or statistical library, within the National Directorate of Employment (Ministry of Labor and Social Welfare).

Major accomplishments to date include the publication of the following:

A. Informacion Estadistica sobre Recursos Humanos (Censos, Encuestas de Hogares y Otras Fuentes Oficiales). April, 1983. No. 1.

   This document, prepared under the supervision of Dr. Gustave Zakrzewski, international consultant to the ministry obtained under this project, is based on statistics from the National Census of Panama and the National Survey of Households, and other official sources.

B. Listado de Algunos Documentos Disponsibles (Boletin Especial para el Acto Inaugural del Centro de Documentacion). June, 1983

   This first bulletin of the Documentation Center is a source list of reference materials available to prospective users.

Other accomplishments include joint meetings and seminars attended by both contributors to, and users of, the SIRH, including the following Ministries: Planning and Economic Policy, Education, University of Panama, and University of Santa Maria La Antigua. A number of educational and travel opportunities have also been provided to personnel with an official involvement in SIRH activities.

Major intellectual contributions to the design and implementation of SIRH to date have come from Dr. Gustavo Zakrzewski, whose appointment to the Ministry of Labor as consultant was initiated in February, 1983, and Allan Broehl (PDC/OLAB) of USAID, Washington, who participated in the preparation of the project paper and has maintained his interest in the MIS. Mr. Broehl's most recent visit to Panama was in June, 1983.

Current SIRH activities, planned for the second half of 1983, include the following:

A. Acquisition and installation of a computer for the SIRH, together with the consultation necessary for training the personnel who will be responsible for its operation.

B. Analysis of the consistency and quality of a series of statistics on manpower requirements and availability, to be conducted by Dr. Zakrzewski.

C. Conduct of a seminar to analyze and discuss methods for prediction of manpower requirements.

D. Acquisition of basic statistical information from a number of sources. This project will include reprocessing of information for entry into the computerized data bank. Data will be obtained from the Division of Statistics and Census, and from Social Security.

A preliminary step, already accomplished, was the preparation of a consultant report on needs for electronic data processing equipment by the SIRH (Investigacion de Necesidades de un Equipo de Procesamiento Electronico de Dato para el Sistema de Informacion de Recursos Humanos). The report was prepared by Porfirio Fernandez.

For the term ending December 31, 1983, USAID has authorized the expenditure of $196,665 on the SIRH. The funds are divided between the establishment of the system ($152,664) and its operation ($44,000). If scheduled utilization of these sums is realized, all USAID resources for SIRH support will be consumed during the present year. The ongoing financial commitment to the project will become the responsibility of the GOP.

Substantial progress has been made toward achievement of a number of the goals set for the Manpower Information System, now designated as SIRH. However, progress has been slower than expected, once again, because of difficulties in contracting for consulting services.

Allan Broehl, during his most recent visit, also expressed concern over the proposed design and content of the computerized data bank. His opinion was that an elaborate design had been prepared, but that commitment of full-time personnel within the Ministry was insufficient for its implementation. Difficulties of this sort, should they prove to exist, tend to be self correcting.

A less obvious question concerning the accomplishments of the SIRH project bears upon its articulation with the remainder of the EPG program. If plans have been made to articulate the contents of the computerized data base with the needs of prospective employers or planners, they are not yet evident. There is a need for continuous interaction between suppliers and consumers of manpower information. If it is not forthcoming, the

construction and operation of the SIRH could become little more than an technical exercise.

3. The Supervised Credit Program.

The small and medium enterprise loan fund of the National Bank of Panama is the major subject of the evaluation study. In a sense, it occupies a middle ground between PARS and SIRH components of EPG. Where PARS is lagging, and SIRH may be ahead of its expenditure schedule, the SCP is approximately at the midpoint proposed in the project paper at the end of two years. At the end of the second quarter of 1983, 197 loan subprojects had been approved, representing a total of $4.4 million.

This achievement appears to exceed the two-year targets set in the project paper: 161 loans and $3 million committed. However, the program has evolved by setting a course independent from other EPG components. It is managed by a semi-autonomous unit within the Banco Nacional de Panama, which also houses the administration of the USAID Municipal Loan Program (FODEM). Neither BNP personnel nor loan recipients are aware that there are other projects contained within the EPG program. The consequences of this operational isolation will be considered in the concluding section of this study.

## Chapter II

## THE SUPERVISED CREDIT PROGRAM

### Loan Terms and Bank Operations

#### Terms of Credit

The supervised credit program is located administratively within the Program for Planning and Generation of Employment (Programa de Planificacion y Generacion de Empleo, or PPGE), a unit of the BNP's Executive Management for Local Development (Gerencia Ejecutiva de Desarrollo Local, or GEDEL). Physically, the program is lodged within the original headquarters of the Banco Nacional de Panama on Avenida Central within the business district of Santa Ana.

The terms of credit under which loans are authorized to be issued at this facility are those specified in detail in the loan agreement which, first of all, defines the scope and goals of the program.

A. Scope and Goals.

The program aims to utilize a $10 million loan fund to create or expand small and medium enterprises. The target number of firms to receive benefits was 323, which would determine that the average loan should be $31,000. The intent was to apportion the loan fund among industrial, commercial and service firms, as follows:

| Type of Enterprise | Percent of Loan Fund | Average Loan Size | No. of Loans |
|---|---|---|---|
| Industrial | 40.0 | $60,000 | 67 |
| Commercial | 35.0 | 30,000 | 117 |
| Service | 25.0 | 18,000 | 139 |
| TOTALS | 100.0 | $30,960 | 323 |

The specifications require that a fixed ratio be maintained between the amount of loan funds obtained and the number of jobs generated. The average cost of direct job generated ($6,234) was to be reached by the application of a formula which allocated the new workers by the type of establishment in which they were to be employed:

Maximum Cost per Job by Type of Enterprise

| | |
|---|---|
| Industrial | $10,000 |
| Commercial | 5,000 |
| Service | 5,000 |

Given its assumptions, the program was expected to generate 1,604 new jobs, which would be distributed as follows: 402 industrial, 702 commercial and 500 service. The ratio of indirect to direct employment was estimated at .8:1. The indirect increment, derived by applying this ratio to 1,604 directly employed, would be an additional 1,284 positions.

The basic concepts defining the BNP loan project are those of a subsidized credit program, i.e., one which provides special advantages to borrowers which are not available from commercial credit sources. Three of these deserve special attention:

1. Selection of credit risks.

   Eligibility is to be restricted to "...small and medium size enterprises that are unable to obtain credit from the commercial banking system."

2. Provision of technical assistance.

   Once selected and approved for financing, technical and management assistance was to be made available to loan recipients from a group of qualified private consultants (not BNP employees). A register of consultants is to be maintained at BNP for this purpose.

3. Adjustable interest rates.

   Sub-loan interest rates to clients were to be determined by a formula which takes into account the cost of capital, interest rates charged by development institutions, and the interest rates charged by commercial banks in Panama for specific types of establishments; industrial, commercial and service. Rates will be adjusted quarterly.

To facilitate the selection of credit risks from persons without access to other sources of credit, it was recommended that "flexible collateral requirements reflecting the circumstances and needs of the small businessmen" be utilized. To provide revenue for the retention of private consultants, three points of interest charged to each borrower is to be earmarked for this purpose.

The interest rate formula to be employed is illustrated in Table 1, opposite. The intent was to create an interest subsidy which would fall midway between the extremely low rates charged by development agencies and government lenders and the prohibitively high commercial rates charged in the free credit market. It was expected that clients might be prepared to become commercial credit customers by passing through this process.

To provide an additional financial cushion to client enterprises, a "grace period" of up to three years was built into the project credit terms. Another "easy credit" factor in the program was the provision that loans could be made for up to ten years. Both these features anticipate that new enterprises will need time to realize a level of profitability which will support credit costs, and expansion enterprises will need time to "scale up" their operations for the same purpose.

B. Loan Terms

The specific terms proposed by USAID for presentation to prospective borrowers appear in Table 2, opposite (a photocopy from the loan agreement). The maximum size and collateral requirements are introduced here for the first time in this discussion. A Spanish translation, published and distributed by the Banco Nacional de Panama in a promotional brochure, has been reproduced as Table 3. The entire BNP program description has been included as Appendix "A".

The only substantial difference between Tables 2-3 is that the BNP publication identifies the actual rate of interest charged to clients for the first time. It is 12%, including the 3% fee to defray the cost of technical assistance from private consultants. The 12% rate compares with 14% currently charged by the BNP to customers for small and medium size business loans which are not subsidized by the EPG program.

Note, however, that the fine print at the bottom of the BNP announcement alerts the customer that interest rates will be revised every three months following changes in the credit market. Finally, one might question the "flexibility" of a collateral requirement of 85 to 95 percent (Table 2). However, in practise, the BNP permits clients to satisfy this requirement in various ways.

Table 1

BNP/SCP Sub-Loan Interest

Rate Formula

Example

| ECONOMIC ACTIVITY | BNP's Cost of Capital | Development Instit. Interest Rates | Commercial Bank Interest Rates | Economic Activity Average |
|---|---|---|---|---|
| Ind./Manuf./Const. | 10% | 12% | 20% | 14.0% |
| Commercial | 10% | 20% | 22% | 17.3% |
| Services | 10% | 20% | 22% | 17.3% |

$$\text{Sub-Loan Interest Rate} = \left[\frac{(14.0\%) + (17.3\%) + (17.3\%)}{3}\right] = 16.2\%$$

NOTE: The 16.2% sub-loan interest rate includes 3% for technical/management assistance (TMA).

Table 2

Industrial/Construction/Manufactuing Sector

| | | |
|---|---|---|
| Maximum Loan Size | : | $100,000 |
| Maximum Repayment (Fixed and Working Capital) | : | 10 years (includes 3 years Grace Period) |
| Maximum Collateral | : | 95% collateral - 5% cash |
| Average Maximum ($) Investment Per Job | : | $10,000 |
| Interest Rate | : | Will be determined by BNP on a quarterly basis using the formula of Table 2. |

Commercial Sector

| | | |
|---|---|---|
| Maximum Loan Size | : | $50,000 |
| Maximum Repayment Period (Fixed and Working Capital) | : | 10 years (includes 3 years Grace Period) |
| Maximum Collateral | : | 85% collateral - 15% cash |
| Average ($) Investment Per Job | : | $5,000 |
| Interest Rate | : | Will be determined by the BNP on a quarterly basis, using the formula of Table 2. |

Service Sector

| | | |
|---|---|---|
| Maximum Loan Size | : | $30,000 |
| Maximum Repayment Period (Fixed and Working Capital) | : | 7 years (includes 3 years Grace Period) |
| Maximum Collateral | : | 90% collateral - 10% cash) |
| Average ($) Investment Per Job | : | $5,000 |
| Interest Rate | : | Will be determined by the BNP on a quarterly basis, using the formula of Table 2. |

Table 3

# CONDICIONES DE LOS SUB-PRESTAMOS

Las condiciones que se solicitarán a los sub-prestatarios serán fijadas de acuerdo a las actividades, las cuales se describen a continuación.

## INDUSTRIAL, CONSTRUCCION, MANUFACTURERA

| | |
|---|---|
| Monto Máximo del Préstamo | B/.100.000 |
| Período de Vencimiento | Hasta 10 años |
| Período de Gracia | Hasta 3 años |
| Aporte del Empresario | Mínimo 5% del Costo Total del Proyecto |

| | |
|---|---|
| Tasa de Interés* | 9% anual sobre saldo |
| Tasa de asistencia Técnica | 3% anual sobre saldo |
| Promedio de Inversión por Trabajo a Generar | B/.10,000 |

## COMERCIAL

| | |
|---|---|
| Monto Máximo del Préstamo | B/.50,000 |
| Período de Vencimiento | Hasta 10 años |
| Período de Gracia | Hasta 3 años |
| Aporte del empresario | 15% del costo total del proyecto |

| | |
|---|---|
| Tasa de interés * | 9% anual sobre saldo |
| Tasa de Asistencia Técnica | 3% anual sobre saldo |
| Promedio de Inversión por Trabajo a Generar | B/.5,000 |

## SERVICIOS

| | |
|---|---|
| Monto Máximo del Préstamo | B/.30,000 |
| Período de Vencimiento | Hasta 7 años |
| Período de Gracia | Hasta 3 años |
| Aporte del Empresario | 10% del costo total del proyecto |

| | |
|---|---|
| Tasa de interés * | 9% anual sobre saldo |
| Tasa de Asistencia Técnica | 3% anual sobre saldo |
| Promedio de Inversión por Trabajo a Generar | B/.5,000 |

* La tasa de interés será revisada trimestralmente y ajustada según los cambios del mercado.

In practise, the BNP has permitted applicants to present three types of collateral to meet the minimum requirements of Table 2. Real property, co-signers, and personnal savings or cash on hand are all acceptable. When real property is presented as collateral, it is evaluated according to the following USAID formula:

A. Land is accepted at 100% market value.
B. Equipment and machinery (100% if new; used at market value minus depreciation).
C. Furniture (80% market value).
D. Homes (100% market value).
E. Bank accounts (100% value).
F. Jewelry (90% market value).

The maximum collateral requirement cannot exceed 100% of the value of the loan. Other terms and requirements are to be applied through the medium of a comprehensive study of each loan project to be conducted by the permanent staff of the PPGE unit within the BNP. The financial analysis of sub-borrowers included as part of the study should verify the following:

A. Technical feasibility of the project.
B. Financial feasibility of the project, i.e., the proposed activity has an internal rate of return (IRR) equal to or greater than the cost of capital.
C. Borrowers be full-time owner/managers of the loan financed activity.
D. Borrowers must demonstrate managerial capability.
E. Technical assistance requirements of the borrower and/or his project.
F. Costs per direct job generated.

There are additional legal requirements which must be met by prospective applicants, and a catalog of documents which must be prepared and submitted. These will be introduced in the following chapter which considers the application procedures utilized by the BNP in detail, and actually follows a hypothetical client through the entire sequence of steps to be negotiated.

Bank Operations: Organization of PPGE

As a condition preceding loan disbursement, USAID required that "...a staffing plan be established from the Employment Development Division of the National Bank of Panama and that personnel be assigned to key positions." To fulfill this condition, the Bank's management utilized an organizational prototype which had been developed and installed elsewhere within the organization, e.g., in the Industrial Loan Division.

The proposed organization, as it appears in the project paper, is reproduced in Table 4, opposite. Under the general manager, it was to contain five sub-units:

A. Planning and Analysis.
B. Legal Assistance.
C. Operations.
D. Credit
E. Technical Assistance.

The personnel plan for the first year called for 14 person-years. This would gradually be expanded to 28.5 person-years during the fourth and final year of operations. The expansion would take place within the framework of units outlined above.

A more complex design was installed at PPGE from the beginning, however. As displayed in Table 5, it includes a Panama office under the General Manager, and two regional offices in Chitre and David. Within the Panama (central) office, there are four departments, two of which (Operations and Technical Departments) are divided into seven functionally specific subunits. As documented in Table 6, copied from the personnel table submitted by BNP in October, 1981, the project began with 30 fulltime staff members rather than 14.

The first general manager designated to take charge of PPGE was Jaime E. Simons, who had previously served BNP as director of the USAID-sponsored municipal loan program (FODEM). While it passed without official comment, BNP actually "folded" the remains of the FODEM project---consisting of collections on outstanding municipal accounts---into the newly formed GEDEL division which also contained PPGE, the supervised credit program newly provided with $10 million in loan funds. A third unit financed by the Inter-American Development Bank and entitled Strengthening Public Services (similar to FODEM) shares the same personnel.

While administrative complexities are certain to arise from the decision to merge three projects into a single BNP subdivision, cost accounting has become an even more sensitive issue. As is so often the case, it has been solved by recourse to a formula:

Table 4

BNP's EMPLOYMENT DEVELOPMENT DIVISION AND FUND

(1981)

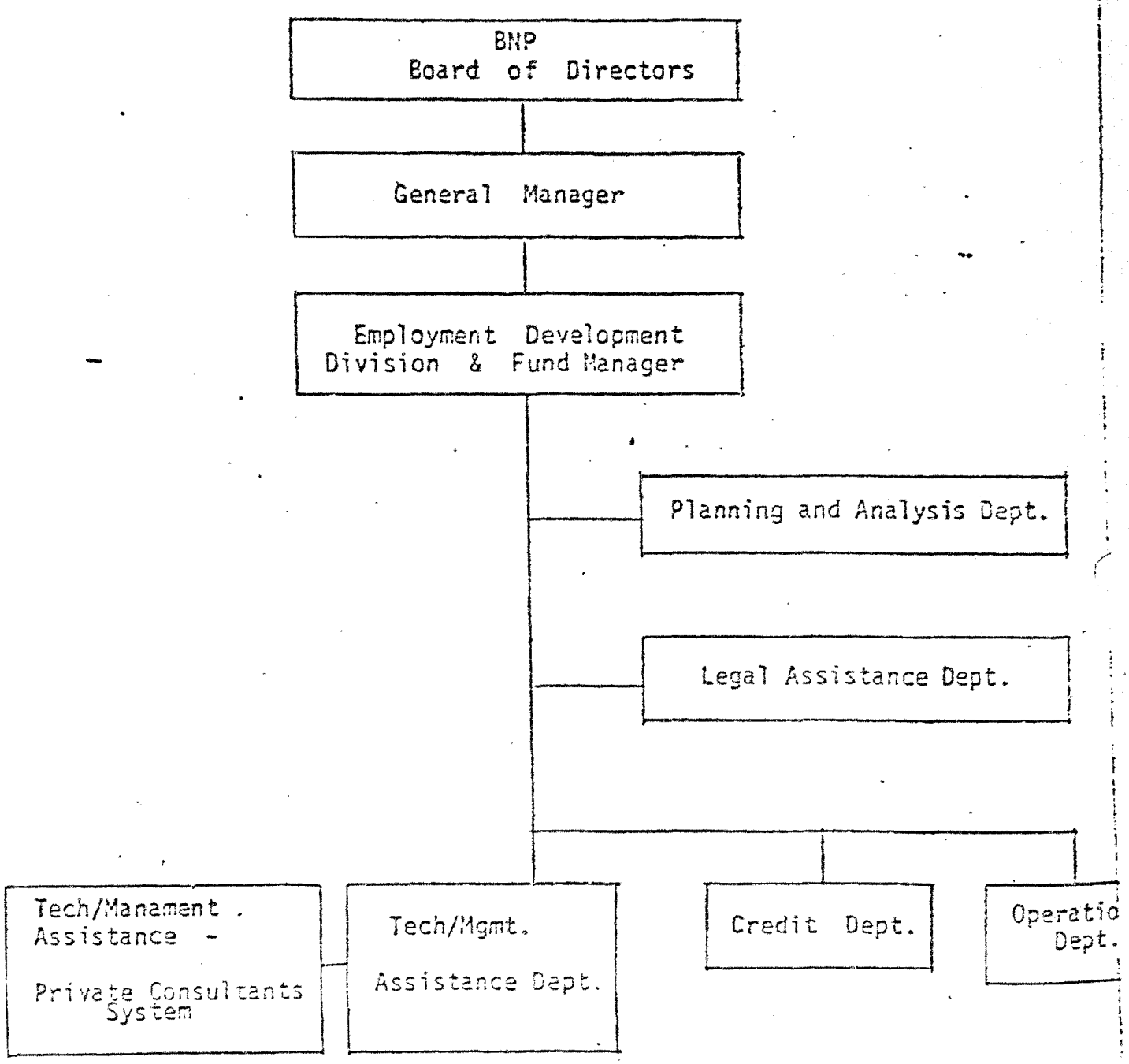

Table 5

Banco Nacional de Panama

PROGRAM FOR PLANNING AND GENERATION OF EMPLOYMENT

Table of Organization

(1983)

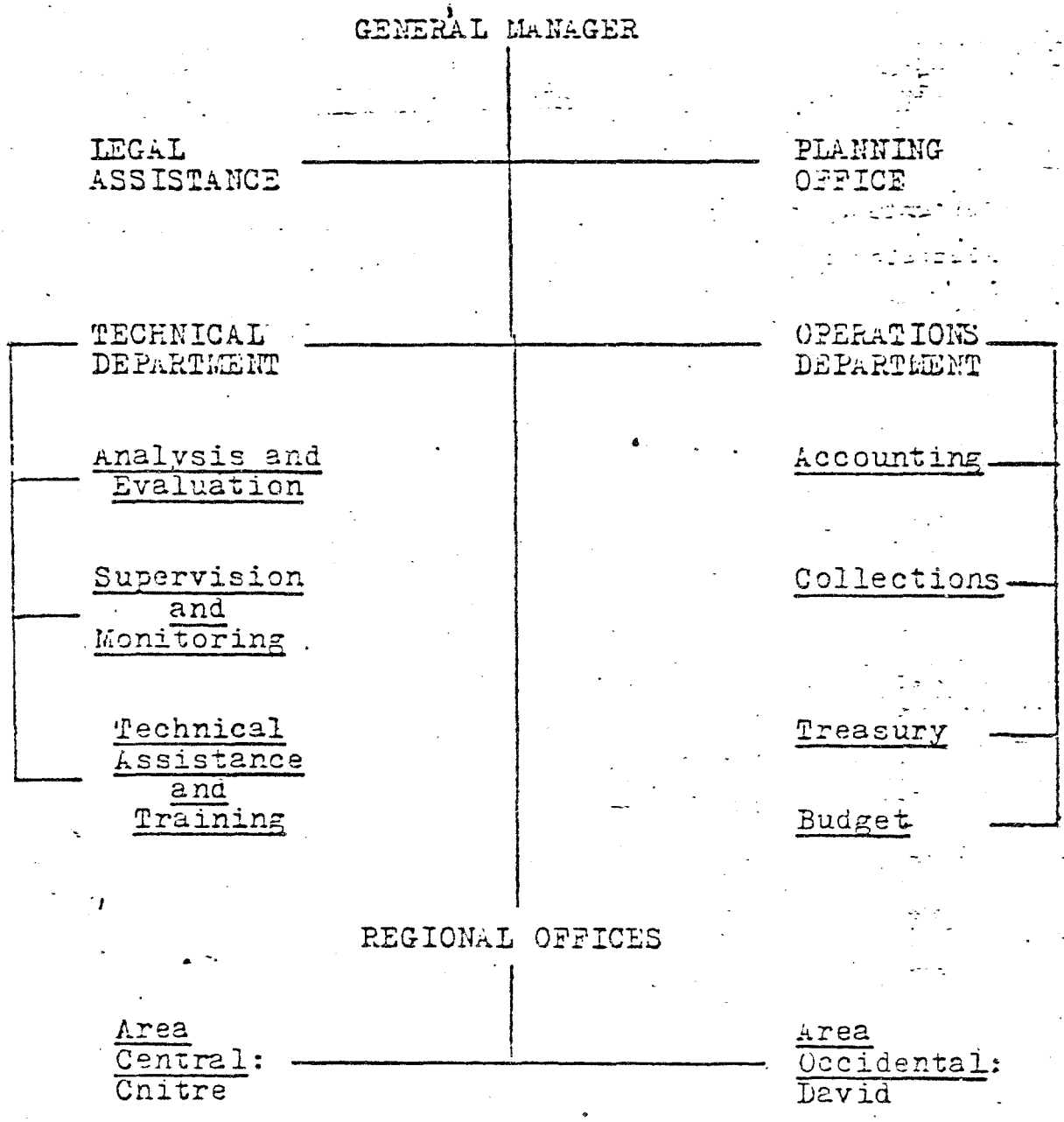

Table 6

BANCO NACIONAL DE PANAMA

PLANIFICACION Y GENERACION DE EMPLEOS

ESTRUCTURA DE PERSONAL

AÑO: 1981

## GERENCIA EJECUTIVA

| | |
|---|---|
| Gerente Ejecutivo | - Jaime E. Simons B. |
| Secretaria | - Diriam Araúz |
| Conductor | - Lorenzo Atencio |

## ASESOR LEGAL

| | |
|---|---|
| Asesor Legal | - Luis Salazar Rodríguez |
| Secretaria | - Maritza C. de Tristán |

## PLANIFICACION

| | |
|---|---|
| Jefe de Departamento | - Jose De la Guardia |
| Técnica en Asistencia Técnica | - Estrella Yú |
| Técnica en Capacitación | - Rosalía de Simmons |

## DEPARTAMENTO OPERATIVO

| | |
|---|---|
| Jefe de Departamento | - Demetrio Vallecilla |
| Secretaria | - Nereyda Camargo |

## PRESUPUESTO

| | |
|---|---|
| Analista de Presupuesto | - Carmen Yú |

## CONTABILIDAD

| | |
|---|---|
| Contador | - Luis Aguilar |
| Asistente Contador | - Etelvina de Ramos |

## COBROS

| | |
|---|---|
| Cobrador | - Reyna Vásquez |

## TESORERIA

| | |
|---|---|
| Contador | - Elvira Oporta |
| Asistente Contador | - Walter Eleta |

## DEPARTAMENTO TECNICO

| | |
|---|---|
| Jefe de Departamento | - Adelina Chavarría |
| Secretaria | - Ana María Quezada |

## ANALISIS Y EVALUACION

| | |
|---|---|
| Ingeniero Industrial | - Rosalino Pereira |
| Ingeniero Industrial (Control de calidad y mercadeo) | - Ricardo Rivera |
| Analista de Crédito | - Nigel Ríos |
| Analista de Crédito | - Ludovina Martínez |
| Secretaria | - Mélida Sierra |

## SUPERVISION DE PROYECTOS

| | |
|---|---|
| Jefe de Supervisión | - Horacio Hernández |
| Secretaria | - Rosa Haydee Martínez |

## ASISTENCIA TECNICA Y CAPACITACION

| | |
|---|---|
| Técnica en Asistencia Técnica | - Daidamia Arjona |
| Técnico en Asistencia Técnica | - Javier Góndola |
| Arquitecta | - Casta Palacios |

## OFICINA REGION CENTRAL

| | |
|---|---|
| Representante del Area | - Alfredo Sinclair |

## OFICINA REGION OCCIDENTAL

| | |
|---|---|
| Representante del Area | - Osvaldo Aizpurúa |

1. Direct costs which are readily identified are charged to each separate project within GEDEL.
2. A management fee of 2% of all costs is budgeted for the entire department.
3. Indirect costs (including such major items as salaries, wages, travel, office expenses, etc.) are apportioned by formula as follows: 22% to FODEM, 38% to PPGE, and 38% to Inter-American Development Bank.

The organization of PPGE within BNP has remained essentially unchanged since 1981. Personnel changes have taken place, however. The most important of these was the departure of Jaime Simons in November, 1982, to become National Director of Casinos. Officially, he remains "on leave" from Banco Nacional de Panama. Adelina Chavarria, who now occupies his office, holds the title of "Technical Director".

Although twelve staff members are alleged to have left the program at the time of Simon's withdrawal, staff continuity in key positions has been rather substantial. The following management personnel held, and continue to hold, responsible positions:

| Name | Present Position |
|---|---|
| Rosalia de Simmons | Chief of Department, Planning |
| Demetrio Vallecilla | Chief of Department, Operations |
| Reyna Vasquez | Director of Collections |
| Adelina Chavarria | Technical Director, PPGE |
| Deidamia Arjona | Chief of Department, Supervision |

All of the above can be found listed in Table 6, the original list of PPGE personnel.

A brief introduction to the functions and responsibilities of each of the divisions and principal subunits identified in Table 5 will be presented below:

1. General Manager.

In addition to general supervision, the Technical Director's unique responsibilities are to represent PPGE in dealings with project sponsors: IBD and USAID. More frequently, the TD serves as a member of the BNP Credit committee, which meets bimonthly to review and vote on approval of loan applications. All members of the Committee except Adelina Chavarria are from other parts of the Bank.

2. Planning Office.

Like the general manager, the planning office appears to represent PPGE in dealings with the outside world, e.g., in preparation of statistics, reports and projections for consumption elsewhere within the Bank. This is the only Department within PPGE which appears to have little direct contact with clients. It is consistent with these observations to note that the director of this Department was assigned to represent PPGE in the evaluation study conducted by the authors.

3. Legal Assistance.

This unit has two primary functions. The first is to certify the legal status of documents provided as support for applications prepared by prospective borrowers. The second is to take action against delinquent accounts. Because of the rather lenient attitude maintained toward late payments throughout the program, the first of these functions is more important than the second.

Since the largest number of applications rejected for a specific reason are turned down because of inadequate garantias (collateral requirements), the legal office, which reviews the evidence of ownership presented, occupies an important position. This office also prepares the contracts which serve as loan agreements.

4. Technical Department.

This "Department", which has no director, is only a set of components, each of which has its own chief of operations.

a. Analysis and Evaluation.

This division is responsible for the preparation of project studies. These studies are the basis of determination concerning the eligibility of the applicant and the financial viability of the project. Preliminary screening of applications takes place within this division. Client requests for disbursement are referred to Analysis and Evaluation for approval, as are any attempts to alter terms of the original loan agreement.

b. Supervision and Monitoring.

Once a loan has been approved, responsibility for execution is assumed by this division. Site visits are made to verify the purchase of equipment, progress of construction, etc. In cases of late payment, inquiries may be directed through this division to determine the circumstances.

Recommendations for a change in status of a loan account may also originate here, e.g., suspension of disbursements, referral to the legal department, etc.

c. Technical Assistance and Training.

During the project study, clients are requested to identify their preceived needs regarding technical assistance. The analyst responsible for the study adds his own insights concerning additional requirements. Following disbursement of the loan, staff members of this division begin a series of visits to the site of the enterprise to dispense advice and diagnose problems. They also issue invitations to attend a series of classes intended to convey information on basic business practises.

Subjects covered in the training curriculum include the following:

1) Administrative procedures
2) Tax law and regulations
3) Social security

Instruction is provided by private consultants retained on contracts for this purpose.

5. Operations Department.

This is an authentic Department with a Director who is the second most influential official in the PPGE. From the BNP's point of view, cash flow is the most important aspect of the supervised credit program. Responsibility for collections and disbursements is contained completely within this Department.

Among its individual functions and responsibilities are the following:

a. Receipt of requests for disbursements, and approval of payments.
b. Receipt of amortization payments on loan contracts.
c. Notification of clients whose payments are delinquent.
d. Transmittal of accounting data to the BNP central computer.

Activities of this department are closest to "conventional" banking.

6. Regional Offices.

Since decision making within the PPGE is highly centralized, regional offices are primarily points of contact with potential clients. They can respond to inquiries, provide application forms and make referrals to the central office where applications must be presented. Following award of a loan within their jurisdictions, they engage in some supervisory activities, especially in making calls on delinquent accounts.

Primary responsibility for supervision, monitoring and technical assistance/training is retained by the Panama headquarters of GEDEL. While they provide limited services, it is difficult to escape the conclusion that they are underutilized. This judgement follows from the present distribution of loan approvals, 25% of which are within the jurisdiction of the regional offices: 48 of 192 cases.

Conclusions: A Client-Centered Credit Program.

The foregoing description of loan terms and PPGE organization provides the framework within which the program has operated. The intention of project designers was to implement employment generation by providing credit on terms which were both (1) favorable to the client, and (2) as close to private sector commercial banking practises as possible.

The loan terms, interest rates, and provision of assistance to clients were intended to attract applicants who were either unable or unwilling to seek financing from commercial facilities. However, several unspecified features of these terms have been the source of problems in program operations to date:

1. Preference for new vs. existing enterprises was not specified.

A careful reader might conclude that the owner-operator requirement, the specification that borrowers demonstrate "managerial capability", and the substantial average size of loan proposed ($31,000) would all imply a preference for lending to existing firms rather than to new enterprises. However, new entrepreneurs and their projects were not specifically excluded from consideration.

In practise, loans have been granted to either create or expand existing firms with almost equal probability. They have proven to be unequal in their survival potential, however. A less visible consequence of failure to specify whether credit should be provided to new or expansion enterprises is the uneven demand generated for technical assistance: each type of enterprise has distinct requirements.

2. No lower limit was placed on the loans provided.

The intent of the program was employment generation. It was not intended to discriminate against any class of prospective entrepreneur; however, it failed to recognize that below a certain level, loans are essentially being provided to families for household scale operations rather

Table 7

## BNP BRANCH BANKS BY PROVINCE

| Provinces | Numbers |
|---|---|
| Bocas del Toro | 2 |
| Coclé | 4 |
| Colón | 2 |
| Chiriquí | 9 |
| Darién | 1 |
| Herrera | 2 |
| Los Santos | 4 |
| Panamá | 19 |
| Veraguas | 2 |
| Total: | 45 |

than to firms. Since the labor force for the former is contained within the household that defines the scope of business activity, it will generate no new jobs. Of the 192 loans approved prior to July 1, 1983, 43 (23%) were for less than $10,000.

3. No spatial distribution of clients was prescribed.

While much of the project paper is taken up with analyses of unemployment and poverty, contrasting the "metropolitan corridor" with other regions of the country, this division is not reflected in the project design. A preference is indicated for metropolitan Panama because of its high concentration of unemployed, but no proportional division of projects is recommended.

By July 1, 1983, the 192 projects approved were divided such that 101 (53%) were in the metropolitan region and 91 (47%) were outside it. Unfortunately, this allocation does not match the distribution of supervisory and technical support resources. These are heavily concentrated in the metropolitan region.

The BNP consists of a national network of 45 branches, which are identified and distributed in Table 7, opposite. It should not have taken much additional planning to localize promotional efforts in order to correspond to this distribution. The personnel resources and support services could then have been allocated proportionately.

The administrative apparatus provided by the Banco Nacional de Panama was more elaborate than intended from the beginning. It contained both more departments and more personnel than originally envisioned. Since only one of those Departments (Operations) represents conventional banking, the performance of others in areas such as Supervision and Technical Assistance should have been carefully monitored.

Two provisions of the project design appear to have been compromised from the beginning by the administrative structure established within the BNP for handling PPGE operations. First, the plan appears to require the creation of a new unit exclusively for administration of the supervised credit program. Judging from the formula applied to cost apportionment, it is receiving about 2/5 (38%) of the time of the present staff, which also manages the FODEM and ADB loan portfolios.

The project design clearly specifies the need for a register of private

consultants to provide for the technical assistance requirements of loan recipients. The 3% collected on loans for technical assistance was to pay the fees of these consultants. Instead, technical advice is provided by PPGE personnel within the Department of Technical Assistance and Training, to which the 3% fee is also directed. A field survey of 40% of the active enterprises receiving loans failed to disclose a single case of technical assistance provided by a private consultant.

# CHAPTER III

## GETTING TO KNOW THE PROGRAM

### Information Resources at PPGE

#### Evaluation Strategy

The inquiry and assessment of the supervised credit program at the Banco Nacional de Panama was performed over the course of six weeks between July 5 and August 19, 1983. Participants included three persons (Robert Hackenberg, Beverly Hackenberg, and Rene Hinojosa) who had recently worked on the evaluation of a similar program within the URBE Project——the activities of the Direccion General de la Pequena Empresa within the Ministry of Commerce and Industry (MICI). The design of the BNP evaluation adhered closely to that employed during January-April, 1983, in the DGPE inquiry. The intent was to facilate comparisons between the two loan programs directed toward small and medium enterprises. Results of the DGPE inquiry are contained in RURAL GROWTH AND SERVICE CENTERS: The Small Scale Enterprise Component, by R. Hackenberg, R. Hinojosa and B. Hackenberg, April, 1983.

In both assessments, three types of data were collected. The official records of performance were obtained from the agency. The performance record, and the organization and operation of the credit facility, were then interpreted through interviews with key officials in all departments. The client's perspective on the project, and the overall impact of the program on its employment targets, were described and measured through a field study of a sample of loan recipients.

The convergent analysis of these three types of information were intended to provide the data for meeting the five specific requirements contained in our scope of work:

1. Review the available pool of raw statistical data and its current utilization. Identify potential new statistical inputs available but not being collected or appropriately utilized.

   Design the necessary formats and procedures to obtain the baseline data to design a project monitoring and evaluation system. This system should be compatible with automated data processing systems.

2. Prepare a flow chart of the BNP lending and TA procedures. Average time per step is to be included.

3. Examine the technical assistance program and define areas of strength and weakness.

4. Conduct field visits to a sample group of borrowers to confirm BNP's data and gather borrower opinions on the program.
5. Carry out a cost/effectiveness analysis of the SCP component as is, and produce 5-year cost/effectiveness projections assuming variation in key inputs (sensitivity analysis).

The usefulness of each of our three primary data sources for complying with the specifications of the scope of work will be described and reviewed below.

Record Sources Within the BNP

In each Department or subunit of the PPGE, there are two kinds of record sources which may be present: entries of events and transactions, and reports intended to summarize and interpret them. The former are the "raw statistical data" described in item #1 above from the scope of work.

A. Department of Operations.

Since this is the locus of conventional banking transactions, and the "nerve center" of the entire organization, it is the logical place to begin. Documentary sources maintained include the following:

1. Archivos.

The project studies and related documents are filed separately by type of loan: industrial, commercial or service. They are in chronological number sequence within each of these classes. Each client has a separate section in the archivos, containing his project study, copies of his disembolsos (disbursements), and the technical reports from the Department of Supervision (Inspeccion y Avaluo) having to do with assessment of property pledged as collateral. There are no current data on loan performance, jobs created, or business activity in this file. The Archivo is not the "complete record" of each loan account which BNP officials sometimes maintain. However, it contains the baseline ~~data on~~ each client which serves as a point of entry for following an account to its present status. The key item is the project study, made at the time of application and never updated, by the Department of Analysis and Evaluation.

2. Estado de Cuento.

Ledger sheets bearing this title are maintained and updated monthly. A copy of this form appears as Appendix B-1. The medium is a conventional accounting/billing machine of the sort employed to prepare bank

bank statements in the pre-computer era. Each printed entry is coded and sub-categorized according to a complex formula which renders them difficult to interpret. These records are considered confidential and are not available to inspection.

3. Control de Cobros.

A summary card (8.5" X 8.5") is maintained by the collections office with the key information from the Estados de Cuentos. A copy of this form appears as Appendix B-2. It provides a comprehensive summary of dates of disbursement and repayment with amounts of each transaction.

The Control de Cobros card also presents the plan of repayment (plano de pago) for the loan, length of grace period, and the allocation of all payments received to capital, interest and technical assistance. There is a column recording the balance unpaid on each of these items, and a final section reporting the delinquency status (morosidad) of the account.

B-2

Since changes in the amounts assessed each client have been made by the collections office to reflect the schedule of disbursements, and the Control de Cobros card is the only record of these modifications appearing in the bank, they are quite important documents. It is not possible to obtain a perspective on collection practises (as compared with principles) without access to them. The records are considered confidential and are not available for inspection.

4. Morosidad del PPGE.

A monthly record is prepared summarizing the status of delinquent accounts. The loan number and name of each client appears, together with his accumulated indebtedness to principal, interest and technical assistance. Indebtedness is characterized by amounts in temporal units of 30 days, 60 days, 90-120 days, more than 180 days, and more than one year. A copy of this form appears as Appendix B-3. Copies for January-June, 1983, were provided to us.

B-3

5. Analisis sobre Proyecciones y Recuperaciones del Capital, Intereses y Asistencia Tecnica.

The evaluation team discovered that no record was being kept concerning accounts receivable with reference to the collections which were accumulating in the program. Without such a record, collections could not be compared with a target figure representing the amount due and payable every month.

After considerable discussion, the accountant in charge of the PPGE program agreed that such a record was desireable, and discovered that information for this purpose could be retrieved (although difficulties were substantial). After several weeks, a report contrasting accounts receivable with collections was prepared for the first six months of 1983. See Appendix B-4.

The report is divided into separate sections for each of the major categories in which collections are reported: capital, interest and technical assistance. The column headed "projected recovery" (Recuperacion Proyectada) for each month carries forward the uncollected balance from all previous months. It has more meaning as a cumulative total than as a target figure for collections.

The actual amount due and payable during each month is headed "collection for the month" (Cobros del Mes). The sum which was collected for that month is headed "recovery realized" (Recuperacion Realizada). The difference between the two is the delinquency figure for that month (Morosidad del Mes).

The Department of Operations appears to agree that this is a useful report form and affirms its intent to continue to prepare this information on a monthly basis in the future. At this time, however, only one retrospective report has been issued to the evaluation team. It was alleged that any attempt to carry the analysis back further than the end of the calendar year would require more resources than were available for this purpose.

Interviews with this Department brought forth the admission that several internal audits had been prepared by the BNP prior to the evaluation. Reports were not made available however so it was not possible to determine whether the bank auditors, like the evaluators, were interested in the relationship between current collections and monthly accounts receivable.

6. Reembolso Solicitado al AID.

A typewritten request for reimbursement of loan expenditures is prepared periodically by PPGE; eight of these have been submitted to USAID to date, and a ninth is in preparation. While the single-page result of this accounting task is valuable, the process by which it is produced creates a much more useful resource: ledger sheets summarizing disbursements to date for each client who has received a loan.

This disbursement summary serves as evidence that a loan which has been approved has also been paid, at least in part. It allocates amounts disbursed to the appropriate parts of the plan of investment, and indicates which portions of disbursements have been charged to USAID, to GOP or to BNP. There is no other document with similar information. These handwritten ledger sheets were made available to the evaluation team.

B. Department of Analysis and Evaluation.

Since this is the department to which a prospective client applies, it maintains complete sets of application forms which will be discussed in the following chapter. Many of these are interim documents and are not retained by BNP following disposition of the application.

1. Comite de Prestamos.

The document bearing this title is the general study of the project which will be evaluated and approved (or disapproved) by the Bank's Credit Committee. A copy of a completed study is included as Appendix C-1. This record is the core item maintained in the archivo described under A-1 above. It is prepared by an analyst from this Department who, from this date forward, is considered to be an authority on the progress of the business.

Each document of this sort (197 were prepared from the beginning of the program to July 1, 1983) contains the following sections:

a. Description of client, type of project.
b. Plan of investment.
c. Employment to be generated.
d. Plan of payment.
e. Collateral.
f. Description of the project.
g. Market analysis.
h. Price structure for merchandise.
i. Financial analysis.
j. Conclusions and recommendations.

The comprehensive report described above is responsive to a number of stipulations in the project paper, loan agreement and conditions precedent to disbursement:

a. The owner-operator status of the borrower may be verified.
b. Utilization of loan funds may be validated.
c. Employment to be generated may be matched with loan amount.
d. Grace period may be verified.

types of action: additions (adiciones) to existing loans and changes (modificaciones) in plans for payment. An adicion occurs when, in the opinion of the client and the Bank, a project is doing so well that it can absorb additional financing. A modificacion, on the other hand, reflects a client's inability to pay the amounts of amortization originally agreed upon. A change in the repayment plan involves either an extension of time, a reduction in monthly payments, or both.

The listing maintained includes the following items:

a. Loan number and client's name.
b. Total capitalization of project.
c. Total amount of the loan.
d. Amount charged to AID, GOP and BNP.
e. Type of project (industrial, commercial, service).
f. Nature of the enterprise.
g. New or expansion loan.
h. Employees to be generated.
i. Location of the enterprise.

Following December 31, 1982, updates have been made on a monthly basis. The most recent is from July, 1983. These reports were made available to the project evaluation team. In addition to the items mentioned above, they relate the total sums approved for different classes of loans (industrial. commercial and service).

In reporting what these documents contain, one should also note what they omit. An "approval" (aprobado) is an administrative act which clears the way for a client to negotiate remaining steps intervening between application and disbursement. Many months may elapse before a loan is actually paid. Some are never paid. The practise at BNP, which is to report approved loans as if they were paid loans, leads to endless confusion, and some degree of misrepresentation. See Appendix C-2.

3. Informe Mensual.

A monthly report to the Technical Director repeats the information in the "prestamos aprobados" documents, and gives additional material as follows. Clients whose applications were rejected (rechazados) are described for the month preceding. Clients whose projects are under study are likewise identified. The monthly listing of clients visited by personnel of the Department (visitados) may be compared with the listing of clients who filed new applications (atendidos). See sample pages, Appendix C-3.

e. Collateral pledged may be inspected.
f. Economic soundness of the enterprise may be assessed, including the requirement that the internal rate of return must be greater than the cost of capital.

The project study presented to the Credit Committee should answer all questions concerning the eligibility of a loan for consideration under the program. As demonstrated above, it answers most of them. However, there are two conditions included in the "Requirements for Eligibility", prepared and submitted to USAID by BNP in October, 1981, which are not covered:[1]

a. Businesses supported are to help provide for the needs of the country and conform to the priorities of national development. Special attention should be given to import substitution, optimum use of natural resources, and preservation of ecology.

b. Effects of the project on the social welfare of the community will be assessed in terms of number of jobs to be generated, salaries to be paid, the improvement of quality of life, and new purchasing power created.

There is no effort apparent in the project study to match the purposes of a project with either national priorities or local needs for goods and services. No reference is made to import substitution anywhere in the BNP files. Furthermore, the project study fails to explain how the decision concerning the number of employees to be generated was reached. Nature of new employment is not described and salaries are not estimated.

2. Prestamos Aprobados.

The Department of Analysis and Evaluation is also the source of lists prepared periodically to reflect the number and characteristics of loans approved by the Credit Committee. A summary of the first 158 loans approved was issued in January, 1983, to present data on loans approved through December 31, 1982.

The record of "Prestamos Aprobados", which is actually a report of actions taken by the Credit Committee, also includes notes on two other

---

1. These requirements are paraphrased from items 3-4 in the document entitled "Requisitos de Elegibilidad" which describes the six conditions which must be met by all loan applicants. This document is submitted to satisfy conditions precedent to loan disbursement. It was prepared by PPGE and appears as Appendix D.

4. Solicitudes Rechazas segun Razon

For the year 1982, a report was prepared on the rejected applications. Numbers are given for each month together with the reasons, listed by a precoded set of categories. The amounts requested by rejected applicants is also provided. These data were given to the evaluators.

The Department of Analysis and Evaluation provides statistical reports to the rest of the PPGE organization. However, as the nature of the preceding items indicates, nothing beyond a frequency distribution and occasional computations of percentages and means has been undertaken to the present.

5. Costo de Ventilar un Credito en el PPGE

A cost accounting of the sequence of events leading to a decision on a loan application has been prepared in several different editions. The activities are described in terms of "time in minutes" and "total cost" in dollars and cents. The calculations are not based on recording of actual events, but have been reached by the application of formulae which are included as appendices to the report.

The most useful content of this document will be found in the final pages which provide the data to which the assumptions involved in the formulae were applied. These pages are entitled "Informacion Complementaria". Items include total cost of GEDEL operation in 1982, mean salaries for financial analysts and other personnel, etc. See Appendix C-4.

C. Department of Supervision and Monitoring.

1. Inspeccion y Avaluo de Edificaciones y Terrenos.

This form is used to verify the description and condition of property pledged as loan collateral. Since only a minority of clients have offered this type of garantia, it has not been completed for every customer. It is filed in the archivo.

2. Formulario de Avaluo de Maquinaria y Equipo.

Like Number 1 above, this form is used to derive the value of equipment and machinery pledged as loan collateral. Both these are to be completed following field visits to the site of the property. Machinery is used as collateral much more frequently than land or buildings. However, most equipment or machinery pledged is to be acquired from the loan funds themselves. Therefore, the inspection takes place following disbursement and

delivery of items ordered. These forms (D1-2) are available for inspection.

3. Formulario de Seguimiento y Supervision de Proyectos.

This is the basic record of supervision and monitoring. One copy of this form is to be prepared for each client whose loan has been disbursed. The edition of the form now in use dates from early 1983. It contains the following sections:

a. Description.
b. Plan of investment.
c. Sources of loan funds.
d. Employment record.
e. Collateral (existing and to be acquired).
f. Date of initiating business operations.
g. Record of disbursements and payments.
h. Estimated capacity of client to make payment.
i. Areas of technical assistance (recommended and received)
j. Training (recommended and received).
k. Personnel problems.
l. Production record.
m. Marketing conditions.
n. Growth of sales.
o. Recommendations regarding frequency of inspection.

While the first three items in the monitoring report are fixed, the items which follow are variables. The status of employment, business activity, repayment, production, markets, etc., will change over time. Much of the usefulness of this record, then will depend on the frequency of visits and the completeness of reporting.

The level of completeness of the file was tested for employment generation data, presumed to be a critical item. All forms for a random sample of 54 loan recipients (40% of the active loans) were retrieved and examined. Results were as follows:

| | | | |
|---|---|---|---|
| a. | No entry pertaining to employment | 24 | 44% |
| b. | Most recent entry one year ago | 14 | 26 |
| c. | Most recent entry six months ago | 16 | 30 |
| | TOTAL | 54 | 100% |

The most recent entry concerning employment data was for February 2, 1983. In most cases, where employment data were missing the form had not been completed for the client in question.

Even where the client had been visited and a form completed, the status of employment data obtained was inadequate. It consisted of the following items:

a. Date of visit.
b. Number of employees prior to the loan.
c. Number of employees to be generated by the loan.
d. Number generated at time of this visit.
e. Percentage of target (as appears in "c").

Neither names, nor job titles nor wages received are available from this record.

Clearly, employment, like many other items in the "Formulario", is a variable. To obtain a satisfactory view of it, a time series of observations must be reported——at intervals of three months, for example. This concept has been omitted from data collection procedures at BNP. A copy of the "Formulario" appears as Appendix E.

4. Control Diario de Visitas.

A list is prepared by each analyst in the Department of Supervision and Monitoring indicating his visits for the month. Each line reports the date, client identification, reason for and results of the visit. The record shows that, during the first six months of 1983, personnel from this office made 299 calls on loan recipients (50 per month). The most prominent reasons for visits include follow-ups on construction to verify improvements, and calls on delinquent accounts.

D. Department of Technical Assistance and Training.

1. Encuesta para Determinar Necesidades de Adiestramiento y Asistencia Tecnica en las Empresas.

This is the basic form employed by the Department to record technical assistance needs of loan recipients. While the term "encuesta" implies that a field survey was completed to get this information, that is not the case. These forms were frequently completed from the project study (see B-1 above), or during visits of clients to the office. This form is included as Appendix F-1.

2. Planilla de Empleados.

This form (see Appendix F-2) was intended to be the major source of employment data generated for this Department. But there are many gaps in the reporting. Data from this document have been summarized in a ledger maintained by the Department head, which she kindly made available to the evaluation team. Of the 192 loans approved to July 1, 1983, 150 have been disbursed and the enterprises supported by them have some history of operation. However, employment data have been reported for only 77 (51%) of these.

3. Informe de Trabajo---Asistencia Tecnica.

This form (see Appendix F-3) was intended to be the basic report of technical assistance delivered to clients. It provides a record of each action taken. A set of these reports is accumulated in the file folder of each client who has been served. Additional copies of this report are used to obtain an evaluation from clients concerning the training courses they have attended.

A summary record of these visits is abstracted on 5" X 8" cards by the Department head who kindly made them available to us. They give evidence of a substantial volume of services rendered to clients; especially in the areas of basic business instruction: accounting, filing, inventory control. However, only 54 clients of the 150 whose loans were disbursed appear to have received this type of assistance, which appears to be the central purpose of the unit.

Perhaps the most rigorous approach to technical assistance provided by the Department takes the form of ten-day training courses which were presented initially through a contractual relationship with APEDE (The Panamanian Association of Business Executives). The subjects of these courses include (a) administrative procedures; (b) tax law and regulations; and (c) social security.

A course syllabus and class list is maintained reporting the content and attendance at each class. Enrollment has ranged from 22 to 35 clients. Private consultants are now retained on contract to provide the instruction and follow-up visits to participants. The visits are to determine whether the course content is being applied, and to obtain comments intended to improve the curriculum.

Interviews with Bank Officials

The Banco Nacional de Panama's supervised credit program has little use for documentation. There is no written record of its history, no manuals describing the operations appropriate for each department, no regulations for the guidance of personnel. Even records of transactions have proven to be minimal, and often incomplete.

This means that heavy reliance is placed on oral tradition to keep the system operating, instruct newer employees, explain actions to customers, and communicate with other departments. Bank employees may spend time writing memos to date and document transactions, opinions, and conclusions reached in

conferences. If they do, we were never privileged to see the results.

A consequence of the reliance on oral tradition was that the evaluation team found it necessary to spend endless hours in interviews with the department heads who are the custodians of this oral tradition. Because of the absence of documentation, verbal responses of one official could only be verified (or amplified) by cross-checks with other officials. When X was told what Y had been saying about certain aspects of the program as the foundation for further questioning, unexpected areas of disagreement were uncovered (and also some areas of complete ignorance about actions in the adjoining department).

Further difficulty was experienced in that the department heads of technical assistance and supervision and monitoring were seldom in the office. This increased our dependence on personnel from the departments of operations and analysis and evaluation. Our queries became burdensome and many lines of investigation remain incomplete.

Despite the awkward circumstances surrounding some of them, detailed interviews were completed with all officials at the rank of department head or higher. Each was interviewed concerning the following:

1. Operations of his/her department and relations with other departments.
2. Services performed for and basis of contacts with loan recipients.
3. Records of transactions, operations and events for which the department is responsible.
4. Role of his/her department in the decision-making process regarding the approval, disbursement and subsequent course of action (including addition, modification or closure) of each enterprise.

Information was provided reluctantly in some areas by most department heads, especially where loan projects had encountered difficulties or failure.

Information was perhaps most easily obtained from the department least directly involved in critical (often painful) decisions: technical assistance and training. Conversely, it was most difficult to obtain from the department most intimately involved in such decisions: operations. Nonetheless, interviews were completed on all subjects of importance.

The Field Survey

The review of official record sources left many critical questions

unanswered: how many employees had been generated? What was the success/failure ratio of businesses supported by the program? What was the level of efficiency with which applications had been processed and funds disbursed? What were the major reasons for delinquent accounts?

None of these questions was answered by interviews with BNP officials. To fill out the narrative, the evaluation team undertook two ventures, neither of which was completely satisfactory. Since many essential records were not available to us, we decided to request BNP personnel to complete an information sheet on each client. The sheet contained the essentials for quantitative analysis of the program and the design of a suitable management information system intended to capture and analyze bank operations.

If completed, the data sheet would have permitted us to fulfill the first requirement of our scope of work which calls for "review of the available pool of raw statistical data". However, BNP officials within the PPGE refused to cooperate. In an effort to compromise, we reduced our request. Bank personnel were asked to complete the information only for a sample of cases. The answer was unchanged. The data sheet is included as Appendix G. Insofar as possible, they were completed from the file of loan applications maintained in the offices of USAID/Panama. However, USAID does not receive a copy of a loan application until a reimbursement request pertaining to that loan has been prepared. The set is quite incomplete, and this alternative was unsatisfactory.

Our second effort was to plan and conduct a sample survey of clients in the field. For this purpose we drew a 25% sample of the names of firms whose applications had been approved. When we asked PPGE for information concerning the location of these businesses, however, we encountered some resistance. The Bank preferred that we exclude loans made to enterprises whose status was precarious, and were in danger of being suspended or foreclosed. We agreed to confine the sample survey to "active loan accounts".

To enable us to conform to their wishes, however, BNP at this point disclosed a substantial amount of information about clients who had withdrawn from the program or had been suspended by administrative action. We excluded those, together with the undisbursed loan accounts, from the universe of 197 cases, and emerged with a final sampling list of 136 active loan accounts. From these, a 40% sample of 54 cases was drawn with a table of random numbers.

The BNP program operates throughout Panama. However, outside the

metropolitan area of Panama City, the number of loans within a specific location is quite small. Therefore, neither universe nor sample can be analyzed by community. The expedient employed was to dichotomize the cases between "Metropolitan Region" and "Outside the Metropolitan Region".

The primary characteristics of the sample are matched with those of the universe below, using the two-part classification of "Metro" vs. "Outside":

EMPLOYMENT PLANNING AND GENERATION

Universe and Sample Characteristics

| | UNIVERSE | | SAMPLE | |
|---|---|---|---|---|
| 1. | Metropolitan Region: | | | |
| | 81 cases | | 28 cases | |
| | Mean size of loan: | | Mean size of loan: | |
| | $26,676 | | $29,964 | |
| | Industrial: | 25 | Industrial: | 9 |
| | Commercial: | 29 | Commercial: | 9 |
| | Service: | 27 | Service: | 10 |
| | | 81 | | 28 |
| 2. | Outside Metropolitan Region: | | | |
| | 55 cases | | 26 cases | |
| | Mean size of loan: | | Mean size of loan: | |
| | $16,792 | | $18,302 | |
| | Industrial: | 17 | Industrial: | 5 |
| | Commercial: | 19 | Commercial: | 10 |
| | Service: | 19 | Service: | 11 |
| | | 55 | | 26 |

The random draw of cases tended to overweight the loans outside Panama City, and within that non-metropolitan group, to under-represent the industrial loan recipients. As will be discussed below, the typology of enterprises constructed by BNP tends to minimize the differences between firms, which minimizes the importance of sampling bias on this variable. In general, the sample chosen for the field survey served its purpose: some of all types of enterprises were included in approximately correct proportions.

Following sample selection, an interview schedule was designed with the intent to obtain information not available from other sources. The purposes for which the schedule was intended are set forth in the manual propared for the use of interviewers (see Appendix H-1, "Field Interview Schedule"). The schedule itself is included as Appendix H-2.

The length of the schedule is itself evidence of the number and types of items which were not available from BNP/PPGE. These included the characteristics of the applicant, previous and other employment or business activities and present income; the history of business operation since receiving the loan; the attitude about further credit uses formed by experience with BNP/PPGE; pre-loan and post-loan employment and salary payments.

Schedules in and near the metropolitan area (Panama City, San Miguelito, Chorrera, Chepo, Colon) were administered by Rene Hinojosa, Kristina Solheim, and Beverly Hackenberg. Schedules in the remainder of the non-metropolitan region were administered by Pedro Martiz.

Steps Toward a Management Information System

An assumption underlying this evaluation was that it would provide an opportunity for introducing an information system at BNP which would provide for monitoring, periodic assessment of program status, and intervention by management at appropriate times and places.

In our memorandum of February 25,1983 (Robert Hackenberg and Rene Hinojosa to Bernai Verlarde), we observed:

> "Initiating suitable information gathering procedures, automated data processing, and standardized reporting operations at the earliest possible date at BNP is a high priority objective.
>
> A. It will provide the baseline and trend data essential to impact assessment at a later date.
>
> B. It will provide suitable tools for effective project management by GOP, and for continuous project monitoring by USAID.
>
> Early completion...will provide prototype models and designs for use in improving the efficiency of other small loan projects in which USAID and GOP have an interest."

Those goals are still valid, but the path which must be navigated to reach them appears to be strewn with a few more obstacles than were perceived in February.

The February memorandum was prepared based on the assumptions that (1) a favorable attitude toward modernization existed within PPGE; (2) a base of

raw statistical data, complete with time-level entries on key variables (sales, profits, wages, cost recovery, costs of administration) could be obtained which would reflect trends since the inception of the program; (3) the positive achievements and accomplishments of the program would be sufficient to motivate BNP/PPGE personnel to want to "tell the story" and receive the credit.

None of these assumptions were confirmed:

1. Bank personnel are satisfied with existing procedures and will need to be convinced that modernization (by automated data processing) will provide benefits to them.

2. There are no time level entries which may be placed in sequence to reflect growth trends or patterns within the program. For example, it was not thought necessary to record the date on which clients filed their loan applications. The interval between date of application and date of disbursal (measuring time elapsed in the review process) cannot be recovered.

   Costs of administering the USAID-funded PPGE have never been separated effectively from those of the others within the same office: FODEM and BID.

   When recorded at all, employment data have been reported only once for each client. The date for reporting has no significance. It does not take place six months following first disbursement, and at six month intervals thereafter, for example.

   There is no time series of data for any variables in the system except for disbursements and amortization payments.

   Extablishment of trends in the program at this point would require retrospective efforts to recover events occurring since October, 1981.

3. As will become clear in subsequent chapters, the PPGE program has encountered a number of problems in the selection process, and also in providing effective technical support and supervision. Since causes are not understood, the institutional posture is defensive.

To the extent that this is possible within the limits imposed by a short consultancy, the evaluation attempted to substitute field survey data for raw statistical events which should have been available from the files at BNP/PPGE. These, in turn, have been used to prepare a mock-up, or preliminary model, of an automated information system for monitoring and effective resource allocation and problem recognition.

There is a profound lesson contained in this. Any effort to expand and improve the rudimentary designs and outlines presented in the following chapters must rely upon data to be gathered in the field. They will not be found in the records presently maintained by the BNP. Furthermore, if BNP/PPGE personnel are utilized to gether these data, procedures must be planned and forms designed elsewhere. The statistical competence needed for analysis and interpretation must also be provided.

# CHAPTER IV

## ENTERING THE SYSTEM

## Getting a Loan from the Bank

### Natural Selection at BNP

In order to insure that loans succeed in generating the employment proposed, the enterprises serving as employers must survive. It is the responsibility of BNP/PPGE to select from among interested applicants the ones who are most likely to survive. The present discussion will focus on the applications process and will attempt to identify the factors responsible for success or failure of a prospective borrower. In the following chapter, we will inquire into the fate of those businesses who successfully negotiate the applications process and receive a loan.

It is first necessary to demonstrate that selection is at work. The basic statistic for this purpose should be the number of prospective borrowers who initiate the loan process by coming to BNP offices to apply. This may be done either in Panama City, David or Chitre. Unfortunately, this statistic has only been reported since December, 1982, when the present encargado of the Department of Analysis and Evaluation, Sixto de la Cruz, assumed his duties.

Prospective applicants, upon first visits to make inquiry, complete a preliminary application form. They are referred to as atendidos. Over the seven months, December-June, 1982-1983, they averaged 50 per month. Of these an average of 17 per month were advanced to the stage of completing project studies and presenting supporting documents. From this group of candidates an average of 9 per month were rejected and 8 per month were approved. During 1983, a person making a preliminary application for a PPGE loan had a .16 probability of receiving a loan. The data in support of these conclusions appear in Table 8 opposite.

The statistics presented by month on loan applications in Table 8 may also be summarized over time to provide another conclusion. Data in the following summary are presented in six-month intervals for those applications which were advanced to the stage of project study preparation and the presentation of supporting documents. From each set of six-month data, a

Table 8

OUTCOMES OF COMPLETED LOAN APPLICATIONS
PREPARED FOR BNP/PPGE
(October, 1981 - June, 1983)

| Year | Month | Applications Approved | Applications Rejected |
|---|---|---|---|
| 1981 | 10 | 17 | 50 |
| | 11 | 13 | 10 |
| | 12 | 13 | 10 |
| Subtotal: | | 43 | 70 |
| 1982 | 1 | -- | 14 |
| | 2 | 17 | 16 |
| | 3 | -- | 33 |
| | 4 | 18 | 37 |
| | 5 | -- | 24 |
| | 6 | 42 | 17 |
| | 7 | -- | 15 |
| | 8 | 14 | 21 |
| | 9 | -- | 35 |
| | 10 | 9 | 15 |
| | 11 | 3 | 14 |
| | 12 | 10 | 4 |
| Subtotal: | | 113 | 245 |
| 1983 | 1 | -- | 7 |
| | 2 | 5 | 6 |
| | 3 | 9 | 7 |
| | 4 | 4 | 8 |
| | 5 | 8 | 19 |
| | 6 | 10 | 8 |
| Subtotal: | | 36 | 55 |
| TOTALS | | 192 | 370 |

Note: The applications reported upon above are submitted by petitioners for loans who have already survived a preliminary screening including the preparation of a short form describing their project. These persons (atendidos) are now described in the monthly report of the Department of Analysis and Evaluation.

monthly rate was computed:

MONTHLY RATE OF PROCESSED LOAN APPLICATIONS[1]

| | |
|---|---|
| Last Quarter, 1981 | 38 |
| First Six Months, 1982 | 36 |
| Last Six Months, 1982 | 23 |
| First Six Months, 1983 | 15 |

1. Applications for which a project study has been completed.

The rate of processing for the most recent intervals, January-June, 1983 is less than one-half the rate established at the beginning of the program.

Clearly, the tendency has been for selectivity to increase over the period of almost two years in which the loans have been available. This conclusion assumes that the number of inquiries concerning the program made by atendidos has been a constant. We must assume this because no statistics on preliminary applicants are available prior to December, 1982.

Table 8 discloses that 245 persons were rejected as applicants with completed project studies during calendar 1982. These rechazados are examined in Table 9 to determine the reasons given for refusal, according to a tabulation prepared by the Department of Analysis and Evaluation. The most frequent reasons pertain to the financial adequacy of either the applicant or the project: 101 projects were judged "not economically feasible" and 80 additional applicants had insufficient collateral. These two categories account for three-fourths of all rejections.

Most often, a project's infeasibility appears to have been the result of a projected insufficient rate of return. The basis for such decisions will be discussed in the following chapter. It will be evident from Table 9 that factors pertaining to employment did not receive consideration in a substantial number of decisions.

## The Applications Process

The process of obtaining a loan from the supervised credit program provides the opportunity for selection to take place. Any attempt to either increase the number of applicants or the proportion of successful applications must address this process directly. Therefore, it has been studied with care

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Table 9

REASONS FOR REJECTED APPLICATIONS
(January - December, 1982)

| Reasons | N | % |
|---|---|---|
| Activity does not qualify for support | 10 | 4.0 |
| Collateral is not adequate | 80 | 33.0 |
| Employees to be generated are not sufficient | 32 | 13.0 |
| Bank references are not satisfactory | 5 | 2.0 |
| Amount requested exceeds the limit | 14 | 6.0 |
| Size of the business does not qualify for support | 1 | 0.0 |
| Project not economically feasible | 101 | 41.0 |
| Project not technically feasible | 2 | 1.0 |
| All others | 1 | 0.0 |
| TOTAL | 246 | 100.0% |

and will be presented in detail.

The loan applicant must go in person to the central office of the Banco Nacional de Panama in central Panama City. There he meets with a credit analyst employed by the Office of Analysis and Evaluation. The analyst explains the loan program and outlines the restrictions (see Tables 1-2 and Appendix A). The applicant may be eliminated at this point

If the applicant's preliminary description of this project falls within the limits of the program, he is elibible to proceed to the second step: completing the preliminary form entitled "Generales del Empresario" (personal data concerning the owner-operator). The form is included as Appendix I-1a. It requests a description of the project in general terms: type of business, amount requested, purpose of the loan, nature of collateral, and projected number of employees.

At the time that the preliminary form is completed, the client receives a set of four documents (Appendices I-1b-e) for his information and appropriate action. The papers provide a description of the legal constraints pertaining to the loan program and also identify requirements which must be met by the borrower. When the client perceives the complexity of these documents, he may decide not to reappear.

The certification of the client as a valid applicant involves a number of technicalities, the nature of which is implied by the titles of the documents themselves:

1. Guide for Subloans from BNP Covering Uses of Funds Provided by USAID. Appendix I-1b.
2. Application Requirements for a Business License. Appendices I-1c-d.
3. List of Accompanying Documents. As many as 25 may be required. Appendix I-1e.

The client is instructed to comply with the terms of these documents before returning to BNP for a second visit.

The purpose of the second visit is to make arrangements for the preparation of the project study by the credit analyst. The time elapsed prior to this visit may be as little as four days or as much as the client requires to produce the necessary certification (see Appendix I-1e). However the interval may be shortened at the discretion of the credit analyst if (1) he ascertains that certification will be forthcoming; (2) or, if he determines that he must

provide assistance to the client in obtaining certification. In the latter case, the site visit to prepare the field study may be used to review progress and provide advice.

The key document in the applications procedure is the Formato de Elaboracion de Estudio General de Proyecto (Appendix I-2). The procedure for completion depends upon the nature of the client. If the applicant represents an established corporate enterprise, he will be asked to complete the study prior to the analyst's visit. But, if the client is starting a new venture with little previous business experience, then the analyst will help him prepare the study.

An important feature of the project study is the visit to the site made by the analyst who first interviewed the client at the bank. The visit permits the analyst to inspect the premises, gain an impression of the neighborhood, and evaluate the present scale of operations. From the visit and the data contained in the project study, the analyst forms his opinion about the loan. The time elapsed for this visit is usually two hours or more if help is required in completing the study form.

During the visit the analyst surveys the location to see if it is appropriate for the type of business proposed. He inquires concerning business practises, product demand, type and condition of the building, equipment and vehicles. If there are questions concerning the enterprise which require outside help, the analyst may make a return visit with someone who has the appropriate expertise. He checks accounts, asks about accounting procedures and talks with employees.

Toward the end of the visit the analyst completes a form which details needs for technical assistance (Appendix I-3). Upon returning to the office he rewrites his notes and sends a request for evaluation of the collateral to the Department of Supervision. At this time, he must also verify that the file of required documents has been completed.

There are ten credit analysts in the Department of Analysis and Evaluation. When each has completed a project study and ten new applications are available for review, a meeting is called. At the meeting, each client is discussed and a recommendation (for acceptance or rejection) is agreed upon. Even those applications which the analysts making the site visit wich to reject are reviewed by the committee.

The committee may also decide at this initial meeting that more data are required before reaching a decision on feasibility. There will be discussion concerning both the appropriateness of the size of the loan and the terms of repayment suggested by the client. Committee recommendations for revision are an important ;art of the review process, but the analyst responsible for each case makes the final decision in these matters.

Following approval by the first committee, the credit of the applicant must be evaluated by the analyst. He then writes a memo and attaches it to the application (which now includes the project study) with his findings and transmits the file to the head of the Department of Analysis and Evaluation for his approval. The department head, Sixto De la Cruz, also obtains the opinion of the Technical Director, Adelina Chavarria.

The large application form (Appendix C-1) is now roughed in (pencil draft) by the analyst, and taken to a second meeting attended by all members of the department. Approximately one week will elapse between the first and second meetings. At the second meeting, all applications are reviewed by the Technical Director. She makes final suggestions for revision to the credit analysts, and may also identify additional data requirements. She then approves or rejects each application.

If approved, the pencil draft is sent to the typist. The analyst reviews the typed copy and prepares a folder to be used in transmitting it to the Credit Committee. The folder contains all the completed forms as well as the documents submitted by the applicant. The folder receives a final review from the Technical Director before she presents it to the Credit Committee for final disposal.

The Credit Committee consists of five officers of the Banco Nacional de Panama. Only one, the Technical Director, represents PPGE. The others come from "outside" units of the banking establishment. While the committee has the authority to disapprove a loan, it is tacitly accepted that only the loans intended for approval by PPGE find their way this far. Therefore, the most severe negative judgement reached by the Credit Committee will be "disapproval with conditions".

A conditional disapproval means that the file is returned to the credit analyst for additional work, and possibly, further consultation with the applicant. Rarely would an application be rejected by the Credit Committee a second time. Following final approval, the analyst sends the appropriate loan papers including copies of his recommendations for technical assistance to the proper divisions within PPGE: Departments of Supervision and Technical Assistance.

A copy of the approved loan agreement is also sent to the legal department, describing the loan and repayment schedule. This is then signed by both bank and client. The route followed by the legal department depends upon the type of collateral provided by the applicant If a client offers "real property", a notice must be entered in the public register showing that there is a lien against it. This type of contract encounters delays due to the status of the public register. The alternate form of the contract is for the client who only has co-signers, or intends to use property as collateral which will be purchased with loan funds after they are received.

The Department of Analysis and Evaluation estimates that a loan application can be completed from first appearance to contract signing in thirty working days, but this is probably unrealistic.

It was admitted, however, that the time elapsed may extend to 52 days. The extended delay was blamed on the need for entry of notice in the public register.

Evaluating Selection of Applicants: The Decision Model

The process of applying for a loan at BNP is highly selective. Only one of six persons initiating the process completes it successfully. If applicants have only a .16 probability of getting their money, then there is a probability of .84 that they will be rejected. Our understanding of the entire loan program would be improved if we were to identify the points at which rejections take place, and the reasons for them.

Since the probability of rejection is so high, one first presumes that locating the factors responsible should be an easy task. This view is reinforced by the data in Table 9, which imply that 74% of rejections occur for only two reasons: inadequate collateral and failure to convince analysts that the project is economically feasible.

The proper procedure to evaluate the application process is to construct a decision model, which begins with a flow chart describing the steps taken by both successful and unsuccessful applicants (see Table 10). Table 10 consists of 21 numbered steps which include positive and negative outcomes which can take place at each step of the procedure.

In Table 10, a successful applicant who encounters no obstructions to his progress toward a loan passes quickly through all the odd-numbered steps (1, 3, 5, 7.....21). But between each of the pairs of odd-numbered steps there is an even-numbered step (2, 4, 6, 8.....20) which represents a potential obstacle to further progress. An application may be terminated on any even-numbered step.

Table 10

FLOW CHART: LOAN APPLICATIONS PROCEDURE

| Steps toward Completion of Loan Contract | Reasons for Possible Termination of Application at Each Step |
|---|---|
| 1. Client visits bank to initiate inquiry concerning loan. | 2. Illegitimate project. |
| 3. Client requested to complete preliminary form and produce documents. | 4. Fails to obtain documents. |
| 5. Following receipt of documents, client must prepare project study. | 6. Fails to complete it. |
| 7. Credit analyst makes site visit to authenticate project study. | 8. Defects are perceived. |
| 9. Project study and documents are reviewed by internal committee. | 10. Technical problems are detected. |
| 11. Credit analysis is prepared and file passes to department head and the Technical Director. | 12. Policy issues are raised by administrators. |
| 13. File is transmitted to internal committee for second review, attended by Technical Director. | 14. Technical problems (from #10) or policy issues (from #12). |
| 15. Application is ready for approval by Bank Credit Committee. | 16. BNP policy questions are raised. File returned to credit analyst for revision. |
| 17. Application is corrected and returned to Credit Committee. | 18. Credit Committee approval is automatic. |
| 19. Legal department receives documents presented at #5 above for verification. | 20. Fraud is detected. |
| 21. Legal department prepares loan agreement for signature. | |

As we comprehend the number of points at which players may be dropped from the game, we get the impression that playing it successfully may require more skill than at first anticipated. By tracing the path which must be navigated by the applicant, including the ten pitfalls (even-numbered steps) which must be avoided, the actual level of difficulty may be appreciated. But we still do not know precisely where failures occur.

To discover these, we must consider that the applicant confronts a transition matrix (sequence of steps or conditions) represented by the odd-numbered steps. His chance to move successfully from one odd-numbered step to the next is called a transition probability. If a client always moved from step #1 to step #3, the transition probability would be 1.0.

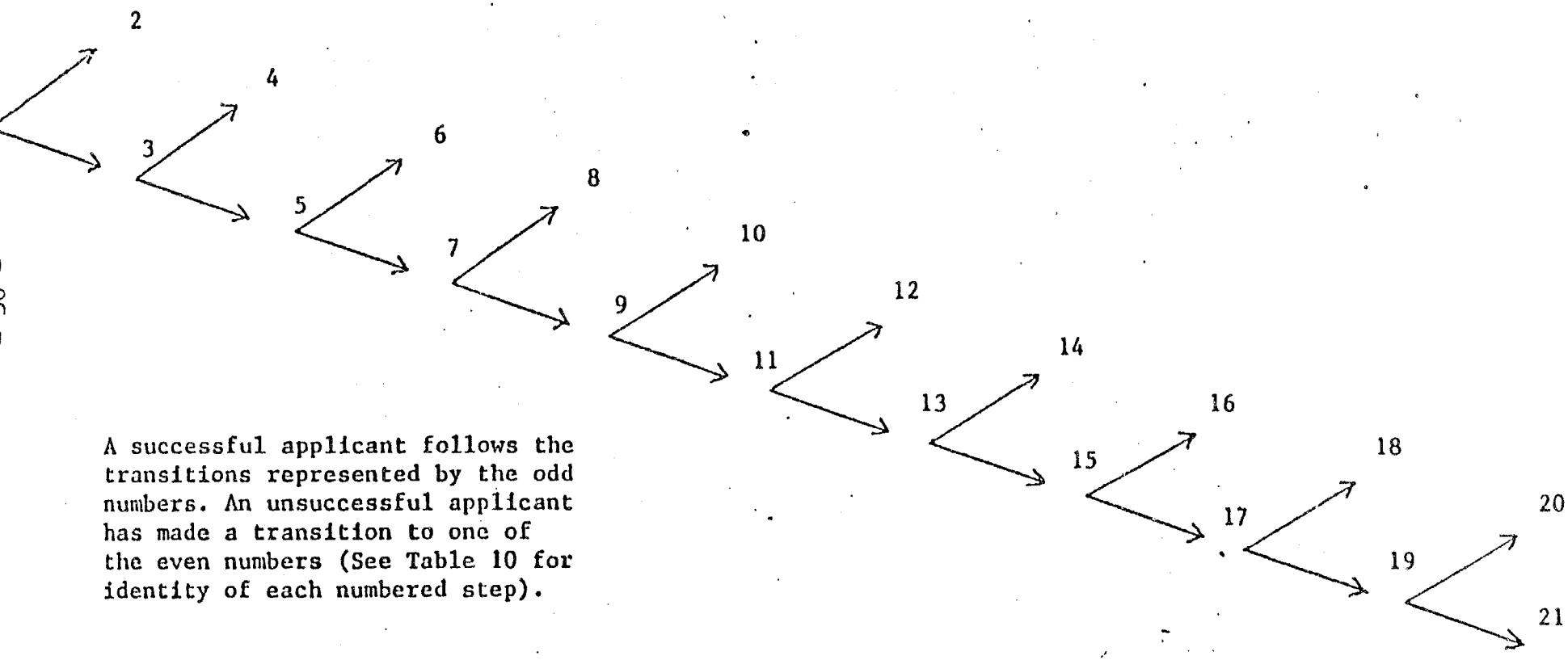
But there is a substantial chance that the project described by the client to the credit analyst during his first visit will not be acceptable. That chance is represented by the probability assigned to step #2. To find the actual probability that a client will move from step #1 to step #3, we must subtract the probability that he may end at step #2 from 1.0.

The steps in the application procedures have been diagrammed as a set of transition probabilities in Table 11. Unfortunately, since the Bank keeps no records of the history of unsuccessful applications, numerical values cannot be ascribed to them. We know that the transition probability of reaching step #21 is .16, and that even-numbered steps 2 through 20 have a cumulative probability of .84. We do not know how to divide this probability (.84) among the individual even-numbered steps.

Table 11

LOAN APPLICATIONS PROCEDURE

Model of Transition Probabilities




A successful applicant follows the transitions represented by the odd numbers. An unsuccessful applicant has made a transition to one of the even numbers (See Table 10 for identity of each numbered step).

However, for the first six months of 1983, we know that there was an average of 50 applicants per month, and an average of 15 project studies prepared for each of those six months. The attrition rate between steps #1 and #5 for those months, then, was .70. The probability of a rejection taking place between steps #5 and #21 was only .14 (.70 ÷ .14 = .84) at least for that period of time.

Expressed somewhat differently, a person making an inquiry concerning a loan at BNP during the first six months of the year had only a .30 probability of arriving at step #5. Beyond that point half the applicants who reached it would be rejected (.14)! These fragmentary data should still be sufficient to conclude that the loss of applicants beyond the point of project study preparation is quite substantial. Total attrition is illustrated in Table 12.

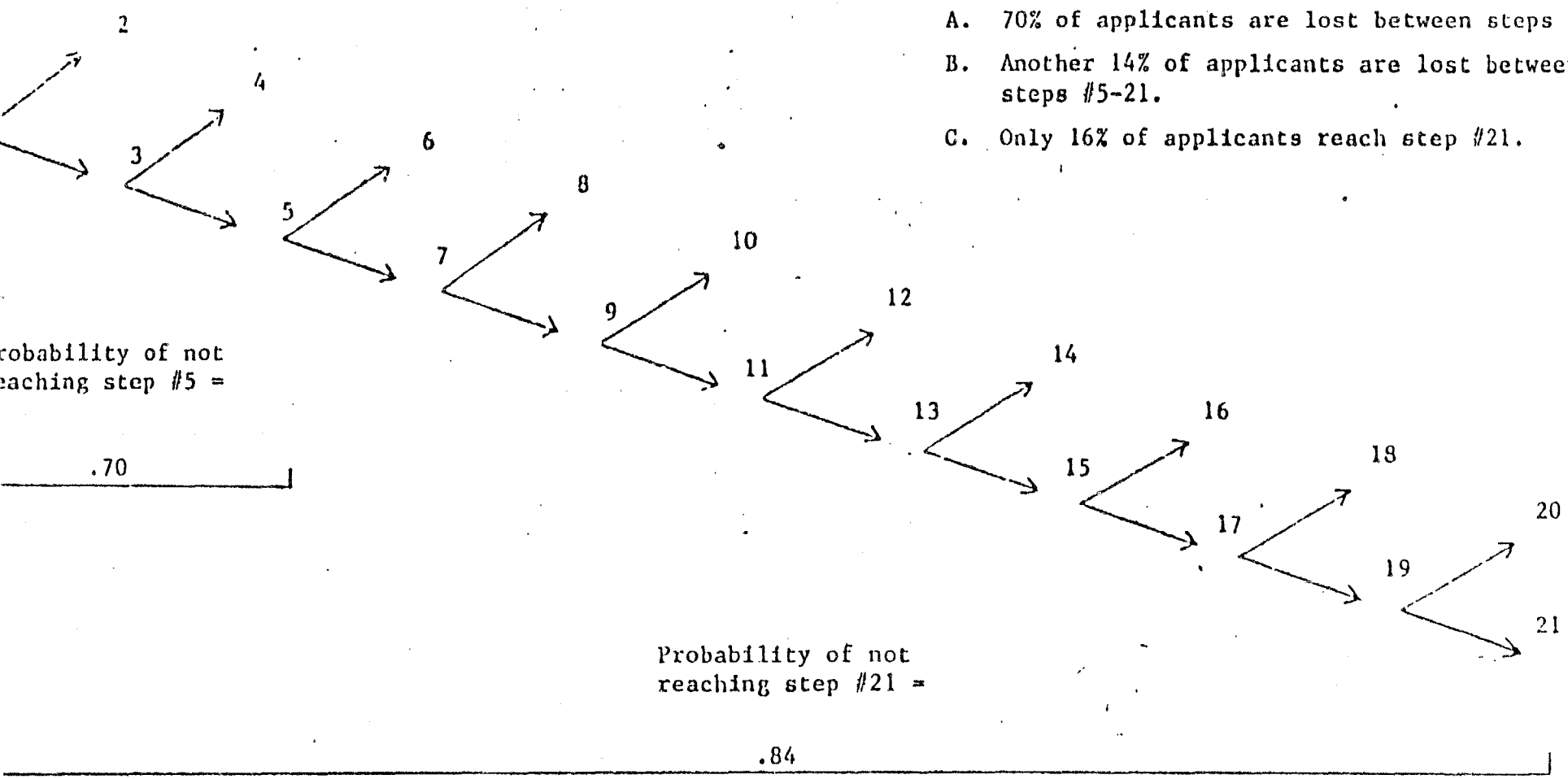
This demonstration should also confirm the value of keeping records on unsuccessful applicants at all points in the review process. Without them, it is impossible to tell where the system for processing applicants is making its impact. While it seems clear at this point that the rejection process is not as simple as Table 9 implies, we cannot tell which steps are screening effectively as intended, and which steps are ineffective or superfluous.

It is the judgement of the evaluation team that the review process could be shortened substantially without loss of screening effectiveness. Until we know more about the fate of rejected applications, however, it is not possible to offer specific recommendations. The urgency of the problem can be indicated by the observations concerning time consumed which will be provided below.

Table 12

LOAN APPLICATIONS PROCEDURE

Analysis of Transition Probabilities




Movement of Applicants through Steps in Table 10:

A. 70% of applicants are lost between steps #1-5.

B. Another 14% of applicants are lost between steps #5-21.

C. Only 16% of applicants reach step #21.

Time Frame for Completing Applications

Since the date of first contact between a client and the BNP is not recorded, the time required for completion of the process by successful applicants cannot be provided. Informant reports by BNP personnel were used to prepare the intervals provided in Table 13: as little as 4 days between first contact and initiation of the project study, and 30-52 working days for the completion of the entire process.

Comments by loan recipients interviewed during the sample survey do not support these claims. Data collected from the loan recipients who were the respondents is based on recall and does not provide a precise time frame for the discussion. However, the retrospective observations of the sample entrepreneurs may be at least as good as the reminiscences of the BNP personnel which provide the standard for comparison.

The data in Table 14 are given in the form of a frequency distribution which quantifies the length of time required to complete the applications process in numbers of weeks, each consisting of five "working days" (the unit reported by BNP staff members). The modal interval was five to twelve weeks (25 to 60 working days). The median length of time required, however, was twelve weeks, or 60 working days. Half the applicants interviewed reported that their applications took more than 60 working days to complete!

The mean number of weeks consumed in the application process was longer, of course: 17.9 weeks was the duration of the average loan application, and this should be converted to 89.5 working days. Both median and mean figures from sample data (Table 14) are greater than those provided by the bank (Table 13).

Table 13

LOAN APPLICATIONS PROCESS

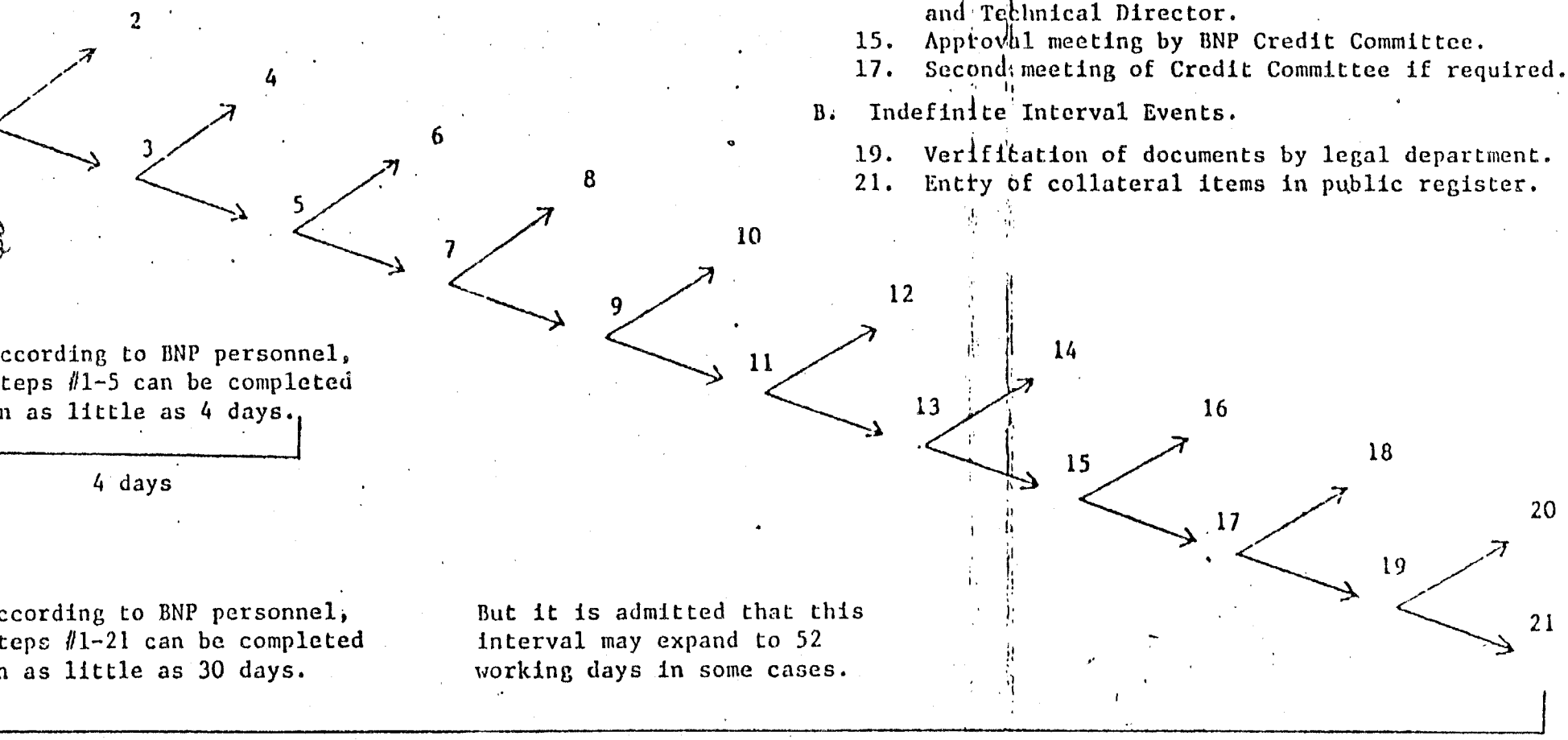
Time Required for Completion

A. Scheduled Interval Events:

9. Review by internal committee.
13. Second review by internal committee and Technical Director.
15. Approval meeting by BNP Credit Committee.
17. Second meeting of Credit Committee if required.

B. Indefinite Interval Events.

19. Verification of documents by legal department.
21. Entry of collateral items in public register.




ccording to BNP personnel, teps #1-5 can be completed n as little as 4 days.

4 days

ccording to BNP personnel, teps #1-21 can be completed n as little as 30 days.

But it is admitted that this interval may expand to 52 working days in some cases.

30 to 52 working days

Table 14

LOAN APPLICATIONS PROCESS

Completion Time: Sample Survey Data (53 cases)

| Weeks Required to Complete the Applications Procedure | Frequency |
|---|---|
| 0 - 4 | 6 |
| 5 - 8 | 11 |
| 9 - 12 | 11 |
| 13 - 16 | 8 |
| 17 - 20 | 5 |
| 21 - 24 | 4 |
| 25 - 28 | 4 |
| 29 - 32 | 2 |
| 33 - 36 | 0 |
| 37 - 40 | 2 |
| TOTAL | 53 |

Mean number of weeks required: 17.9 (90 working days)

Median number of weeks required: 12 (60 working days)

The judgement of respondents was unmistakable, taking the form of expressions such as, "Tramitacion es muy lente en el BNP!" In our opinion, bank officials are guilty of a common mistake in estimation resulting from confusing how long a process could take with how long it does take. They are correct in asserting that there is no need for the process to take more than thirty working days under ideal circumstances.

But, for reasons summarized in Table 13, circumstances are less than ideal. There are two types of event in the application process which are not controlled by the speed with which the client completes his assignments. These have been termed "scheduled interval events" and "indefinite interval events". Both types of event are beyond the control of the applicant.

Scheduled interval events are those which are set by the BNP calendar. Steps #9, 13, 15 and 17 in Table 10 conform to this constraint. For example, step #9, the first review by the internal committee of the Department of Analysis and Evaluation, is deferred until each of ten staff members has a project study to discuss. It is not clear how often these meetings take place, but it seems unlikely that they would be oftener than once per month. The Credit Committee meetings (Step #15 and 17) are approximately four times per year.

Other requirements, designated as "indefinite interval events" are not under the Bank's control. Steps #19 and 21 exemplify these stages of the process. Verification of documents by the legal department requires the cooperation of other parts of the government bureaucracy. Placement of a notice concerning collateral items is also time-consuming and unpredictable.

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Another possible source of misinterpretation regarding the duration of the applications process may be confusing to both BNP personnel and applicants. With reference to Table 10, a loan approval is generally obtained upon the completion of step #15. However, even though an application may have been approved by the Credit Committee, considerable additional time may be required for the completion of remaining steps intervening before the contract is signed.

The BNP has a tendency to regard an approved loan as a completed transaction. Even though no money has changed hands, the loan approval is treated for statistical purposes as if it had already become a loan account! However, many months may remain before a disbursement takes place. To the client, the total time elapsed between his first appearance at the bank and the date on which loan funds are disbursed is the applications period.

The BNP's tendency to regard approved loans as completed transactions, and to report them to USAID as such, has become a constant source of reporting error. For a variety of reasons, the number of active loan accounts is substantially less than the number of loan approvals on any given date. Reasons for this will be explored and evaluated in the following section.

Survival of the Fittest? Loan Recipients at BNP

Getting a loan from the BNP supervised credit program presents a series of formidable obstacles to the prospective client. The barriers which intervene between the inital inquiry and the contract signing are sufficient to eliminate five out of six interested would-be entrepreneurs.

The justification for this by BNP personnel, of course, is quality control. Rigorous selection insures a reduced failure rate

among recipients. Over the life of the program, it is apparent that selection has become more intense. The declining monthly rate of processed loan applications was documented at the beginning of this chapter (p. 50). Fewer project studies are being prepared because more clients are being "screened out" before reaching step #5 in the application process (see Table 10).

Furthermore, data in Table 8 may be analyzed to confirm that over time, an applicant has had a diminishing chance of having his project study approved after it has been prepared. If we group applications into six month intervals, beginning with the latter part of 1981, the following ratios approvals to rejections may be established:

| Time Interval | Approvals | Rejections | Ratio |
|---|---|---|---|
| Q4, 1981 | 43 | 70 | 1 : 1.63 |
| Q1-2, 1982 | 77 | 141 | 1 : 1.83 |
| Q3-4, 1982 | 36 | 104 | 1 : 2.89 |
| Q1-2, 1983 | 36 | 55 | 1 : 1.53 |

Between the beginning of the program and the end of 1982, the probability of obtaining approval for a project study declined very substantially. The number of applications rejected for each approval increased from 1.63 to 2.89. According to our hypothesis, the quality of projects should have been greatly improved by this increase in selectivity.

However, without any announced changes in policy, the review process was sharply liberalized at the beginning of 1983. Despite the decline in the number of project studies (or, perhaps, because of it?) the ratio of rejected applications to approvals dropped to 1.53---the lowest in program history!

Changes of this magnitude in the selection of clients can not be considered as random events. They are the result of the application of new rules or different standards with the intent of achieving a different goal or objective. No information from BNP personnel was forthcoming on this point, however.

From the examination of data on loan performance in the next chapter, some clues can be obtained which suggest a plausible explanation. The outline of the sequence of events appears to be simple enough:

1. During the early months of the program, the emphasis was placed on raising the volume of processed applications to the highest possible level.

2. The high volume of applications advanced to the project study stage, and a rejection rate of less than 2.0 for each approval was maintained through the first half of 1982. Data for these assertions are in Table 8.

3. As the next chapter will confirm, however, the failure rates for businesses created with these rapidly processed loans became alarming. The response of BNP officers was to stiffen the applications process and raise barriers against enterprises which appeared to be "high risk", e.g., new enterprises as opposed to established ones. During the third quarter of 1982, the rejection rate was raised to almost 3.0 for each approval.

4. The pendulum swings in both directions, however. Volume of new loan accounts declined sharply in 1983 as a consequence of more rigorous selection. In order to maintain minimum volume in the program, it appears that criteria have once again been relaxed, and the rejection rate has dropped to 1.5 applications per approval.

The conclusion suggested here is that the fittest may indeed be the ones to survive; but only during those periods when the management's concern at BNP has shifted from quantity to quality. There is evidence, to be presented in the next chapter, that there have also been periods during which a disproportionate number of the unfit received loans as well!

CHAPTER V

# OPERATING THE PROGRAM:

## Performance of Supervised Credit Loans, 1981-83

### Introduction

It is now appropriate to consider the survivors of the applications process. This chapter will present the characteristics of the successful applicants—the clients whose loan applications are approved. Information to be utilized in our assessment pertains to three groups of applicants:

1. Approvals
   These are clients whose loan applications have been approved by the Credit Committee. Not all of these applicants have received disbursements; some who have received disbursements have encountered serious difficulties and their projects have been suspended.

2. Active Accounts
   These are clients who have received disbursements and whose loan accounts are considered to be in good standing by BNP.

3. Survey Respondents
   This sample of active accounts is a subset of #2 above, chosen for field interviews and assessment of the results of particpation in the supervised credit program.

This chapter will provide a descriptive account of the accomplishments of the program. From this account a number of problems encountered by the program will emerge. The nature of these problems will raise issues pertaining to the management of the program. How did these difficulties occur and what can be done to prevent or cure the consequences? These management issues will be confronted in the following chapter on program administration.

### Characteristics of Approved Applicants

Through the first six months of 1983, the action of the Credit Committee brought the total number of approved loan applications to 192. The distribution of approvals by quarter since the inception of the program in 1981 is presented in Table 15, together with the amounts approved. The mean value of loans approved by quarter is also provided. The sum of $4,617,213 represents the total amount obligated by the Credit Committee as of June 30, 1983.

The supervised credit program at BNP has a capitalization of $10 million to be disbursed over 48 months (or $208,333 per month). The pro rata volume of loan approvals at the end of 21 months (June 30, 1983) should be $4,375,000.

Table 15

LOAN APPROVALS BY QUARTER, AMOUNT AND MEAN VALUE:

1981 - 1983

| Quarter | Loan Numbers | N | Amount | Mean |
|---|---|---|---|---|
| 4th, 1981 | 02 - 44 | 43 | 1,222,713 | 28,435 |
| 1st, 1982 | 45 - 80 | 36 | 672,000 | 18,667 |
| 2nd, 1982 | 81 - 121 | 41 | 837,700 | 20,432 |
| 3rd, 1982 | 122 - 143 | 22 | 626,800 | 28,491 |
| 4th, 1982 | 144 - 158 | 15 | 419,000 | 27,933 |
| 1st, 1983 | 159 - 172 | 14 | 232,000 | 16,571 |
| 2nd, 1983 | 173 - 197* | 21 | 607,000 | 28,905 |
| | | 192 | | |
| Total Value | | | 4,617,213 | |
| Mean Loan Value | | | | 24,048 |

*Loan No. 1 never issued, 4 more following 182 have no amounts awarded. These 5 + 192 = 197, the last applicant number.

By this criterion, it appears that the program is slightly ahead of schedule. However, by the end of the following month (July 31, 1983) total disbursements in the loan program amounted to only $3,049,042, or 66% of the amount approved. By this criterion, the program has fallen substantially behind schedule, having disbursed only 70% of the target of $4,375,000.

Clearly, caution must be exercised in the interpretation of program statistics. It should also be understood that "loans" are not unambiguous units of quantification. Some are approved without disbursement and will eventually be canceled without any transfer of funds to the client. Some are approved and only partly disbursed. Some are approved and disbursement has commenced but then they are terminated or suspended.

A loan account might more properly be defined as a continuum extending from the date of application to final payment. The continuum covers an interval of time which requires several years to complete. There are a number of points along the continuum where interruption or termination may occur. Therefore, it is misleading to consider "loans" as categorical events.

Despite this logical problem, the bank treats approvals as if they were active loan accounts for statistical purposes, such as reporting its progress to USAID. While this fiction is certainly not intended to deceive, and makes a level of uniformity in reporting possible, it is apt to introduce distortion and promote misinterpretation. In the balance of this chapter, therefore, terminology referring to loans at different points along the continuum will be used with precision.

Table 15 captures the historical dimension of the approval process. It is clear that over time the volume of approvals per quarter has tended to decline. The average number of loans for each quarter since October, 1981, is 27. The number of approvals has consistently fallen below this average since the second quarter of 1982!

The average value of loans per quarter is $24,048. Inspection of Table 15 indicates the opposite trend. In three of the last four quarters, the average value was exceeded! Over time, then, the number of approved applications has diminished while the average value per loan has increased. The average value for the second quarter of 1983 is $28,905. This figure approaches, but does not exceed, the target value of $30,960 set for the average loan in the project paper (Table 10, Annex VIII).

Table 16

FREQUENCY DISTRIBUTION OF APPROVED LOANS BY SIZE

| Size of Loan Request | Number | Percent |
|---|---|---|
| 5000 - 9999 | 43 | 22.4% |
| 10000 - 14999 | 32 | 16.7 |
| 15000 - 19999 | 33 | 17.2 |
| 20000 - 24999 | 12 | 6.2 |
| 25000 - 29999 | 13 | 6.8 |
| 30000 - 34999 | 21 | 10.9 |
| 35000 - 39999 | 5 | 2.6 |
| 40000 - 44000 | 3 | 1.6 |
| 45000 - 49999 | 4 | 2.1 |
| 50000 54999 | 12 | 6.2 |
| 55000 - 59999 | 3 | 1.6 |
| 60000 - 64999 | 4 | 2.1 |
| 65000 - 69999 | 0 | 0.0 |
| 70000 - 74999 | 3 | 1.6 |
| - | | |
| 88000 | 1 | .5 |
| 120000 | 1 | .5 |
| 131000 | 1 | .5 |
| 186000 | 1 | .5 |
| TOTAL | 192 | 100.0 |

Median Loan Value = $18,181

Based on the project paper once again, the 323 loans proposed yield a quarterly rate of 20 processed applications. Over the seven quarters covered by our evaluation, the target should have been 140 loans completed with an average value of $30,960. Instead, we have 192 processed applications with an average value of $24,048. However, it should be observed with approval that during the most recent quarter of 1983 both the number of loans (21) and their average value ($28,905) were closer to the goals defined in the project paper than at any other point since the project's inception.

Table 16 presents a frequency distribution of approved loan applications by size. The median loan application is for $18,181, a figure which is only 76% of the mean ($24,048). This is a phenomenon produced by the presence of a few very large values (in this case, the seven loans above $70,000) which influence the mean but not the median. A substantial number of applications are for "small" amounts (relative to the target value of $30,960). One cut of five are for less than $10,000 and three out of eight are for less than $15,000.

At the other extreme, one of seven loans is for more than $50,000 and three are for more than the upper limit of $100,000 (see Table 2 above). The loans for "excessive" amounts are handled by supplementing the maximum available from USAID with BNP funds. Since the proportions of support provided to a client may come from either USAID, GOP or BNP, it is necessary to keep accounts in triplicate.

Even at this early point in the discussion, it is possible to observe that the BNP loan portfolio displays extreme heterogeneity of composition. Loans for less than $15,000 require different administrative procedures than those for $50,000 or more because different types of enterprises are involved. One may presume that borrowers of smaller sums will be less sophisticated entrepreneurs than those entrusted with large amounts. We shall be interested to see how management copes with this situation in the following chapter.

Table 17 distributes the frequencies of loan approvals by size across the seven quarters of program operation. The distribution reveals that there has been a sharp reduction in the volume of loans below $10,000 since the third quarter of 1982. The volume of loans above $25,000 seems to have held constant in the last three quarters, however. Table 17 also provides the median values of loan appliactions by quarter. The outstanding characteristic of these

Table 17

FREQUENCY DISTRIBUTION OF LOANS BY QUARTER WITH MEDIAN VALUES:

1981 - 1983

| | 1981 | 1982 | | | | 1983 | | TOTALS |
|---|---|---|---|---|---|---|---|---|
| | Q3 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | |
| 5000 - 9999 | 7 | 10 | 12 | 8 | 2 | 3 | 1 | 43 |
| 10000 - 14999 | 6 | 9 | 6 | 3 | 1 | 5 | 2 | 32 |
| 15000 - 19999 | 8 | 3 | 9 | 2 | 4 | 3 | 4 | 33 |
| 20000 - 24999 | 2 | 4 | 3 | 1 | 0 | 1 | 1 | 12 |
| 25000 - 29999 | 2 | 3 | 1 | 2 | 2 | 0 | 3 | 13 |
| 30000 - 34999 | 6 | 3 | 3 | 2 | 3 | 1 | 3 | 21 |
| 35000 - 39999 | 1 | 1 | 1 | 0 | 0 | 0 | 2 | 5 |
| 40000 - 44999 | 2 | 0 | 1 | 0 | 0 | 0 | 0 | 3 |
| 45000 - 49999 | 2 | 0 | 1 | 0 | 0 | 0 | 1 | 4 |
| 50000 - 54999 | 4 | 2 | 1 | 0 | 2 | 0 | 3 | 12 |
| 55000 - 59999 | 1 | 0 | 0 | 1 | 0 | 1 | 0 | 3 |
| 60000 - 64999 | 1 | 0 | 1 | 1 | 0 | 0 | 1 | 4 |
| 65000 - 69999 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 70000 - 74999 | 0 | 1 | 2 | 0 | 0 | 0 | 0 | 3 |
| 75000 - | 1 | 0 | 0 | 2 | 1 | 0 | 0 | 4 |
| TOTALS | 43 | 36 | 41 | 22 | 15 | 14 | 21 | 192 |
| Median Loan Values (000's) | 21.25 | 14.4 | 16.39 | 15.0 | 26.25 | 14.0 | 29.17 | 18.18 |

values, like the means provided in Table 15, is there uneven quality from quarter to quarter. The medians are describing an ascending tendency however. The quarterly medians for two of the last three quarters are much higher than the overall median of $18,181. The extreme fluctuation in median values over short periods of time indicates that no consistent policy is being utilized by BNP with reference to this dimension.

Another dimension of contrast which may be extracted from the data on loan approvals is the comparison of applications from new enterprises with applications from established (existing) enterprises. The project paper (p. 23) affirms that both types of enterprises are eligible for support, but does not suggest a quota for apportioning funds between them. However, it is reasonable to assume that the new business should have a higher mortality rate than established firms. If so, then loans to new entrepreneurs should involve greater risks and applications from established firms should receive priority consideration.

However, the stipulations in the project paper state that applicants should be owner-operators who are "unable to obtain credit from the commercial banking system" (p. 23). These qualifications are more likely to apply to enterprises which are both new and small. Enterprises which are larger and have a history of previous operation should be able to obtain credit from the commercial banking system. Unless, of course, they are bad risks!

Table 18 presents data on the distribution of loan approvals provided to new and established (existing) enterprises. The data are further divided into (1) metropolitan versus non-metropolitan locations, and (2) quarters in which loan applications were approved. The table discloses some definite patterns which are worthy of comment.

During the first two quarters of program operation, new projects were favored over existing ones in both metropolitan and non-metropolitan locations. During the third quarter (April-June, 1982) the balance shifted to existing projects in the non-metropolitan area. During the fifth quarter (October-December, 1982) the same shift took place in the metropolitan area. During 1983, there has been a strong preference for existing projects in both regions.

BNP officials confirm that this trend is not an artifact of statistics. We were told that during 1983, clients with new projects have not been invited

Table 18

NEW AND EXISTING ENTERPRISES FUNDED WITH LOANS BY QUARTER:

METROPOLITAN AND NON-METROPOLITAN

| | Metropolitan | | | Non-Metropolitan | | |
|---|---|---|---|---|---|---|
| Quarter | New | Existing | Total | New | Existing | Total |
| 4th, 1981 | 18 | 14 | 32 | 6 | 5 | 11 |
| 1st, 1982 | 10 | 5 | 15 | 10 | 11 | 21 |
| 2nd, 1982 | 8 | 4 | 12 | 12 | 17 | 29 |
| 3rd, 1982 | 9 | 6 | 15 | 3 | 4 | 7 |
| 4th, 1982 | 4 | 6 | 10 | 0 | 5 | 5 |
| 1st, 1983 | 1 | 7 | 7 | 2 | 4 | 6 |
| 2nd, 1983 | 3 | 6 | 9 | 4 | 8 | 12 |
| TOTALS | 53 | 48 | 101 | 37 | 54 | 91 |

to proceed with their project studies. The new projects approved during 1983 were apparently based on applications initiated before the beginning of the year.

There is also a trend over time in the approval of metropolitan and non-metropolitan projects. During the first quarter of the program, Panama City applicants were favored by a ratio of 3:1 over outsiders. This favoritism was sharply reversed during the following two quarters (January-June, 1982) in which the majority of approvals went to non-metropolitan applications. The second quarter of 1982 is especially noteworthy: 29 approvals outside Panama City and 12 within the metropolitan area. This extreme was also followed by a corrective measure---in three of the four remaining quarters the majority of approvals was in Panama City once again.

There is a final dimension along which the loan approvals may be evaluated. The project paper (Annex VIII, Table 10) proposes a ratio of loans by type of activity, reproduced on p. 10 above. The suggested distribution is as follows:

| Type of Loan | No. of Loans | % of Total |
|---|---|---|
| Industrial | 67 | 20.7 |
| Commercial | 117 | 36.3 |
| Service | 139 | 43.0 |
| TOTALS | 323 | 100.0 |

The actual distribution of loan applications accomplished thus far is presented in Table 19. Unlike the suggested allocation above, the approvals voted by the Credit Committee up to this point have been equally divided among the three types specified.

The project planners intended that the ratio of service to industrial enterprises should be 2:1. Instead, an excess of industrial projects has been approved up to the present time. The greatest excessof industrial approvals (12) took place during the second quarter of 1982 in the non-metropolitan area. The greatest excess of commercial approvals (14) was during the 4th quarter of 1981. They were in metropolitan locations.

The preference of the project planners for categories other than industrial probably relates to their expectations that (1) the average industrial loan would be twice the size of the average commercial and three times the size of the average service loan; (2) the cost per job generated in industry would be twice as

Table 19

METROPOLITAN AND NON-METROPOLITAN LOAN ENTERPRISES BY QUARTER:

TYPE OF ACTIVITY

| Quarter/Location | Industrial | Commercial | Service |
|---|---|---|---|
| 4th, 1981 | | | |
| Metropolitan | 7 | 14 | 11 |
| Non-Metropolitan | 3 | 5 | 3 |
| Subtotal | 10 | 19 | 14 |
| 1st, 1982 | | | |
| Metropolitan | 5 | 4 | 6 |
| Non-Metropolitan | 7 | 7 | 7 |
| Subtotal | 12 | 11 | 13 |
| 2nd, 1982 | | | |
| Metropolitan | 4 | 7 | 1 |
| Non-Metropolitan | 12 | 8 | 9 |
| Subtotal | 16 | 15 | 10 |
| 3rd, 1982 | | | |
| Metropolitan | 6 | 4 | 5 |
| Non-Metropolitan | 2 | 3 | 2 |
| Subtotal | 8 | 7 | 7 |
| 4th, 1982 | | | |
| Metropolitan | 5 | 1 | 4 |
| Non-Metropolitan | 1 | 3 | 1 |
| Subtotal | 6 | 4 | 5 |
| 1st, 1983 | | | |
| Metropolitan | 4 | 1 | 3 |
| Non-Metropolitan | 1 | 3 | 2 |
| Subtotal | 5 | 4 | 5 |
| 2nd, 1983 | | | |
| Metropolitan | 5 | 2 | 2 |
| Non-Metropolitan | 3 | 7 | 2 |
| Subtotal | 8 | 9 | 4 |
| TOTALS | 65 | 69 | 58 |
| Percent | 33.9 | 35.9 | 30.2 |

much as in the other two categories. The quantitative relationships behind these conclusions appear on pp. 10-11 above.

If the logic of the project planner's argument is correct, then the excess of industrial loans should result in early depletion of the capital fund and a shortfall in the number of jobs generated with loans approved. But data reviewed in Table 15 suggest that, even though industrial approvals are a larger share of the loan portfolio than projected, the average amount approved ($24,048) was less than the $30,960 proposed by designers of the project. Data on jobs generated will be presented toward the end of this chapter.

Finally, we may reach beneath the official language of project documents to examine the nature of the loan-supported projects themselves. In Table 20, a rank-order of enterprises has been prepared and dichotomized between Panama Province (the metropolis and outlying communities) and the remainder of the country. It is noteworthy that four out of the first six types of business have to do with food processing, food sales and distribution. The other three highest rankings (2nd, 3rd and 5th) have to do with transportation. The ranks between six and ten contain a great many industries, none of which have a frequency greater than nine.

Manufacturing activities tend to be quite diversified, which results in their prominent position among the residual category of twenty miscellaneous industries. The residual classifications of manufacturing and service enterprises consist of those with a frequency of less than five cases. Among the miscellaneous industries, the presence of four cement block factories and four lumber and logging operations is probably noteworthy, as is the concentration of manufacturing within Panama Province.

The actual business activities for which loans have been requested are not "pioneering" in character. It would be difficult to identify a business or industry which appears to be breaking new ground for economic growth in Panama. Most of the purposes for which loans have been sought replicate business activities already in place in the communities which will receive them. In addition, at least within Panama City, a number of the enterprises financed have a rather frivolous character: a fireworks factory, a gourmet food store, a purveyor of party goods for birthdays, an interior decorator, etc., While there is nothing intrinsically "wrong" with financing activities of this sort if they generate employment and succeed financially, they are somewhat out of character with the rationale for the supervised credit program.

Table 20

METROPOLITAN AND NON-METROPOLITAN LOAN ENTERPRISES

BY TYPE OF BUSINESS

| Type of Business | Panama Province | Other Provinces | Total | Rank | Percen |
|---|---|---|---|---|---|
| Groceries, Food Stores | 14 | 16 | 30 | 1 | 15.6 |
| Specialty Goods Retail: Hardware, Auto Parts | 12 | 4 | 16 | 2 | 8.3 |
| Restaurants | 7 | 6 | 13 | 3 | 6.8 |
| Bakeries, Delicatessens | 9 | 4 | 13 | 3 | 6.8 |
| Repairs: Vehicles, Appliances | 8 | 5 | 13 | 3 | 6.8 |
| Meat, Poultry, Fish: Food Processing and Sale | 6 | 6 | 12 | 4 | 6.3 |
| Transportation | 7 | 3 | 10 | 5 | 5.2 |
| Furniture Manufacture | 6 | 3 | 9 | 6 | 4.7 |
| General Stores | 6 | 2 | 8 | 7 | 4.2 |
| Foundry, Machine Shop, Welding, Blacksmith | 5 | 2 | 7 | 8 | 3.6 |
| Laundries, Cleaners, Car Wash | 3 | 4 | 7 | 8 | 3.6 |
| Gift Shops, Beauty Shops Florist, Novelties | 6 | 1 | 7 | 8 | [illegible] |
| Printing, Photography | 5 | 0 | 5 | 9 | 2.6 |
| Clothing Manufacture, Tailoring | 4 | 1 | 5 | 9 | 2.6 |
| Pottery Manufacture, Ceramics, Paper | 5 | 0 | 5 | 9 | 2.6 |
| Miscellaneous Manufacturing Enterprises | 15 | 5 | 20 | - | 10.4 |
| Miscellaneous Service Enterprises | 10 | 2 | 12 | - | 6.3 |
| TOTALS | 128 | 64 | 192 | | 100.0 |

Additional data on this same theme are presented in Table 21, which examines average loan size and number of employees to be generated by type of business. Where the average loan size is based on amounts actually requested the employment figures are estimates of the future labor requirements of the fully developed enterprise. In Table 21, types of business activities are arranged in order of ascending value of mean loan approval; i.e., loans for auto and machine repair have the lowest mean value, while loans for welding, smelting and metal work have the highest mean value.

In Table 21, business activities with a frequency of more than 5 have been grouped in the upper half of the page. Business enterprises with a frequency of 5 or less appear on the lower half of the page. Several of these lower frequency types of enterprise have the highest mean loan values; e.g., print shop and photography, and chemical manufacture.

The distribution of enterprises by mean size of loan application reveals that the types of business activities which appear most frequently, such as groceries and auto repair shops, tend to have lower loan values. The only frequently appearing business with a loan value higher than the average for all applications ($24,048) is that of specialty stores.

Table 21 also provides a basis for estimating the anticipated employment generation potential of different types of business activity. According to the project design, the 323 loans should have generated 1,604 jobs, or 5 per loan. The 192 loans approved to mid-1983 were expected to produce 852 jobs (4.4 per loan). A peculiarity of the project proposal was its expectation that different types of enterprises should generate different levels of employment: 3 per service enterprise and 6 each for industries and commercial enterprises. However, inspection of the individual businesses discloses that for most categories, it is expected that 4-5 employees will be added for each loan. Industries which expect to meet or exceed the norm are furniture manufacture (6 workers), lumber milling (9 workers) and chemical industries (6 workers). Only one other enterprise category exceeds the norm of 4-5 employees: printing and photography, a service activity.

Another concern reflected in the project design is that the participation of women as business proprietors is to be encouraged. Table 22 presents loan application data on this issue; 44 loan applications (23% of the total) have been filed by women. Four out of five of these loans are located within the

Table 21

RANGE AND MEAN VALUES OF LOANS BY TYPE OF BUSINESS ACTIVITY

| Business | N | Range Low Value | Range High Value | Total Value | Mean Value | Median Value | Est. New Emp. |
|---|---|---|---|---|---|---|---|
| Auto/Machine Repair | 13 | 5000 | 25000 | 176500 | 13577 | 12000 | 36 |
| Gifts/Florist/Beauty Shop | 7 | 6000 | 46000 | 122500 | 17500 | 15000 | 25 |
| Cleaning Business | 7 | 5000 | 50000 | 122700 | 17529 | 12000 | 28 |
| Meat/Food Preparation | 12 | 7000 | 50000 | 215500 | 17958 | 13500 | 45 |
| Groceries | 30 | 5000 | 55000 | 558653 | 18622 | 12500 | 115 |
| Restaurants | 13 | 5000 | 70000 | 276500 | 21269 | 15000 | 63 |
| Transportation | 10 | 6360 | 50000 | 228860 | 22886 | 22750 | 40 |
| Bakeries | 13 | 6000 | 60000 | 313500 | 24115 | 21000 | 55 |
| General Stores | 8 | 5000 | 60000 | 197600 | 24700 | 17500 | 36 |
| Specialty Stores | 16 | 5500 | 131000 | 444500 | 27781 | 17500 | 82 |
| Furniture Manufacture | 9 | 5000 | 70000 | 275000 | 30556 | 25000 | 54 |
| Welding/Smelting/Metal | 7 | 15000 | 88000 | 270000 | 38571 | 32000 | 33 |
| Subtotal | 145 | | | 3201813 | | | 612 |
| Nursery/Landscaping | 2 | 5000 | 10000 | 15000 | 7500 | 7500 | 4 |
| Clothing Manufacture | 5 | 5000 | 16000 | 56000 | 11200 | 15000 | 25 |
| Ceramic/Paper/Plastic Mfg. | 5 | 7800 | 30000 | 68800 | 13760 | 10000 | 9 |
| Shoe Mfg./Repair | 4 | 5000 | 35000 | 60000 | 15000 | 10000 | 10 |
| Business Support Services | 4 | 5000 | 30000 | 70000 | 17500 | 27500 | 22 |
| Cement Block Mfg. | 4 | 6000 | 50000 | 116000 | 29000 | 30000 | 19 |
| Curtain/Cushion Mfg. | 2 | 8000 | 60000 | 68000 | 34000 | 34000 | 9 |
| Lumber/Milling | 4 | 10000 | 50600 | 158600 | 39650 | 49000 | 36 |
| Dentists/Medical Laboratory | 4 | 30000 | 70000 | 185000 | 46250 | 42500 | 23 |
| Chemical Manufacture | 4 | 11000 | 120000 | 192000 | 48000 | 30500 | 23 |
| Print Shop/Photography | 5 | 25000 | 186000 | 334500 | 66900 | 35500 | 38 |
| Tannery | 1 | | | 12000 | | | 3 |
| Tiling | 1 | | | 20000 | | | 6 |
| Radio Station | 1 | | | 29500 | | | 6 |
| Accountant | 1 | | | 30000 | | | 7 |
| Subtotal | 47 | | | 1415400 | | | 240 |
| TOTAL | 192 | | | 4617213 | | | 852 |

Table 22

LOANS MADE TO WOMEN PROPRIETORS

| Date | N | Panama Province | Other Provinces | Totals |
|---|---|---|---|---|
| 1981 (July-Dec.) | 10 | 8000 | | |
| | | 10000 | | |
| | | 10000 | | |
| | | 15000 | | |
| | | 16000* | | |
| | | 21000 | | |
| | | 27000 | | |
| | | 30000 | | |
| | | 34000 | | |
| | | 46000 | | |
| Subtotal | | $217000 | | $217000 |
| 1982 (Jan.-June) | 19 | $ 5000 | $ 5000 | |
| | | 7000 | 5700 | |
| | | 7000 | 10000 | |
| | | 7800 | 10000 | |
| | | 10000 | 30000 | |
| | | 10000 | | |
| | | 10000 | | |
| | | 10000 | | |
| | | 10000 | | |
| | | 12000 | | |
| | | 15000 | | |
| | | 15000 | | |
| | | 24000 | | |
| | | 70000* | | |
| | | $212800 | $60700 | $273500 |

Loans Made to Women Proprietors

(Page two of two)

| Date | N | Panama Province | Other Provinces | Totals |
|---|---|---|---|---|
| 1982 (July-Dec.) | 8 | $ 6000 | | |
| | | 14000* | | |
| | | 15000 | | |
| | | 15000 | | |
| | | 16000 | | |
| | | 28000 | | |
| | | 30000 | | |
| | | 60000 | | |
| Subtotal | | $184000 | | $184000 |
| 1983 (Jan.-June) | 7 | $ 30000 | $ 10000 | |
| | | 32000* | 18500 | |
| | | 50000 | 25000 | |
| | | 50000 | | |
| Subtotal | | $162000 | $ 53500 | $215500 |
| N TOTAL | 44 | 36 | 8 | |
| TOTALS | | $775800 | $114200 | $890000 |

MEAN $20227

MEDIAN $15000

* Loan amount incorporates additional loans made at later dates

Women proprietors have received 22.9% of all loans approved.

Women proprietors have received 19.3% of all loan funds.

province of Panama. The difference between loans to men and women in terms of location of the enterprise is set forth below with data from Tables 20 and 22:

| | Panama Province | Other Provinces | Total |
|---|---|---|---|
| Male Proprietors | 92 | 56 | 148 |
| Female Proprietors | 36 | 8 | 44 |
| TOTALS | 128 | 64 | 192 |

Another feature of Table 22 that deserves comment is the size of loan approvals made to female proprietors. Both mean ($20,227) and median ($15,000) values are substantially below those for all loan approvals. As noted at the bottom of the table, women have received 23% of the loans but only 19.3% of the funds committed.

In Table 23, a frequency distribution of the enterprises operated by women has been prepared. The most frequent business operated by a woman proprietor is the "boutique" type of specialty shop: flowers, gifts and novelties. Six out of seven of these are located in Panama Province. In categorical terms, women proprietors are more prominent proportionally in grocery marketing and food-related enterprises. However, it is interesting to note that some of the more expensive examples of these are to be found in provinces other than Panama!

To permit a more comprehensive review of the types of businesses represented by the entire body of loan approvals to mid-1983, together with their locations and the amounts requested for them, Table 24A-M has been prepared to complete this section. It presents a separate table for each of the ranked categories of enterprise in Table 20 for ranks 1 through 8. Ranks below 8 are consolidated in a residual category (Table 24-M).

It is appropriate to conclude this section with a brief review of the major findings:

1. The commitment of loan funds after twenty-one months of operation is approximately on schedule ($4,617,213 approved) but disbursements, which are only 66% of approvals, lag significantly.

2. Over time, the volume of approvals by quarter has declined. The rate has been below average since mid-1982 (Table 15).

3. The average value of loans per quarter has increased as the number has gone down. Both average value ($28,905) and number of loans (21) for the most recent quarter are approaching targets in the project paper for the first time (Table 15).

Table 23

TYPES OF BUSINESSES OWNED BY WOMEN

| Types of Businesses | N | Panama Province | Other Provinces | Totals |
|---|---|---|---|---|
| Gift Shops, Florists, and Beauty Salons | 7 | $ 6000 | $ 18500 | |
| | | 8000 | | |
| | | 14000 | | |
| | | 15000 | | |
| | | 15000 | | |
| | | 46000 | | |
| Subtotal | | $104000 | $ 18500 | $122500 |
| Groceries, Supermarkets and Food Stores | 6 | $ 7000 | $ 25000 | |
| | | 7000 | | |
| | | 10000 | | |
| | | 30000 | | |
| | | 34000 | | |
| Subtotal | | $ 88000 | $ 25000 | $113000 |
| Bakeries and Delicatessens | 5 | $ 10000 | $ 16000 | |
| | | 21000 | | |
| | | 24000 | | |
| | | 60000 | | |
| Subtotal | | $115000 | $ 16000 | $131000 |
| Restaurants | 5 | $ 10000 | $ 10000 | |
| | | 15000 | 30000 | |
| | | 28000 | | |
| Subtotal | | $ 53000 | $ 40000 | $ 93000 |

Types of Businesses Owned by Women

(Page two of three)

| Types of Businesses | N | Panama Province | Other Provinces | Totals |
|---|---|---|---|---|
| Clothing Manufacturing and Tailoring | 4 | $ 5000 | $ 5000 | |
| | | 15000 | | |
| | | 16000 | | |
| Subtotal | | $ 36000 | $ 5000 | $ 41000 |
| Furniture and House Furnishing Manufacture | 3 | $ 32000 | $ 70000 | |
| | | 50000 | | |
| Subtotal | | $ 82000 | $ 70000 | $152000 |
| Specialty Goods - Retail and Wholesale | 3 | $ 10000 | | |
| | | 10000 | | |
| | | 15000 | | |
| Subtotal | | $ 35000 | | $ 35000 |
| General Stores | 2 | $ 10000 | | |
| | | 10000 | | |
| Subtotal | | $ 20000 | | $ 20000 |
| Meat and Food Processing | 2 | $ 50000 | $ 10000 | |
| Subtotal | | $ 50000 | $ 10000 | $ 60000 |
| Transportation Business - Passenger and Cargo | 2 | $ 30000 | $ 10000 | |
| Subtotal | | $ 30000 | $ 10000 | $ 40000 |
| Cleaning Business Laundromats and Auto Washes | 1 | | $ 5700 | |
| Subtotal | | | $ 5700 | $ 5700 |

Types of Businesses Owned by Women

(Page three of three)

| Types of Businesses | N | Panama Province | Other Provinces | Totals |
|---|---|---|---|---|
| Printers and Photographers | 1 | $ 27000 | | |
| Subtotal | | $ 27000 | | $ 27000 |
| Pottery, Ceramics, Paper and Plastic Manufacture | 1 | $ 7800 | | |
| Subtotal | | $ 7800 | | $ 7800 |
| Cement Block Manufacture | 1 | $ 30000 | | |
| Subtotal | | $ 30000 | | $ 30000 |
| Shoe Manufacture and Repair | 1 | $ 12000 | | |
| Subtotal | | $ 12000 | | $ 12000 |
| TOTALS | 44 | $609800 | $200200 | $890000 |

Table 24-A

LOANS FOR GROCERIES, SUPERMARKETS AND FOOD STORES

| Date | N | Panama Province | Other Provinces | Totals |
|---|---|---|---|---|
| 1981 (July-Dec.) | 4 | $ 10000 | | |
| | | 15853 | | |
| | | 34000 | | |
| | | 55000* | | |
| Subtotal | | $114853 | | $114853 |
| 1982 (Jan.-June) | 14 | $ 5000 | 5000 | |
| | | 7000 | 5000 | |
| | | 7000 | 7000 | |
| | | 10000 | 8000* | |
| | | 10000 | 8000 | |
| | | 30000 | 10000 | |
| | | 50000 | 15000 | |
| Subtotal | | $119000 | $ 58000 | $177000 |
| 1982 (July-Dec.) | 5 | | $ 8000 | |
| | | | 8300 | |
| | | | 15000 | |
| | | | 21000 | |
| | | | 34000* | |
| Subtotal | | | $ 86300 | $ 86300 |
| 1983 (Jan.-June) | 7 | $ 9000 | $ 15000 | |
| | | 18000[1] | 25000 | |
| | | 30000 | 33500 | |
| | | | 50000 | |
| Subtotal | | $ 57000 | $123500 | $180500 |
| N TOTAL | 30 | 14 | 16 | |
| TOTALS | | $290853 | $267800 | $558653 |
| MEAN $18622 | | | | |
| MEDIAN $12500 | | | | |

*Loan amount incorporates additional loans made at a later date

1-BNP funded $12000 of the loan.

Table 24-B

LOANS FOR SPECIALTY GOODS - RETAIL AND WHOLESALE+

| Date | N | Panama Province | Other Provinces | Totals |
|---|---|---|---|---|
| 1981 (July-Dec.) | 4 | $ 10000 | | |
| | | 15000 | | |
| | | 50000 | | |
| | | 50000 | | |
| Subtotal | | $125000 | | $125000 |
| 1982 (Jan.-June) | 8 | $ 10000 | $ 5500 | |
| | | 15000 | 8000 | |
| | | 15000 | | |
| | | 20000 | | |
| | | 20000 | | |
| | | 40000 | | |
| Subtotal | | $120000 | $13500 | $133500 |
| 1982 (July-Dec.) | 3 | $ 10000 | $25000 | |
| | | 131000*1 | | |
| Subtotal | | $141000 | $25000 | $166000 |
| 1983 (Jan.-June) | 1 | | $20000 | |
| Subtotal | | | $20000 | $ 20000 |
| N TOTAL | 16 | 12 | 4 | |
| TOTALS | | $386000 | $58500 | $444500 |

MEAN $27781

MEDIAN $17500

* Loan amount incorporates additional loan made at a later date

1 BNP funded $61000 of the loan amount

\+ Hardware, Auto Parts, Pharmacies, Chemicals, Office Equipment.

Table 24-C

LOANS FOR RESTAURANTS

| Date | N | Panama Province | Other Provinces | Totals |
|---|---|---|---|---|
| 1981 (July-Dec.) | 2 | $ 5000 | $ 16500* | |
| Subtotal | | $ 5000 | $ 16500 | $ 21500 |
| 1982 (Jan.-June) | 8 | $ 10000 | $ 10000 | |
| | | 12000 | 15000 | |
| | | 15000 | 20000 | |
| | | 70000[1] | 30000 | |
| Subtotal | | $107000 | $ 75000 | $182000 |
| 1982 (July-Dec.) | 1 | $ 28000 | | |
| Subtotal | | $ 28000 | | $ 28000 |
| 1983 (Jan.-June) | 2 | $ 35000 | $ 10000 | |
| Subtotal | | $ 35000 | $ 10000 | $ 45000 |
| N TOTAL | 13 | 7 | 6 | |
| TOTALS | | $175000 | $101500 | $276500 |

MEAN $21269

MEDIAN $15000

* Loan amount incorporates additional loan made at a later date

1 BNP funded $40000 of the loan amount

Table 24-D

LOANS FOR BAKERIES AND DELICATESSENS

| Date | N | Panama Province | Other Provinces | Totals |
|---|---|---|---|---|
| 1981 (July-Dec.) | 3 | $ 10000 | $ 6000 | |
| | | 21000 | | |
| Subtotal | | $ 31000 | $ 6000 | $ 37000 |
| 1982 (Jan.-June) | 6 | $ 18500* | $15000 | |
| | | 22000 | 33000* | |
| | | 24000 | | |
| | | 35000 | | |
| Subtotal | | $ 99500 | $48000 | $147500 |
| 1982 (July-Dec.) | 3 | $ 8000 | $16000 | |
| | | 60000* | | |
| Subtotal | | $ 68000 | $16000 | $ 84000 |
| 1983 (Jan.-June) | 1 | $ 45000 | | |
| Subtotal | | $ 45000 | | $ 45000 |
| N TOTAL | 13 | 9 | 4 | |
| TOTALS | | $243500 | $70000 | $313500 |

MEAN $24115

MEDIAN $21000

* Loan amount incorporates additional loans made at a later date.

Table 24-E

LOANS FOR AUTO BODY, VEHICLE REPAIR AND APPLIANCE REPAIR SHOPS

| Date | N | Panama Province | Other Provinces | Totals |
|---|---|---|---|---|
| 1981 (July-Dec.) | 1 | | $ 18000 | |
| Subtotal | | | $ 18000 | $ 18000 |
| 1982 (Jan.-June) | 4 | $ 5500 | $ 18000[1] | |
| | | 8000 | | |
| | | 25000 | | |
| Subtotal | | $ 38500 | $ 18000 | $ 56500 |
| 1982 (July-Dec.) | 4 | $ 5000 | $ 6000 | |
| | | 10000 | | |
| | | 25000[2*] | | |
| Subtotal | | $ 40000 | $ 6000 | $ 46000 |
| 1983 (Jan.-June) | 4 | $ 10000 | 15000 | |
| | | 12000 | 19000 | |
| Subtotal | | $ 22000 | $ 34000 | $ 56000 |
| N TOTAL | 13 | 8 | 5 | - |
| TOTALS | | $ 100500 | $ 76000 | $ 176500 |

MEAN $13577

MEDIAN $12000

* Loan amount incorporates additional loans made at a later date

1 BNP funded $4000 of the loan amount

2 BNP funded $20,000 of the loan amount.

Table 24-F

LOANS FOR MEAT, POULTRY, FISH AND FOOD PROCESSING AND SALE

| Date | - N | Panama Province | Other Provinces | Totals |
|---|---|---|---|---|
| 1981 (July-Dec.) | 1 | $ 43500* | | |
| Subtotal | | $ 43500 | | $ 43500 |
| 1982 (Jan.-June) | 4 | $ 8000 | $10000 | |
| | | 15000 | 12000 | |
| Subtotal | | $ 23000 | $22000 | $ 45000 |
| 1982 (July-Dec.) | 1 | | $ 8000 | |
| Subtotal | | | $ 8000 | $ 8000 |
| 1983 (Jan.-June) | 6 | $ 10000 | $ 7000 | |
| | | 22000 | 15000 | |
| | | 50000 | 15000 | |
| Subtotal | | $ 82000 | $37000 | $119000 |
| N TOTAL | 12 | 6 | 6 | |
| TOTALS | | $148500 | $67000 | $215500 |

MEAN $17958

MEDIAN $13500

* Loan amount incorporates additional loan made at a later date

Table 24- G

LOANS FOR THE TRANSPORTATION BUSINESS - PASSENGER AND CARGO

| Date | N | Panama Province | Other Provinces | Totals |
|---|---|---|---|---|
| 1981 (July-Dec.) | 5 | $ 6360 | | |
| | | 30000 | | |
| | | 30000 | | |
| | | 45000 | | |
| | | 50000 | | |
| Subtotal | | $161360 | | $ 161360 |
| 1982 (Jan.-June) | 3 | $ 15500[1] | $ 8500 | |
| | | | 25000 | |
| Subtotal | | $ 15500 | $33500 | $ 49000 |
| 1982 (July-Dec.) | 1 | $ 8500 | | |
| Subtotal | | $ 8500 | | $ 8500 |
| 1983 (Jan.-June) | 1 | | $10000 | |
| Subtotal | | | $10000 | $ 10000 |
| N TOTAL | 10 | 7 | 3 | |
| TOTALS | | $185360 | $43500 | $228860 |

MEAN $22886

MEDIAN $22750

1 BNP funded total loan

Table 24-H

LOANS TO FURNITURE AND HOUSE FURNISHING MANUFACTURERS

| Date | N | Panama Province | Other Provinces | Totals |
|---|---|---|---|---|
| 1981 (July-Dec.) | 0 | | | |
| 1982 (Jan.-June) | 4 | $21000<br>25000 | $23000*<br>70000* | |
| Subtotal | | $46000 | $93000 | $139000 |
| 1982 (July-Dec.) | 2 | $16000<br>33000 | | |
| Subtotal | | $49000 | | $ 49000 |
| 1983 (Jan.-June) | 3 | $3200 *<br>50000 | $ 5000 | |
| Subtotal | | $82000 | $ 5000 | $ 87000 |
| N TOTAL | 9 | 6 | 3 | |
| TOTALS | | $177000 | $98000 | $275000 |

MEAN $30556

MEDIAN $25000

* Loan amount incorporates additional loans made at a later date

Table 24-I

LOANS TO GENERAL STORES

| Date | N | Panama Province | Other Provinces | Totals |
|---|---|---|---|---|
| 1981 (July-Dec.) | 5 | $ 25000 | $ 5000 | |
| | | 32000 | 50000 | |
| | | 60000* | | |
| Subtotal | | $117000 | $55000 | $172000 |
| 1982 (Jan.-June) | 3 | $ 5600 | | |
| | | 10000 | | |
| | | 10000 | | |
| Subtotal | | $ 25600 | | $ 25600 |
| 1982 (July-Dec.) | 0 | | | |
| 1983 (Jan.-June) | 0 | | | |
| N TOTAL | 8 | 6 | 2 | |
| TOTALS | | $142600 | $55000 | $197600 |

MEAN $24700

MEDIAN $17500

* Loan amount incorporates additional loan made at a later date

Table 24-J

LOANS TO WELDING SHOPS, BLACKSMITHS, FOUNDRIES AND SHIP REPAIR

| Date | N | Panama Province | Other Provinces | Totals |
|---|---|---|---|---|
| 1981 (July-Dec.) | 2 | $ 15000<br>30000 | | |
| Subtotal | | $ 45000 | | $ 45000 |
| 1982 (Jan.-June) | 2 | $ 32000* | $15000 | |
| Subtotal | | $ 32000 | $15000 | $ 47000 |
| 1982 (July-Dec.) | 1 | $ 88000 | | |
| Subtotal | | $ 88000 | | $ 88000 |
| 1983 (Jan.-June) | 2 | $ 55000 | $35000 | |
| Subtotal | | $ 55000 | $35000 | $ 90000 |
| N TOTAL | 7 | 5 | 2 | |
| TOTALS | | $220000 | $50000 | $270000 |

MEAN $38571

MEDIAN $32000

* Loan amount incorporates additional loan made at a later date

Table 24-K

LOANS TO CLEANING BUSINESSES, LAUNDROMATS AND AUTO WASHES

| Date | N | Panama Province | Other Provinces | Totals |
|---|---|---|---|---|
| 1981 (July-Dec.) | 3 | $ 10000 | $12000 | |
| | | 15000 | | |
| Subtotal | | $ 25000 | $12000 | $ 37000 |
| 1982 (Jan.-June) | 1 | | $ 5700 | |
| Subtotal | | | $ 5700 | $ 5700 |
| 1982 (July-Dec.) | 2 | $ 5000 | $50000 | |
| Subtotal | | $ 5000 | $50000 | $ 55000 |
| 1983 (Jan-June) | 1 | | $25000 | |
| Subtotal | | | $25000 | $ 25000 |
| N TOTAL | 7 | 3 | 4 | |
| TOTALS | | $ 30000 | $92700 | $122700 |

MEAN $17529

MEDIAN $12000

Table 24-L

LOANS TO GIFT SHOPS, FLORISTS, BEAUTY SALONS

| Date | N | Panama Province | Other Provinces | Totals |
|---|---|---|---|---|
| 1981 (July-Dec.) | 2 | $ 8000 | | |
| | | 46000 | | |
| Subtotal | | $ 54000 | | $ 54000 |
| 1982 (Jan.-June) | 0 | | | |
| 1982 (July-Dec.) | 4 | $ 6000 | | |
| | | 14000* | | |
| | | 15000 | | |
| | | 15000 | | |
| Subtotal | | $ 50000 | | $ 50000 |
| 1983 (Jan.-June) | 1 | | $18500 | |
| Subtotal | | | $18500 | $ 18500 |
| N TOTAL | 7 | 6 | 1 | |
| TOTALS | | $104000 | $18500 | $122500 |

MEAN $17500

MEDIAN $15000

* Loan amount incorporates additional loan made at a later date.

Table 24-M

LOANS FOR RESIDUAL CATEGORY BUSINESSES+

| Date | N | Panama Province | Other Provinces | Totals |
|---|---|---|---|---|
| 1981 (July-Dec.) | 11 | $ 5000 | | |
| | | 6000 | | |
| | | 10000 | | |
| | | 15000 | | |
| | | 16000* | | |
| | | 20000 | | |
| | | 27000 | | |
| | | 30000 | | |
| | | 35500* | | |
| | | 43000* | | |
| | | 186000*[1] | | |
| Subtotal | | $393500 | | $393500 |
| 1982 (Jan.-June) | 20 | $ 5000 | $ 5000 | |
| | | 7800 | 5000 | |
| | | 8000 | 8000 | |
| | | 10000 | 12000 | |
| | | 11000* | 29500 | |
| | | 12000 | 30000 | |
| | | 15000 | 35000 | |
| | | 30000 | 50000 | |
| | | 48000* | | |
| | | 50600* | | |
| | | 60000* | | |
| | | 70000 | | |
| Subtotal | | $327400 | $174500 | $501900 |

+ Residual Businesses: Printers, Photography (5); Clothing Manufacture, Tailor (5); Manufacture Pottery, Ceramics, Paper, Plastics (5); Manufacture Cleaning Products, Chemicals, Fireworks (4); Business Support Services (4); Lumber Mill, Logging (4); Cement Block Manufacture (4); Dentists, Medical Laboratory (4); Shoe Manufacture and Repair (4); Manufacture cushions, bedding, curtains (2); Plant Nursery, Landscaping (2); Leather Tanning (1); Construction (1); Accountant (1); Radio Broadcasting Station (1).

Loans for Residual Category Businesses

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| Date | N | Province | Provinces | Totals |
|---|---|---|---|---|
| 1982 (July-Dec.) | 10 | $ 9000 | | |
| | | 10000 | | |
| | | 18000 | | |
| | | 25000 | | |
| | | 30000 | | |
| | | 30000 | | |
| | | 30000 | | |
| | | 50000 | | |
| | | 55000[2] | | |
| | | 120000* | | |
| Subtotal | | $377000 | | $377000 |
| 1983 (Jan.-June) | 6 | $ 5000 | | |
| | | 10000 | | |
| | | 12000 | | |
| | | 25000 | | |
| | | 30000 | | |
| | | 61000 | | |
| Subtotal | | $143000 | | $143000 |
| N TOTAL | 47 | 39 | 8 | |
| TOTALS | | $1240900 | $174500 | $1415400 |

MEAN $30115

MEDIAN $25000

* Loan amount incorporates additional loans made at later dates.

1 BNP funded $86,000 of the loan amount

2 BNP funded $25,000 of the loan amount

4. Loan approvals over the first seven quarters are characterized by extreme heterogeneity ($5,000 - $186,000), which implies either the absence of a restrictive policy or the presence of administrative problems (Table 16).

5. Over time, the BNP has shown an increasing preference for existing businesses rather than new entrepreneurs as loan recipients (Table 18). There has always been a tendency for the program to make fewer loans to new businesses outside the metropolitan area, compared with Panama City (Table 18).

6. Since mid-1982, there has been a strong tendency for the majority pf loan approvals of both types (new and existing businesses) to be located in the metropolitan region (Table 18).

7. The proportion of industrial projects approved (33.9%) is higher than the proportion proposed (20.7%), while the proportion of service enterprises approved (30.2%) is lower than the proportion proposed (43.0%). See Table 19.

8. There is a substantial concentration of loans in food-related enterprises: food stores, meats, fish and poultry, bakeries and restaurants number 55 business ventures, or 28.6% of the total. See Table 20. This trend was accentuated in 1983. See Table 24-A, 24-E.

9. There is a tendency for the most frequently appearing types of businesses to have the smaller loans (Table 21).

10. Loan applications promise a number of new jobs (4.4 per business) which approximate the project target (5 per enterprise). However, the project paper proposed that new industries should generate twice as many jobs as service enterprises: the proposed ratio was 6:3. This expectation is not confirmed by the loan applications which anticipate 4-5 jobs per enterprise for all types of activity. See Table 21.

11. A substantial proportion of loan applications (23%) have been filed by women entrepreneurs, however they have received a smaller proportion (19.3%) of total loan funds committed. This is because enterprises operated by women entrepreneurste-d to be concentrated in food-related activities which have below-average size loan applications. See Table 23.

The loan application data contain some danger signals that indicate the existence of what may prove to be serious difficulties in the operation of the program. Among these signals are (a) lagging disbursements; (b) increasing preference for existing businesses; (c) the recent shift toward the metropolitan region; (d) accelerated preference for conservative investments (food-related enterprises); (e) lagging investment in manufacturing operations.

Approved Applicants versus Loan Accounts

It was noted at the beginning of the chapter that 192 loan applications were approved by the Credit Committee prior to June 30, 1983. But this universe of applicants does not equate with persons who have received loans and are now operating supervised credit enterprises. The situation is complicated by the separation of the disbursement procedure from the approval itself. Following approval, the loan folder must go to the legal department for contract preparation. This involves the verification of documents and entry of collateral items in the public record. The loan is activated by disbursement at a later date.

The data presented in Table 14 confirm that this is a lengthier process than the Bank is willing to admit. Part of the delay is built into the process of certifying a client's eligibility. A substantial proportion of the face value of the loan must be secured with collateral (garantias). Where a client possesses neither sufficient real property nor co-signers (feadors), he may still qualify for the loan by agreeing to purchase capital goods with a portion of the funds and pledge them as garantias.

However, while the purchase of the collateral items is being negotiated with part of the money, the balance is retained by the Bank. It remains undisbursed until collateral requirements are satisfied. Neither the client nor the Bank consider such an account to have been disbursed. It is in a state of suspension and entered on the books as "NHD" ("No ha desembolsado").

The problems do not cease at that point. In the event that collateral is not secured, or other difficulties intervene between the approval and the anticipated future date of disbursement, the client may simply withdraw and decline the loan. An applicant who follows this course is designated as a "desistio". Withdrawals frequently are triggered by the loss of a business opportunity resulting from delayed disbursement.

But there are further complications. Clients who receive disbursements do not always prosper despite the completion of a business analysis confirming that their anticipated rate of return will exceed their obligations after a specified period of time ("the break even point"). Entrepreneurs who fall seriously in arrears have their accounts suspended or terminated. In some cases repossessions are completed. Such clients are designated as "suspendido", "cerrado", or "sequestrado" .

Despite the degree of vitality and probable life expectancy of these clients, they are all (192 of them) valid loan approvals from BNP's standpoint.

The funds obligated for this universe of customers ($4,617,213) is reported to USAID as a financial commitment. A more accurate picture of the present situation can be obtained from Table 25, whic applies the classification just described.

To pursue the issue of approvals versus disbursements, the section of the table pertaining to 1983 is particularly interesting. Of the 35 loan applications approved in 1983, only 5 had been activated by August. Note especially that only 4 of the 14 loans approved during the first quarter of 1983 were activated by August! Only 3 of the total of 33 undisbursed loan accounts remained from 1982 however. In other words, if the client doesn't withdraw, disbursements are made eventually. Since there were no "desistios" thus far reported for 1983, the applicants had not lost hope by the time our field work was concluded. The delays in the disbursement process are lengthy!

There is substantial evidence in Table 25 that enterprises require a substantial amount of lag time before getting into serious trouble. All 8 of the withdrawals date back to the third quarter of 1982, and 7 were earlier. All 16 of the terminated clients represent accounts from the second quarter of 1982 or earlier.

The explanation for this time lag will be found in management procedures which encourage BNP personnel to work with troubled accounts and attempt to devise a solution. While this is a humanitarian policy, and in keeping with the program's philosophy, it has some ominous implications. As will be seen in the next chapter, it indicates that an as yet unestimated number of accounts listed as active since the third quarter of 1982 are actually experiencing severe difficulties. They have not yet been transferred to the "terminated" column!

How serious a problem are terminations and withdrawals? Of the 192 loan applications approved thus far, 33 have not yet been disbursed, 5 are repaid, 8 have withdrawn. Of the remaining 146 clients "at risk" for termination, 16 have been shut down---approximately 1 in 9. If we consider both terminations and withdrawals as unsuccessful accounts, the failure rate becomes 24 out of 154---approximately 1 in 6.

For a supervised credit program based on less experienced entrepreneurs, this would appear to be a praiseworthy level of performance. The evaluation team has no standard of comparison at hand, but mortality among new small business enterprises is reputed to be quite high in most countries. Further

Table 25

APPROVED LOANS BY PRESENT STATUS

| Quarter | Approved[1] | Undisbursed | Withdrawn | Terminated | Active[2] |
|---|---|---|---|---|---|
| 1981 4th | 43 | 0 | 1 | 4 | 38 |
| 1982 1st | 36 | 1 | 2 | 6 | 27 |
| 2nd | 41 | 2 | 4 | 5 | 30 |
| 3rd | 22 | 0 | 1 | 0 | 21 |
| 4th | 15 | 1 | 0 | 0 | 14 |
| 1983 1st | 14 | 9 | 0 | 1 | 4 |
| 2nd | 21 | 20 | 0 | 0 | 1 |
| TOTALS | 192 | 33 | 8 | 16 | 135 |

1. Excludes loans no. 1 (never claimed) and 4 being resubmitted to the Credit Committee at the date of writing (Nos. 182, 186, 188 and 192, designated as "rechazados").

2. Includes five loans which are fully repaid (designated as "cancelados").

insights may be obtained by isolating the time frame in which the failures have occurred, and the types of businesses which have sustained them.

Table 25 confirms that 15 of 16 terminations, and 7 of 8 withdrawals have befallen enterprises which were approved during the first three quarters of program operation. In Table 26, the terminations and withdrawals have been classified by (1) approval date; (2) new or existing enterprise; and (3) type of activity. Of the 110 approvals during the first three quarters, 64 were given to new enterprises. Of these, 17 are now terminated or withdrawn for a failure rate of 26.6% (1 in 4 rather than 1 in 6). Of the remaining 56 approvals given to existing businesses, only 5 are now terminated or withdrawn, for a failure rate of just 8.9% (1 in 12 rather than 1 in 6).

These statistics clarify the preference shown in recent months for existing businesses as clients. As mentioned in the preceding chapter, the practise in recent months has been to refuse to advance applicants wishing to start new businesses to the point of preparing a project study. This partly explains the .70 probability of not reaching step #5 in Table 12. The majority of inquiries about loans are originated by persons interested in new ventures.

If we focus on failures by type of business activity during the first three quarters of program operation, results are equally revealing:

Approved Loans During First Three Quarters

| | Industrial | Commercial | Services |
|---|---|---|---|
| Approvals | 38 | 45 | 37 |
| Withdrawals and Terminations | 5 | 11 | 6 |
| Percent Failure | 13.2 | 24.4 | 16.2 |

Clearly, commercial enterprises experience a greater risk of failure than industrial or service firms.

It has already been established above that existing businesses are less apt to fail than new ones. Does a heavy concentration of new businesses within the commercial category explain its higher failure rate? The answer is presented in the inset below:

Table 26

INACTIVE LOANS BY TYPE OF ACTIVITY: NEW AND EXISTING

| Quarter | Industrial | Commercial | Services |
|---|---|---|---|
| 1981 4th | | 3N-T<br>1N-W | 1E-T |
| 1982 1st | 1N-T<br>1N-W | 1E-T<br>3N-T<br>1N-W | 1N-T |
| 2nd | 1E-T<br>1N-T<br>1N-W | 2N-W | 1N-T<br>1N-W<br>2E-T |
| 3rd | | 1E-W | |
| 4th | | | |
| 1983 1st | 1E-T | | |
| 2nd | | | |
| TOTALS | 6 | 12 | 6 |

N = New business

E = Existing business

T = Terminated

W = Withdrawn

Approved Loans During First Three Quarters

| | Industrial | Commercial | Services |
|---|---|---|---|
| Approvals | 38 | 45 | 37 |
| Existing Firms | 22 | 17 | 17 |
| New Businesses | 16 | 28 | 20 |
| Percent New | 42.1 | 62.2 | 54.1 |

Comparing these results with those of the previous demonstration, we can confirm that the greater the proportion of new enterprises within a business type, the higher will be the failure rate.

These results are indicative, but not conclusive. We cannot say for certain whether the very high failure rate among commercial firms is because they have the greatest proportion of new owner-operators, or because commerce is inherently more risky than industry or service activities. The Bank is taking no chances. The evaluation team was told by BNP officials that no more grocery stores are to be financed by the program. However, exposure to high risk of failure may have been increased by the large number of loans to food-selling firms during the first half of 1983 (see Table 24-A, 24-F).

The location dimension of business activity, reviewed in Table 27, has also made a contribution to business failure. Colon emerges as the "high risk" location for loan-supported enterprises. Of the 14 approved and disbursed loans, 8 have been withdrawn or terminated! Fully one-third of all withdrawals and terminations which have occurred within the program are located in Colon! Previous conclusions might lead to the inference that a heavy concentration of groceries or other commercial activities in Colon accounts for the high rate of failure. However, only 2 of the 8 failures can be classified as commercial: a grocery store and a meat market.

Colon emerges as the graveyard of enterprise---or, at least, of those which have been financed with credit from BNP. While commerce is not strongly represented among them, half the failed industries and half the failed services identified in Table 26 for the entire program are located in Colon. If Bank officials have come to recognize this problem, we could predict that they would have avoided this community in the recent distribution of loan approvals. We turned to the history of loan approvals and discovered that all awards to Colon recipients were numbered between #69 and #105. The most recent approval was granted during the second quarter of 1982 (see Table 15), occurring more than a year ago.

Table 27

APPROVED LOANS BY PRESENT STATUS AND LOCATION

| Location | Approved | Undisbursed | Withdrawn | Terminated | Active[1] |
|---|---|---|---|---|---|
| Metropolitan Area | 101 | 17 | 0 | 10 | 74 |
| Golfo de Panama | 1 | 0 | 0 | 0 | 1 |
| Panama Este | 4 | 1 | 0 | 0 | 3 |
| Panama Oeste | 20 | 1 | 1 | 1 | 17 |
| Area Central | 28 | 7 | 0 | 1 | 20 |
| Area Occidental | 20 | 5 | 3 | 0 | 12 |
| San Blas | 3 | 1 | 0 | 0 | 2 |
| Colon | 15 | 1 | 4 | 4 | 6 |
| TOTALS | 192 | 33 | 8 | 16 | 135 |

1. The Metropolitan Area active loans include five which are fully repaid ("cancelados"). Strictly speaking, these are no longer active

It was established in Table 26 that the first two quarters of 1982 were the interval of greatest business failure in the history of the program. All loans made to applicants from Colon were dated during these two quarters! Since then, either by accident or intent, the BNP has made no further awards to this troubled community. Since Colon lags far behind Panama City in development and job opportunities, failure to include it in the program would appear to be contrary to stated employment generation objectives.

How does a certain proportion of the client population reach the point of termination and what is the current status of the program in terms of risk of termination in the future? The answer appears to be found in the problem of morosidad—unpaid amortization or installments on the loan. A monthly report on delinquent accounts is prepared and issued by the Department of Analysis and Evaluation; these reports for 1983 are the source of observations for the remainder of this section.

The delinquency reports issued by BNP are a bit difficult to interpret cumulatively because they are classified by duration of indebtedness: 30 days, to 60 days, to 120 days, to 150 days, more than 6 months, more than one year. The amount of indebtedness accumulated in any one month is taken to equal the sum of all duration categories for that month. However, some 30-60 day delinquents from previous months have paid up and dropped from the list. At the other extreme, some accounts delinquent 150 days or more have been terminated and also dropped from the list.

For the purpose of this analysis, Table 28 has been prepared with data on accounts which have lapsed into delinquency for 5 months (150 days) or more during the months between January and July, 1983. It is clear from a glance that the number of long-term delinquent accounts has been increasing despite the accounting practise of dropping terminated accounts from the list from month to month (see notes 1-2, Table 28). Also, the cash value of five-month delinquency has increased by more than 50% since the beginning of the year.

The current status of risk in the supervised credit program may be inferred from the results obtained in Table 29. As noted in the data supplied in the table, which reviews the most recent month's report (July, 1983), 40 of the 135 active loan accounts (30%) were delinquent to some degree. Of these, 15 had owed payments for up to five months; 25 had accumulated debts for five months or more. In our judgement, the 25 clients in the latter category (almost one-fifth of the total) are at risk for termination.

Table 28

STATUS OF ACCOUNTS DELINQUENT 150 DAYS OR MORE DURING 1983

| Month | Number of Accounts Delinquent 150 Days + | Amount Owed by Accounts Delinquent 150 Days + |
|---|---|---|
| January | 22 | $ 62,158 |
| March | 27 | 63,023 |
| April | 31 | 91,769 |
| June[1] | 30 | 102,182 |
| July | 32 | 100,343 |

1. The June listing of 30 accounts delinquent more than 150 days includes 8 clients whose projects had already been terminated. The July delinquency report dropped 2 of these 8 clients from the list.

2. The July listing of 32 accounts delinquent more than 150 days includes 7 clients whose projects have been terminated, 1 of which is listed for the first time. In the July listing of accounts delinquent more than 150 days, four clients appear for the first time.

Table 29

NUMBER AND LOCATION OF DELINQUENT ACCOUNTS: JULY, 1983

| Location | 1. Active Accounts[1] | 2. Active Morosos[2] | 3. Morosos Terminated[3] | 4. Morosos Delinquent More than 150 Days[4] |
|---|---|---|---|---|
| Metropolitan Area | 74 | 23 | 3 | 12 |
| Golfo de Panama | 1 | 1 | 0 | 1 |
| Panama Este | 3 | 1 | 0 | 1 |
| Panama Oeste | 17 | 2 | 1 | 1 |
| Area Central | 20 | 7 | 1 | 5 |
| Area Occidental | 12 | 4 | 1 | 3 |
| San Blas | 2 | 0 | 0 | 0 |
| Colon | 6 | 2 | 1 | 2 |
| TOTALS | 135 | 40 | 7 | 25 |

1. Active accounts remain when the withdrawals and terminations are subtracted from the 192 approvals (see Table 25).

2. These are all delinquent accounts reported by BNP for the month of July, 1983, including those who are only 30 days behind in their payments and also those in arrears for more than one year. The list of Morosidad for July also includes the seven terminated accounts in column #3. Cols. 2 + 3 yield a total of 47 listed clients for the month. For differences noted between July and the previous month, see notes 1-2, Table 28.

3. These terminated loans are only those appearing on the July report of Morosidad. Nine earlier terminated accounts have been dropped from the current list of debtors (see the full list of 16 terminated clients in Table 25).

4. Entries of long-term delinquents in this column are a subset of those in col. #2. By subtracting col. 4 from col. 2 the number of short-term delinquents (less than 150 days) may be obtained for each location. For July, there were only 15.

Another perspective on the program's indebtedness level can be obtained from data reproduced by BNP accountants in Table 30. The table summarizes the status of collections for the first six months of 1983. The significance of the columns, by number, is described below:

1. The column titled "Morosidad Saldo Anterior" gives the balance owed at the beginning of each month.

2. The column titled "Cobros del Mes" gives the amount due if all clients make their scheduled payment for the month .

3. The column titled "Recuperacion Proyectada" gives the amount which would be needed to satisfy the total outstanding indebtedness (cols. 1 + 2) in a particular month.

4. The column titled "Recuperacion Realizada" gives the amount actually collected in that month.

5. The column titled "Morosidad a la Fecha" gives the new balance owed at the end of the month (col. 1 + col. 6).

6. The column titled "Morosidad del Mes" identifies the shortfall in collection (or the excess recovery) for a particular month (col. 2 minus col. 4).

An effective measure of program performance in recovering outstanding obligations can be obtained by summing cols. 2 and 4 for the six month period, and subtracting the sum of 4 from 2, as has been done below:

| | | | |
|---|---|---|---|
| Collections projected for January-June, 1983 | = | $232,336.09 | |
| Collections achieved for January-June, 1983 | = | 188,702.39 | |
| Unrecovered balance | = | $ 43,633.70 | (18.8% unrecovered) |

While the project is recovering four-fifths of its accounts due and payable over the six month period, the performance of the portfolio is wildly erratic. oscillating from a deficit of $20,253 in one month (April) to a slight surplus of $2,660 in another (June). It is noteworthy that the proportion of collections accomplished by BNP is almost identical with that achieved by the Ministry of Trade and Industry's small business loan program, also supported by USAID/Panama.

This section has considered the discrepancy which exists between the BNP's list of 192 approvals and the smaller number (135) of active loans representing businesses which are actually in operation. It has examined both the number and significance of terminated loans, and the process of delinquency through which

Table 30

GERENCIA EJECUTIVA DE DESARROLLO LOCAL
PROGRAMA DE PLANIFICACION Y
GENERACION DE EMPLEO
ANALISIS SOBRE
PROYECCIONES Y RECUPERACIONES DEL
CAPITAL, INTERESES Y ASISTENCIA TECNICA
DEL 1º DE ENERO AL 30 DE JUNIO DE 1983
(EN BALBOAS)

RELACION DE CAPITAL

| Año 1983 | Morosidad Saldo Anterior (1) | Cobros del Mes (2) | Recuperación Proyectada (3) | Recuperación Realizada (4) | Morosidad A la Fecha (5) | Morosidad del Mes (6) |
|---|---|---|---|---|---|---|
| Enero | 79,994.06 | 32,004.57 | 111,998.63 | 30,363.62 | 81,635.01 | 1,640.95 |
| Febrero | 81,635.01 | 22,078.27 | 103,713.28 | 20,376.87 | 83,336.41 | 1,701.40 |
| Marzo | 83,336.41 | 32,025.81 | 115,362.22 | 23,072.00 | 92,290.22 | 8,953.81 |
| Abril | 92,290.22 | 45,487.30 | 137,777.52 | 25,234.43 | 112,543.09 | 20,252.87 |
| Mayo | 112,543.09 | 53,462.97 | 166,006.06 | 39,718.72 | 126,287.34 | 13,744.25 |
| Junio | 126,287.34 | 47,277.17 | 173,564.51 | 49,936.75 | 123,627.76 | ( 2,659.58) |

RELACION DE INTERESES

| Año 1983 | Intereses Por Cobrar Saldo Ant. | Cálculo del Mes | Recuperación Proyectada | Recuperación Realizada | Intereses Por Cobrar Saldo a la Fecha | Morosidad del Mes |
|---|---|---|---|---|---|---|
| Enero | 25,552.65 | 16,530.00 | 42,082.65 | 12,482.93 | 29,599.72 | 4,047.07 |
| Febrero | 29,599.72 | 18,319.04 | 47,918.76 | 11,984.93 | 35,933.83 | 6,334.11 |
| Marzo | 35,933.83 | 17,502.40 | 53,436.23 | 16,086.97 | 37,349.26 | 1,415.43 |
| Abril | 37,349.26 | 20,213.97 | 57,563.23 | 12,092.41 | 45,470.82 | 8,121.56 |
| Mayo | 45,470.82 | 20,237.03 | 65,707.85 | 17,783.74 | 47,924.11 | 2,453.29 |
| Junio | 47,924.11 | 22,768.54 | 70,692.65 | 25,861.59 | 44,831.06 | (3,093.05) |

RELACION DE ASISTENCIA

| Año 1983 | Asist. Téc. Por Cobrar Saldo Ant. | Cálculo del Mes | Recuperación Proyectada | Recuperación Realizada | Asist. Téc. Por Cobrar Saldo a la Fecha | Morosidad del Mes |
|---|---|---|---|---|---|---|
| Enero | 8,418.00 | 4,753.42 | 13,171.42 | 3,912.64 | 9,258.78 | 840.78 |
| Febrero | 9,258.78 | 5,307.82 | 14,565.60 | 2,870.92 | 11,695.68 | 2,436.90 |
| Marzo | 11,695.68 | 5,084.25 | 16,779.93 | 4,278.04 | 12,501.89 | 806.21 |
| Abril | 12,501.89 | 5,900.83 | 18,402.72 | 3,360.47 | 15,042.25 | 2,540.36 |
| Mayo | 15,042.25 | 6,065.05 | 21,107.30 | 4,283.18 | 16,824.12 | 1,781.87 |
| Junio | 16,824.12 | 6,512.21 | 23,336.33 | 7,107.04 | 16,229.29 | ( 594.83) |

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they occurred. The primary reasons for the discrepancy between the two figures may be summarized below:

1. The substantial delay between approval and disbursement, amounting to three-to-six months during 1983 (Table 25), reduces the number of approvals by 17%.

2. The withdrawals and terminations, which have not been removed from the loan portfolio reported to USAID as "active", reduce the number of approvals by an additional 12.5%.

It was suggested in the discussion that the problem of awaiting the purchase of collateral with a portion of the loan before releasing the balance account's for much of the delay in #1 above. This will be resolved in time. A more intractable problem is encountered when documents submitted in support of the loan prove to be incomplete, inaccurate or falsified when examined by the Legal Department. Applicants in this situation most often withdraw their requests and become "desistios"; however, their applications appear to have been seldom if ever removed from the active file.

It was further suggested in the discussion that the problem of terminations in the past has resulted from a combination of the following factors: (a) too many loans to new businesses; (b) too many loans to commercial enterprises, especially food stores; (c) too many loans to proprietors in Colon. All three of the preceding developed into high risk categories of account. It is evident that the Bank is seeking to avoid these classes of applicant at present.

Characteristics of Active Accounts

The Bank's working file of enterprises utilizing either partially disbursed or fully disbursed loan funds within the framework of a supervised credit program consists of 135 cases. All except 20 of these were approved prior to October, 1982; only 5 were approved between January and July, 1983. While the evaluation team is considering 21 months of program operations, 85% of these active cases are drawn from the first 12 months of loan approvals (Table 25).

Even this reduced number of clients is diminished by the information that the majority have not received the full disbursement of their loans. Data presented in Table 31 confirm that partial disbursements (108) outnumber fully disbursed accounts (27) by a margin of four to one! The disbursement mechanism, which will be discussed in the following chapter, is utilized as a management tool by the BNP administrators with mixed results.

Table 31

DISBURSEMENT STATUS OF ACTIVE LOAN ACCOUNTS

| Type of Activity | Partially Disbursed | Fully Disbursed | Total |
|---|---|---|---|
| Industry | 38 | 9 | 47 |
| Commerce | 38 | 11 | 49 |
| Services | 32 | 7 | 39 |
| TOTALS | 108 | 27 | 135 |

Regardless of disbursement status, which relates to performance expectations, the 135 loan accounts identified in Table 32 below have been activated by BNP and are considered to be "en operacion". The mean and median values may be compared with those for the entire portfolio of loan approvals, using data from Tables 15 and 16:

Comparison of All Approvals with Active Loans

| | All Approvals (192) | Active Loans (136) |
|---|---|---|
| Mean Value | $24,048 | $22,679 |
| Median Value | 18,181 | 17,308 |
| Proportion Below $20,000 | 56.30% | 60.3% |

There appear to be no substantial differences between the two sets of loans with the exception of a slight adjustment downward in measures of central tendency.

Utilizing more detailed data on the active loans by type of industry, we can examine differences in loan accounts along several dimensions: location and new versus existing enterprises. These comparisons have been presented in Table 33 below. The discussion will read the table from bottom to top in order to move from the most general level to more particular kinds of observations.

From Panel III of Table 33, then, it should be noted first that there are no meaningful differences between loans for new and existing businesses as such. New enterprises have a mean of $23,241, while existing firms have a mean of $22,116. Neither differs significantly from the population mean of $22,679.

Table 32

ACTIVE LOANS: FREQUENCY DISTRIBUTION

| | N | Percent |
|---|---|---|
| 0000 - 4999 | 0 | 0.0 |
| 5000 - 9999 | 28 | 20.6 |
| 10000 - 14999 | 28 | 20.6 |
| 15000 - 19999 | 26 | 19.1 |
| 20000 - 24999 | 10 | 7.4 |
| 25000 - 29999 | 8 | 5.9 |
| 30000 - 34999 | 15 | 11.0 |
| 35000 - 39999 | 1 | .7 |
| 40000 - 44999 | 2 | 1.5 |
| 45000 - 49999 | 3 | 2.2 |
| 50000 - 54999 | 8 | 5.9 |
| 55000 - 59999 | 1 | .7 |
| 60000 - 64999 | 1 | .7 |
| 65000 - 69999 | 0 | 0.0 |
| 70000 - 74999 | 2 | 1.5 |
| 75000*- | 3 | 2.2 |
| | 136 | 100.0 |

* B/186,000
131,000
120,000

Median Loan Value: $17,308

Mean Loan Value: 22,679

Table 33

MEANS BY LOCATION AND TYPE OF ACTIVITY: ACTIVE LOANS

| | Area | Type of Loan | N | Mean Value |
|---|---|---|---|---|
| I. | Metropolitan | A. Industrial Loans | 25 | $ 32,132 |
| | | 1. New Businesses | 14 | 33,680 |
| | | 2. Existing Businesses | 11 | 30,163 |
| | | B. Commercial Loans | 29 | $ 27,084 |
| | | 1. New Businesses | 18 | 23,102 |
| | | 2. Existing Businesses | 11 | 33,600 |
| | | C. Service Loans | 27 | $ 21,185 |
| | | 1. New Businesses | 14 | 25,286 |
| | | 2. Existing Businesses | 13 | 16,769 |
| | | All New Business Loans | | $ 26,985 |
| | | All Existing Business Loans | | $ 26,269 |
| | | All Loans | | $ 26,676 |
| II. | Non-Metropolitan | A. Industrial Loans | 17 | $ 18,147 |
| | | 1. New Businesses | 4 | 15,250 |
| | | 2. Existing Businesses | 13 | 19,038 |
| | | B. Commercial Loans | 19 | $ 17,157 |
| | | 1. New Businesses | 7 | 17,357 |
| | | 2. Existing Businesses | 12 | 17,041 |
| | | C. Service Loans | 19 | $ 15,214 |
| | | 1. New Businesses | 11 | 14,232 |
| | | 2. Existing Businesses | 8 | 16,563 |
| | | All New Business Loans | 22 | $ 15,412 |
| | | All Existing Business Loans | 33 | $ 17,712 |
| | | All Loans | 55 | $ 16,792 |
| III. | All Areas | A. Industrial Loans | 42 | $ 26,471 |
| | | 1. New Businesses | 18 | 29,583 |
| | | 2. Existing Businesses | 24 | 24,138 |
| | | B. Commercial Loans | 48 | $ 23,155 |
| | | 1. New Businesses | 25 | 21,494 |
| | | 2. Existing Busiensses | 23 | 24,961 |
| | | C. Service Loans | 46 | $ 18,719 |
| | | 1. New Businesses | 25 | 20,422 |
| | | 2. Existing Businesses | 21 | 16,690 |
| | | All New Business Loans | 68 | $ 23,241 |
| | | All Existing Business Loans | 68 | $ 22,116 |
| | | All Loans | 136 | $ 22,679 |

Also from Panel III, the differential in mean values by type of business activity can be assessed, and compared with the provisions in the project design:

Mean Values by Type of Business Activity

| | N | Active Loans | Project Paper |
|---|---|---|---|
| Industrial Loans | 42 | $26,471 | $60,000 |
| Commercial Loans | 48 | $23,155 | 30,000 |
| Service Loans | 46 | 18,719 | 18,000 |
| All Loans | 136 | $22,679 | $30,960 |

The ordinal relationship between loans for different types of business activities observes the intended relationship: commercial loans are larger than service loans and industrial loans are the largest of all. However, the degree of differentiation between mean values of loans by category is much less than was predicted in the project paper. While service loans are almost on target, industrial loans are less than one-half the anticipated size!

Data in Panel III invite a final internal comparison. In two types of activity which have been relatively successful---industrial and service firms---the mean value of loans to new businesses is substantially greater than the loans advanced to existing enterprises. In the case of commercial loans, which have generated a larger number of problems, new businesses have received substantially less than older firms.

The most dramatic contrast in Table 33 can be obtained from a comparison of Panel II and Panel I data on metropolitan versus non-metropolitan loan values, as demonstrated below:

Metropolitan versus Non-Metropolitan Loan Values

| | Metropolitan Mean Values | Non-Metropolitan Mean Values |
|---|---|---|
| Industrial Loans | $32,132 | $18,147 |
| Commercial Loans | 27,084 | 17,157 |
| Service Loans | 21,185 | 15,214 |
| All Loans | 26,676 | 16,792 |

On all dimensions of comparison of data drawn from Table 33 in the inset above, metropolitan enterprises have vastly greater funding made available to them.

The internal differences within Panel I and Panel II are between new and existing businesses. In general, differences within the metropolitan area are greater than those found outside Panama City, but there are no clear signals indicating that either new or existing businesses are consistently favored. It may be that, in this detailed breakdown, cell sizes are too small to permit uniformities to emerge.

Which businesses are found on the active list and how do they differ from those which appeared on the inventory of loan approvals (see Table 20)? In Table 34, opposite, data from several sources have been combined to obtain an overview of (a) types of businesses which remain in good standing, and (b) types which remain undisbursed or have been withdrawn or terminated.

When active loans are compared with approvals, the greatest number of dropouts appear in the most frequent category: groceries and food stores. In view of the substantial failure rate for this category it is not encouraging to note that 7 groceries, and 4 food processing operations remain undisbursed at present. The other major discrepancy is found in the vehicle repair and furniture manufacture categories where significant numbers of loans remain undisbursed.

It was reported in connection with Table 29 (delinquent accounts for July, 1983) that there were 25 more enterprises on the active list which were more than 5 months in arrears in making payments on their loans. This is certainly a factor in predicting the prospects for a successful outcome of the loans now included in the active file. This group of 25 has been listed by type of enterprise in Table 35 opposite.

Of the loans which appear to be in the high risk category (Table 35), 11 are located in the metropolitan area (Panama City) and 14 appear outside. The mean value of all 25 loan accounts is $20,600 per loan---slightly below the mean for all active accounts: $22,679. The distribution of these loans in terms of quarter of approval is also significant:

Approval Date for 25 High Risk Active Loans

| Quarter | Approved | Active | Withdrawn | Terminated | High Risk |
|---|---|---|---|---|---|
| 4-1981 | 43 | 38 | 1 | 4 | 11 |
| 1-1982 | 36 | 27 | 2 | 6 | 9 |
| 2-1982 | 41 | 30 | 4 | 5 | 3 |
| 3-1982 | 22 | 21 | 1 | 0 | 2 |
| TOTALS | 142 | 116 | 8 | 15 | 25 |

Table 34

ACTIVE AND INACTIVE LOANS BY TYPE OF BUSINESS

| Type of Business[1] | All Approved Loans | All Active Loans | Not Disbursed | Withdrawn | Terminated |
|---|---|---|---|---|---|
| Groceries | 30 | 16 | 7 | 3 | 4 |
| Specialty Goods Retail | 16 | 13 | 0 | 0 | 3 |
| Restaurants | 13 | 10 | 2 | 0 | 1 |
| Bakeries | 13 | 10 | 1 | 0 | 2 |
| Vehicle Repair | 13 | 7 | 6 | 0 | 0 |
| Food Processing | 12 | 6 | 4 | 1 | 1 |
| Transportation | 10 | 7 | 1 | 0 | 2 |
| Furniture Mfg. | 9 | 6 | 3 | 0 | 0 |
| General Stores | 8 | 7 | 0 | 1 | 0 |
| Welding, Foundry | 7 | 6 | 1 | 0 | 0 |
| Cleaning Services | 7 | 5 | 1 | 0 | 1 |
| Gift Shops | 7 | 6 | 1 | 0 | 0 |
| Printing/Photo | 5 | 4 | 1 | 0 | 0 |
| Clothing Mfg. | 5 | 3 | 0 | 1 | 1 |
| Pottery, Paper Mfg | 5 | 2 | 2 | 0 | 1 |
| Chemical Mfg. | 4 | 4 | 0 | 0 | 0 |
| Business Support | 4 | 3 | 1 | 0 | 0 |
| Lumber/Logging | 4 | 4 | 0 | 0 | 0 |
| Cement Block Mfg. | 4 | 3 | 1 | 0 | 0 |
| Dentist/Laboratory | 4 | 4 | 0 | 0 | 0 |
| Shoe Mfg./Repair | 4 | 4 | 0 | 0 | 0 |
| Bedding Mfg. | 2 | 1 | 0 | 1 | 0 |
| Nursery/Landscape | 2 | 1 | 1 | 0 | 0 |
| Tannery | 1 | 1 | 0 | 0 | 0 |
| Construction | 1 | 1 | 0 | 0 | 0 |
| Accountant | 1 | 0 | 0 | 1 | 0 |
| Radio Station | 1 | 1 | 0 | 0 | 0 |
| TOTALS | 192 | 135 | 33 | 8 | 16 |

1. The titles employed for the identification of these business types are spelled out more completely in Table 20.

Table 35

DELINQUENT ACCOUNTS BY TYPE OF BUSINESS ACTIVITY
(July, 1983)

| Type of Business | Frequency of Loan Accounts Delinquent 150 Days or More |
|---|---|
| Groceries | 3 |
| Specialty Stores | 2 |
| Restaurants | 3 |
| Bakeries | 1 |
| Vehicle Repair | 2 |
| Food Processing | 2 |
| Transport | 1 |
| Furniture Mfg. | 0 |
| General Stores | 1 |
| Welding, Foundry | 0 |
| Cleaning Services | 2 |
| Gift Shops | 1 |
| Printing/Photo | 0 |
| Clothing Mfg. | 0 |
| Pottery/Paper | 0 |
| Chemical Mfg. | 1 |
| Business Service | 1 |
| Lumber/Logging | 2 |
| Shoe Mfg./Repair | 1 |
| Construction | 1 |
| Radio Broadcasting | 1 |
| TOTAL | 25 |

The composition and size of the high risk category, consisting of accounts with a record of non-payment extending over five months or more, poses a serious problem for the management of the supervised credit program. Clearly the length of time since approval is associated with the frequency of high risk accounts. Of the 65 active loans surviving from approvals during the first two quarters of the program, 20 are now listed as high risk accounts!

BNP personnel brush this aside with the rejoinder that "many mistakes were made during the early months of program operation". This implies that high risk accounts result from inadequate screening and selection of loan recipients. They never should have received loans because they were poor risks from the beginning. The same officials maintain that more careful selection and better supervision will prevent those who received loans more recently from entering the high risk category.

Superficial support for this position can be obtained from the data in Tables 20, 29, 34 and 35, which seem to affirm that but very few (only 5) clients have entered the high risk category since April, 1982. However, the evaluation team remains unconvinced by this affirmation that the problem has been solved. Length of time is a requirement for accounts to become delinquent by as much as five months. No 1983 approval could fall into the high risk category. Most of the 1982 approvals made during the second half of the year must also be excluded because of the disbursement lag.

It seems proper to observe that the most recent time-level of loans which might be expected to generate some additions to the high risk category would be approvals from the second quarter of 1982. Between June and July, 1983, there were three new additions to the high risk list from approvals made during this quarter. This could mean that over the next several quarters, a comparable number of accounts from the second half of 1982 will join the high risk category as the time required becomes sufficient.

There is no way to prove either of these positions is correct at the present time. Only careful monitoring of program data over the ensuing six months (August through January) will provide the correct answer. Monitoring procedures now being utilized by BNP are not adequate for the analysis of such a complex and critical problem. Further insights into reasons for the relatively high level of delinquency were obtained during our field survey. A number of other dimensions of data were only available from this source, and these will now be introduced.

Insights from Survey Respondents

A sample survey was conducted in the field, based on a subset of the cases in the active file of loan recipients. A description of procedures and the parameters of the sample (54 enterprises divided between metropolitan and non-metropolitan areas) appear in Chapter III, pp. 39-42. The characteristics of the sample cases are set forth in Table 36: location of firm, size of loan, type of business and frequency. The sample mean loan value of $27,384 is somewhat higher than that for the universe of active loans ($22,679, Table 33). However, Table 36 discloses that the rank order of the first five businesses in terms of frequency of appearance is the same in the sample as in the universe of 135 active loans (see Table 34) as follows:

Rank Order of Most Frequent Enterprises

| Rank | Business | Sample Frequency | Active Loans |
|---|---|---|---|
| 1 | Groceries | 7 | 16 |
| 2 | Specialty Shops | 7 | 13 |
| 3 | Restaurants | 6 | 10 |
| 4 | Bakeries | 5 | 10 |
| 5 | Vehicle Repair | 4 | 7 |

The sample survey was intended to answer a set of basic questions about the program which could not be answered from sources within the Banco Nacional de Panama:

1. What is the record of employment generation achieved by the program? How does it compare with expectations contained in project studies for those enterprises? How does it compare with goals set by the project designers?

2. What are the actual figures concerning investment level per job by different types of activity? How do these compare with targets in the project paper?

3. What is the history of loan disbursement following the completion of loan contract procedures? What is the entrepreneur's degree of responsibility for delays?

4. What is the respondent's view of technical assistance and supervision being provided by the program?

5. How do the entrepreneurs who receive the loans compare with the target group envisioned by project designers?

6. What circumstances are responsible for entrepreneurs falling into the high risk category?

Table 36

CHARACTERISTICS OF SAMPLE ENTERPRISES

| Type of Business | N | Loan No. | Metro | Loan No. | Non-Metro | Totals |
|---|---|---|---|---|---|---|
| Groceries, Supermarkets, Food Stores | 7 | 8 | $ 22000* | 86 | $ 5000 | |
| | | | | 11 | 10000 | |
| | | | | 47 | 10000 | |
| | | | | 61 | 10000 | |
| | | | | 145 | 15000 | |
| | | | | 140 | 21000 | |
| Subtotal | | | $ 22000 | | $ 71000 | $126000 |
| Specialty Shops | 7 | 137 | 10000 | 118 | 5500 | |
| | | 2 | 15000 | 83 | 15000 | |
| | | 3 | 50000 | 127 | 25000 | |
| | | 130 | 131000 | | | |
| Subtotal | | | $206000 | | $ 45500 | $251500 |
| Restaurants | 6 | 79 | $ 70000 | 44 | $ 5000 | |
| | | | | 65 | 10000 | |
| | | | | 83 | 10000 | |
| | | | | 117 | 15000 | |
| | | | | 62 | 20000 | |
| Subtotal | | | $ 70000 | | $ 60000 | $130000 |
| Bakeries, Delicatessens | 5 | 6 | $ 10000 | 42 | 6000 | |
| | | 9 | 21000 | 136 | 16000 | |
| | | 91 | 24000 | | | |
| Subtotal | | | $ 55000 | | $ 22000 | $ 77000 |
| Vehicle Repair, Auto Body, Electric Machine Repair | 4 | 135 | $ 5000 | 146 | 6000 | |
| | | 64 | 25000 | 24 | 18000 | |
| Subtotal | | | $ 30000 | | $ 24000 | $ 54000 |
| Printing/Photography | 3 | 17 | $ 27000 | | | |
| | | 20 | 35500* | | | |
| | | 34 | 186000* | | | |
| Subtotal | | | $248500 | | | $248500 |

* Loan amount incorporates additional loans made at later dates

Characteristics of Sample Enterprises

(Page two of three)

| Type of Business | N | Loan No. | Metro | Loan No. | Non-Metro | Totals |
|---|---|---|---|---|---|---|
| Transportation Business Passenger and Cargo | 2 | 33 | $ 45000 | 41 | $ 6360 | |
| Subtotal | | | $ 45000 | | $ 6360 | $ 51360 |
| Furniture and Household Furnishings Manufacture | 2 | 157 | $ 33000 | 59 | $ 23000* | |
| Subtotal | | | $ 33000 | | $ 23000 | $ 56000 |
| Gifts, Novelties, Florists | 2 | 125 | $ 14000* | | | |
| | | 144 | 15000 | | | |
| Subtotal | | | 29000 | | | $ 29000 |
| Shoe Manufacture and Repair | 2 | 51 | $ 8000 | | | |
| | | 71 | 12000 | | | |
| Subtotal | | | $ 20000 | | | $ 20000 |
| Cleaning Business, Laundromat, Auto Wash | 2 | | | 21 | $ 12000 | |
| | | | | 158 | 50000 | |
| Subtotal | | | | | $ 62000 | $ 62000 |
| Logging and Lumber Mill | 2 | | | 120 | $ 48000* | |
| | | | | 60 | 50000 | |
| Subtotal | | | | | $ 98000 | $ 98000 |
| Clothing Manufacture/Tailoring | 1 | 35 | $ 16000* | | | |
| Subtotal | | | $ 16000 | | | $ 16000 |
| Ceramic, Paper, Plastics Mfg. | 1 | 159 | $ 12000 | | | |
| Subtotal | | | $ 12000 | | | $ 12000 |
| Food Processing | 1 | 40 | $ 43500* | | | |
| Subtotal | | | $ 43500 | | | $ 43500 |
| Cushion, Curtain Mfg. | 1 | 111 | $ 60000* | | | |
| Subtotal | | | $ 60000 | | | $ 60000 |
| Landscaping/Nursery | 1 | 162 | $ 5000 | | | |
| Subtotal | | | $ 5000 | | | $ 5000 |

* Loan amount incorporates additional loans made at later dates.

Characteristics of Sample Enterprises

(Page three of three)

| Type of Business | N | Loan No. | Metro | Loan No. | Non-Metro | Totals |
|---|---|---|---|---|---|---|
| Dentist/ Medical Laboratory | 1 | 30 | $ 30000 | | | |
| Subtotal | | | $ 30000 | | | $ 30000 |
| Construction | 1 | 28 | $ 20000 | | | |
| Subtotal | | | $ 20000 | | | $ 20000 |
| Welding, Smithing, Foundry Ship Repair | 1 | | | 50 | $ 32000* | |
| Subtotal | | | | | $ 32000 | $ 32000 |
| Radio Station | 1 | | | 125 | $ 29500 | |
| Subtotal | | | | | $ 29500 | $ 29500 |
| N Total | 53 | | 27 | | 26 | |
| TOTALS | | | $978000 | | $473360 | $1451360 |

* Loan amount incorporates additional loans made at later dates

Each of these subjects will be considered in a brief separate section below, accompanied by appropriate statistical materials from the survey.

Employment generation. The only "data" offered by BNP officials on the subject of numbers of jobs provided is the estimate written into the project study at the time of loan application. The impression prevails within the Bank that employment data are neing recorded fully and frequently because forms for this purpose are printed and distributed within the Department of Supervision and Department of Technical Assistance. However, the level of completeness of these forms was already described (pp. 36-37 in Chapter III) and rejected.

In the field survey, each entrepreneur was asked about his employees by name, job description, salary and length of employment before and after joining the supervised credit program. By subtracting the former from the latter, a true picture of employment generation could be obtained. Employers were not given credit for assertions that jobs had been created for workers who were no longer present. The job situation following receipt of the loan was taken to be the current situation at the time of the interview.

Employers were given credit for "employment generation" under two circumstances which are quite equivocal. The first is the "job transfer" situation: a person who was employed for wages becomes an entrepreneur. Has he created a job? Only if his previous position was filled by someone else. But we can not be expected to verify this. The second is the "job supplement" situation: a person previously employed for wages obtains a loan, starts a business and keeps his previous job! Under these not-infrequent circumstances it would be difficult to argue that employment has been generated, but we accepted it as such for enumeration purposes.

To obtain equalized counting units for employment, furthermore, we adapted the "full-time equivalent" definition currently utilized in professional circles. If two persons are employed part-time, they receive credit for one job, i.e., the equivalent of one full time position. The results are presented in Table 37 opposite. The final sample of 53 (one case was dropped when we discovered in the field that the owner had suspended operations) produced 180 full time jobs, or 3.4 per enterprise. The project paper, on the other hand, envisioned 1,604 jobs located in 323 loan-supported firms, or 5 jobs per enterprise.

Perhaps the best standard of comparison for the employment actually generated by the sample enterprises is the proposed numbers of jobs which were planned

for them in the project studies which were part of their loan applications. The 53 cases in the final sample proposed to generate 268 new jobs, or 5.05 per enterprise---a figure identical with project design standards. Unfortunately, only 67% of the target is being realized in the field by provision of actual employment.

And this must be considered as a favorable interpretation of the actual situation. If we included terminations and withdrawals in the universe from which the sample was drawn, the expected jobs (proposed in applications) would increase but the observed jobs (those actually provided) would remain the same, providing an even less favorable proportion. In other words, the sample is skewed in favor of the Bank.

This bias is reflected in another dimension of the sample data as well. The active file of 135 loans is made up of those presently judged to be healthy. However, as demonstrated above in Table 29, one-fifth of those loans are more than five months in arrears. Some, inevitably, will slip into the "terminated" category as they are closed or suspended; at that point, their employees will be dismissed and the level of employment will be reduced.

In more proximate terms, 11 of the 53 sample establishments are already in the high risk category! Field inquiries confirmed that several of these are precariously placed on the edge of business failure. The posted figure of 180 jobs in Table 37 will soon need to be reduced by additional failures. The unexpected volatility of the "active loans" category suggests the need for continuous monitoring.

Discussion with owner-operators of sample businessses, furthermore, confirmed an observation which was less surprising. Jobs in loan-supported enterprises are not necessarily "forever". Operators of these firms are sensitive to market conditionslike other businessmen. Despite commitments made to generate employment, they will diminish or augment their labor force as circumstances appear to dictate. Once again, determination of the actual level of employment requires continuous monitoring over a specified unit of time, e.g., a calendar year. For how many months during the year was a specified number of persons employed? Perhaps person-months of employment should be accepted as a more meaningful counting unit for employment generation than "jobs".

In the project design, employment generation goals are stated in quantitative rather than qualitative terms: numbers of jobs rather than types of jobs.

Table 37

EMPLOYMENT GENERATED BY TYPE OF OCCUPATION*

| CIUO Code* | Description of Occupation | Number | EPG Percent | Percent* National |
|---|---|---|---|---|
| 0 | Profesionales, técnicos y ocupaciones afines | 0 | 0 | 11.1 |
| 1 | Gerentes, administradores y funcionarios de categoria directiva | 5 | 2.8 | 4.9 |
| 2 | Empleados de oficina y ocupaciones afines | 12 | 6.7 | 10.4 |
| 3 | Vendedores y ocupaciones afines | 22 | 12.2 | 6.7 |
| 4 | Agricultores, ganaderos pescadores, cazadores, madereros y ocupaciones afines | 2 | 1.1 | 27.1 |
| 5 | Conductores de medios de transporte y ocupaciones afines | 7 | 3.9 | 4.9 |
| 6 | Artesanos y operarios en ocupaciones relacionadas con la hilanderia, confección del vestuario y calzado, la carpinteria, la industria de la construcción y la mecanica | 49 | 27.2 | 12.8 |
| 7 | Otros artesanos y operarios | 18 | 10.0 | 2.5 |
| 8 | Obreros y jornaleros | 7 | 3.9 | 3.5 |
| 9 | Trabajadores en servicios personales y en ocupaciones afines | 58 | 32.2 | 14.5 |
| X | Trabajadores en ocupaciones no identificables o no declaradas y otros trabajadores | 0 | 0 | 1.6 |
| | | 180 | 100.0 | 100.0 |

*Classifications and occupational definitions according to the Uniform International Classification of Occupations as adopted in Clasificación Nacional de Ocupaciones, COTA 1980, Dirección De Estadística y Censo, Contraloría General, Panama, 1980.

**Based on sample data from the 1980 National Census as reported in Información Estadística Sobre Recursos Humanos, Ministerio de Trabajo y Bienestar Social y Agencia para el Desarrollo Internacional, Proyecto 525-0221,(SIRH), Panamá, 1983.

Yet, it may be questioned whether the expansion of low-paid, unskilled employment confers long-range benefits upon either the economy or the workers. An inquiry into quality of employment provided by the sample enterprises is presented in Table 37, which compares the occupational distribution from the sample with national norms provided by the Manpower Information System portion of the Employment Planning and Generation Project (specifically, the Sistema de Informacion de Recursos Humanos, or SIRH).

The results of the inquiry are quite favorable. The following categories represent occupations at the level of skilled labor or above:

Occupations from the Sample Survey of 1983

| Job Classification | Percent |
|---|---|
| 1. Managers | 2.8 |
| 2. Office workers | 6.7 |
| 5. Transport workers | 3.9 |
| 6. Artisans/operators | 27.2 |
| 7. Other craftsmen | 10.0 |
| TOTAL | 50.6% |

More than half the sample occupations should be considered as representing at least medium skill levels. This implies that workers are being not only paid but trained. From a long-range perspective the training, which is permanent, may be more important than the wages, which could be temporary.

From the perspective developed above, the evaluation team was gratified to discover the frequency with which operators had been responsible for development of workers' skills. From a national labor force point of view also, the occupational distribution represented by the sample lends itself to a positive interpretation. Only the large concentration of personal service workers (mostly restaurant and food service employees) represents a problem which administrators may wish to addess in the future.

Investments per Job. The project design includes a projected level of investment per new worker employed by type of activity. The average expenditure proposed was $6,234 per job generated. However, this mean was computed on the assumption that industrial jobs would cost twice as much ($10,000) as jobs in commerce and services ($5,000). Sample data on the cost of jobs produced by the supervised credit program appears in Table 38 below.

Table 38

INVESTMENT PER JOB CREATED BY TYPE OF ECONOMIC ACTIVITY FROM SAMPLE DATA

| Activity* | No. of Cases | Amount Approved all Financing | Amount Disbursed (AID+GOB) | Jobs Created | Cost per job for all Approved financing | Actual Investment per job (AID + GOB disbursements) |
|---|---|---|---|---|---|---|
| INDUSTRY | 15 | $ 594,500 | $ 464,820 | 52 | $ 11,433 | $ 8,939 |
| COMMERCE | 19 | 461,500 | 384,781 | 53 | 8,707 | 7,260 |
| SERVICE | 19 | 395,360 | 292,079 | 75 | 5,271 | 3,894 |
| TOTAL | 53 | $ 1,451,360 | $1,141,680 | 180 | $ 8,063 | $ 6,343 |

* Classification of activity according to GEDEL

The lesson from Table 38, as for a number of other program dimensions considered in this review, is that the answer you get depends upon how you count. If the face value of the 53 loans is divided by the level of current employment (180 jobs), then the cost per job is $8,063, or 1.30 times the target! What is true of the overall average is true, in varying degrees, of each of the three categories of industry: all are higher than the figures contained in the project paper.

However, Table 38 also discloses that while $1.451 million has been approved for the 53 projects, only $1.142 million has been disbursed (78.7%). Since almost one-fourth of the face value of the credit has not been utilized, it should be excluded from the calculation of the cost of employment! The cost per job has been recalculated in the final column of Table 38, using disbursed amounts rather than approved amounts.

When this realistic calculation is employed, the cost per job drops to $6,343---approximately on target! Furthermore, both industrial and service occupations come within the limits of $10,000 and $5,000. Only the commercial occupations exceed the norm by a substantial margin (1.45 times the $5,000 maximum). The pertinent sidelight on this observation is provided by our previous observations on (1) high risk enterprises and (2) quality of employment. It is the commercial establishments which have the highest rate of failure, and also the poorest quality of job generated (salesclerk, waiter-waitress, kitchen help).

A number of dimensions of data from the evaluation appear to converge on the same recommendation. The survivorship level of enterprises, the cost per job and the quality of employment would all be improved if the loans to commercial ventures were curtailed. A final glance at Table 38 confirms both (1) that commercial establishments are not the most important source of jobs, and (2) that service enterprises (which provide skills training and better wages) are also the cheapest producers of new employment.

A final comparison has been prepared based on employment data from the sample survey. Table 39 compares the costs of jobs by employment type between the BNP supervised credit program and the earlier study completed by the evaluation team on the Ministry of Commerce and Industry's small business loan program. Using disbursed amounts (rather than approved amounts) for the BNP program, the MICI project (Direccion General de la Pequena Empresa) is clearly superior in all categories by substantial margins. However, a qualification is in order. The MICI

Table 39

COMPARATIVE COST OF EMPLOYMENT GENERATION FOR

DGPE AND EPG PROGRAMS

| Activity* | No. of loans EPG Project | Amount financed EPG (AID+GOB disbursal) | Jobs Created EPG | Investment per job EPG | Investme per job DGPE ** |
|---|---|---|---|---|---|
| Agriculture | 2 | 54,951 | 7 | 7,850 | 2,055 |
| Manufacturing | 16 | 318,564 | 46 | 6,925 | 2,421 |
| Construction | 1 | 19,383 | 11 | 1,762 | — |
| Commerce | 16 | 399,628 | 55 | 7,266 | 3,578 |
| Service | 18 | 349,154 | 61 | 5,724 | 4,182 |
| Total | 53 | 1,141,680 | 180 | 6,343 | 2,967 |

*CIIU Codes: Agriculture, 1; Manufacturing, 3; Construction, 5; Commerce, 6 except restaurants (6310); Service, 7,8,9 and restaurants.

**Based on a sample of 53 cases: Table 17, "Rural Growth and Service Centers: The Small Scales Interprise Component," Evaluation Report, R. Hackenberg, R. Hinojosa, B. Hackenberg, USAID/Panama, April, 1983.

program operates only outside the metropolitan area where loan values are less and cost of employment generation is also cheaper.

Disbursement Pattern. In the discussion of Table 38, it was observed that only three-fourths of the face value of the approved loans in active status within the sample have been disbursed. The degree of uncertainty surrounding the disbursement situation is a continuation of the difficulties surrounding the gap between obtaining a loan approval and signing a loan agreement, discussed in the previous chapter. It was mentioned, in that discussion, that a continuum of uncertainty extends from the date a client first appears at the BNP central office to the date on which he completes his reayments. The disbursement situation appears midway along that continuum.

Table 40 has been prepared to present the problem in its several complex dimensions. According to normal banking practise, a grace period is provided as a condition for the award of a development or business-expansion loan. The purpose is to recognize that the client must utilize the money to expand his income before he will be in a position to make repayments on his credit. The theory of the grace period is that the loan funds should be provided at the beginning, and payments of the full amortization should mark the end of the interval.

For the sample cases, the grace period extended from zero to twenty months, distributed as follows:

Duration of Grace Period

| Number of Months | Number of Cases |
|---|---|
| 0 | 12 |
| 1 | 1 |
| 2 | 14 |
| 3 | 13 |
| 4 | 1 |
| 5 | 1 |
| 6 | 9 |
| 12 | 1 |
| 20 | 1 |
| TOTAL | 53 |

The modal grace period is 3 months. There is a rough proportionality between the size of the loan and the length of the grace period. With only two exceptions the grace periods of six months or more were for loans of $30 thousand or more.

Table 40

PERCENTAGE OF DISBURSALS DURING AND AFTER GRACE PERIOD FOR SAMPLE CASES*

| Time Taken or Disbursal | Disbursals in Percentage as of July 31, 1983 | | | | | |
|---|---|---|---|---|---|---|
| | 0-40 | 41-80 | 81-90 | 91-100 | Total | Percent |
| In grace period** | | 1 | | 5 | 6 | 12 |
| 1- 2 mo. after grace period | | | | 6 | 6 | 12 |
| 3-4 mo. after grace period | | | 1 | 7 | 8 | 15 |
| 5-6 mo. after grace period | | 1 | 2 | 6 | 9 | 17 |
| 7-8 mo. after grace period | | | 1 | 8 | 9 | 17 |
| 9-10 mo. after grace period | | 1 | | 3 | 4 | 7.5 |
| 11-12 mo. after grace period | 1 | | 1 | 4 | 6 | 12 |
| 13 mo. or more after grace period | | | 1 | 3 | 4 | 7.5 |
| TOTAL | 1 | 3 | 6 | 42 | 52 | 100.0% |

* All cases, except one, were approved during 1981 or 1982. For cases with additional financing only first portion of loan is considered. Two cases with unusual disbursal schedules were dropped.

** Grace period computed from time of first disbursal.

In Table 40, disbursements up to the end of July, 1983, have been pro-rated against the grace period for each loan (including those with zero duration). In only 5 cases was the entire value of the loan paid during the grace period. In fact, 60% of the clients waited for five months to more than a year following the completion of the grace period before obtaining from 81 to 100% of their loans. There are twin results generated by this unrecognized aspect of loan administration: (1) clients fail to get full use of their money for some time after completing the contract; (2) clients are not charged the face amounts of their amortization payments until their loans are fully disbursed, thus further lengthening the earliest date at which they can become "high risks" (proprietors owing five months or more on their accounts).

There are two explanations obtained from BNP officials and sample survey respondents concerning this disbursement issue. Since clients must make application for each disbursement, providing a justification for the amount requested, they accuse the BNP of being penurious and niggardly with "their" money. The Bank has two rejoinders: (1) disbursements cannot be made until loans are collateralized (where collateral is to be purchased with loan funds a partial disbursement is made for that purpose only---the balance is retained until the equipment has been verified and inspected); (2) the client frequently "stalls" and delays acceptance of disbursements in order to keep his amortization payment as low as possible.

Both sides can muster support for their arguments. Where credit analysts have become suspicious of a client's business ability during the completion of a project study, they tend to dispense the loan in "gotitas"---one drop at a time. But, on the other hand, respondents were encountered in the survey who affirmed their intention to refrain from claiming the balance of their loan accounts because funds "were not needed".

In terms of the previous discussion of the frequency of "high risk" clients, the presence of the grace period, during which only interst payments are collected, and the extension of the disbursement schedule far beyond it, is quite significant. It means that an even smaller group of recent loan recipients is at risk for five-month delinquency on their full payments!

In the opinion of the evaluation team, the BNP administrators have attempted to manipulate disbursement schedules to favor the client by limiting his liability for repayment. This "favoritism" has a negative aspect, however. Many clients assert that BNP reluctance to part with working capital has doomed their chances for profitability.

Technical Assistance. Since 3% of the cost of the loan is reimbursement from the client for the contract services he is to receive in the area of technical assistance, this was investigated during the sample survey. First of all, the visits are made by the regular employees of the Department of Technical Assistance within BNP, and not by contract specialists. Experts are retained to provide classroom instruction on business methods and management problems only.

Because of the source---bank employees with no special technical qualifications---the quality of the service is difficult to evaluate. It was more readily graded by the type of respondent than by the nature of the service itself. The survey interviews suggest the following:

1. Experienced managers dealing in technical areas of production neither needed nor requested technical assistance. These were large loan recipients.

2. The mid-range loan recipient shifting from wage work to business management found technical assistance most helpful. These proprietors tended to besiege the BNP office with phone calls requesting advice on day-to-day problems. They may have even become dependent on "technical assistance".

3. The petty business operator tended to neither receive nor recognize the need for technical assistance in the same quanitity as class #2 above.

There seems to be a clear cut relationship between the response-types described above and the nature of the assistance provided. BNP technical assistants were not equipped to handle engineering problems, architectural issues pertaining to construction, or manufacturing processes. What they can do is advise on setting up accounts, keeping books, establishing files, and keeping records for tax purposes. The mid-range loan recipient is moving into this problem area for the first time and needs advice; he has a number of employees and is encountering management problems. Typically, he is a garage mechanic or cabinet-maker opening his own repair shop or furniture factory for the first time. He knows the technical side of his business far better than the BNP staff.

The low-end entrepreneur, on the other hand, is operating a one-person or single household enterprise. He neither needs nor cares about management skills. His level of operation probably doesn't require them. The BNP technical assistance people have little "in common" with this class of client. The high-end entrepreneur retains professional consultants when he needs help---usually on production processes and technical problems.

The evaluation team attempted to determine the frequency of technical assistance visits to sample survey respondents. Since the BNP staff responsible for visits is all based in Panama City, we sought to learn whether metropolitan proprietors received more frequent visits than those in remote communities. The results are presented below:

Frequency of Technical Assistance Visits

| Number of Visits | Metropolitan | Non-Metropolitan |
|---|---|---|
| 0 | 4 | 0 |
| 1 | 3 | 4 |
| 2 | 6 | 7 |
| 3 | 6 | 6 |
| 4 | 4 | 4 |
| 5 | 2 | 2 |
| 6 | 1 | 2 |
| 7 | 2 | 1 |
| TOTAL | 28 | 26 |

There is no pattern of discrimination against non-metropolitan loan recipients in terms of technical assistance visits. The average for businesses located in Panama City is 2.82; for those in the non-metropolitan region the average is 3.12 visits. For clients in the total sample, the average number of visits is 3.0. This statistic is always subject to a final searching question: are three technical assistance visits of several hours or less sufficient indoctrination for participation in this program?

An insight may be provided by turning our attention to the high risk accounts within the sample; there were 11 loans out of 53 in this category. Can the lack of technical assistance visits explain this? Or, on the other hand, do their problems result in an excessive number of visits intended to provide solutions to their problems? The average number of visits to high risk accounts is 2,73, or more than 90% of the population mean. Technical assistance visits appear to be irrelevant to the problems associated with business failures in this group.

Additional assistance is provided to the client population through a series of special seminars and courses. These have been offered on an invitational basis since mid-1982. They cover subjects including management, social sucurity, finance, and obligations toward employees. Attendance has ranged from 20 to 70 loan recipients per class. Comments from sample survey respondents were generalized but favorable. However, one suspects that the same mid-range of clients utilizing technical assistance is also the consumer for these offerings.

Impressions of Owner-Operators. The project paper establishes certain restrictions on loan recipients: they should be owner-operators and should be unable to obtain financing from conventional commercial loan sources. The business ventures which they establish are to be responsive to needs for goods and services in their communities. These criteria establish a platform from which to pass some judgements on the loan recipients interviewed by the evaluation team.

1. Entrepreneurs as Owner-Operators.

Most appeared to meet this definition but there were some noteworthy exceptions, such as the gentleman who obtained a large loan for an auto service business, hired a manager and entered the Panamanian diplomatic service. In another case, a wife obtained a medium-size loan for a restaurant enterprise and turned the money over to her husband, a representante with substantial influence in Panama City. She knows nothing of the business and we interviewed her husband to complete our schedule.

A number of other entrepreneurs appeared to be in business because of influential positions held in government office by husbands or wives. This factor does not in itself disqualify them as owner-operators, however. Nonetheless, it may be responsible for the aura of favoritism which seems to adhere to the program in the mind of the public. This may be a factor in dissuading persons without strategically placed connections from applying.

2. Access to Commercial Credit Sources.

After visiting a number of well-managed and apparently profitable businesses receiving loan support from the BNP program, we were prepared to discover that many of them had previously obtained commercial loans from the same source--Banco Nacional de Panama! This criterion is not being implemented, at least, not at the upper end of the distribution of loans-by-size.

This raises a point we have discussed in other connections. Beginning with Table 17, a number of displays have been prepared which emphasize the heterogeneity of the client population (from $5,000 to $186,000 is the range). It seems inconceivable that an applicant for a loan of $50,000 or more would fail to qualify for commercial credit, and still be an acceptable risk for a loan of that amount.

The exception might be found where interest rate concessions are made to lure entrepreneurs into certain areas of investment which they might otherwise avoid. However, in the BNP program, they are being invited to name their own choice of

enterprises, and borrow as much as they like. If their requirements exceed the $100,000 limit imposed by USAID regulations, BNP will supplement that amount from its own credit resources at regular Bank rates. In the few cases which fit this description, BNP clearly recognizes that the applicants are qualified to receive commercial credit. They have, in fact, been awarded it!

3. Meeting Community Needs.

A valuable service might be provided to Panama if experienced entrepreneurs were given low-interest loans to both (1) employ the jobless and (2) produce goods for the domestic market. The stipulation that borrowers must be owner-operators unable to obtain commercial credit might be set aside under those circumstances. But this is not the case with the present BNP supervised credit program.

It may sound a bit harsh, but there appear to be two types of loan-supported enterprise in the present loan portfolio: (1) those which are frivolous, and (2) those which are redundant. Examples of frivolous enterprises abound: a fireworks factory, a custom furniture-maker/decorator, a purveyor of party goods for birthdays, a caterer for gourmet foods, custom photographers, florists, gift shops, etc., Examples of redundant enterprises are the endless grocery stores and restaurants. Not all food dealers are redundant, of course. Several we visited were extremely successful because they had obtained locations where traffic was high and compeition restricted. There seems to be a surfeit of auto repair, parts and service dealers, at least in Panama City. However, they may be needed elsewhere.

The conclusion ~~toward which~~ these observations point is that the "community needs" criterion is disregarded in making loan awards. The evaluation team could point to several sample enterprises which, in fact, appear to violate all three of the requirements considered in this section. There is not much evidence to indicate that BNP administrators take them seriously.

Entrepreneurs Who are High Risks. As already mentioned, 11 of our 53 sample entrepreneurs have already become delinquent by five payments (150 days) or more. The percentage of high risk clients in our sample (20%) is the same as the proportion of all active loans. Something should be learned, then, by examining them.

The proper approach to an explanation may be derived from brief synopsis of a few typical cases from the set, in which loans range from $5,000 to $50,000:

1. A logger in David was unable to obtain his working capital during the dry season when he could use his heavy equipment. The delay in making the disbursements he needed provided him with funds during the rainy season when he is unable to make sales. At the same time, his grace period was shortened so that his payments have begun while he has no income.

2. An electrical equipment dealer in Panama City has contracts for the installation of communications equipment. His dealers in Europe will not ship without letters of credit. BNP will neither release his disbursement nor provide a letter of credit. He has lost sales and is unable to pay amortization on the amount of loan funds received.

3. A small convenience store operator in Colon received his $5,000 loan for working capital in dribbles too small to convince wholesalers in town to provide him with a full inventory of merchandise. While we were interviewing him on a Saturday afternoon, he lost five sales for lack of canned fish, cigarets, soft drinks and bakery goods. He would have closed the business if it were not for his week-day government job.

4. A fast-food restaurant operator received a loan in Panama City to experiment with a fish-stick processing enterprise. He lost money for several months while trying to perfect the process. He could receive no help from BNP and finally went to the Bureau of Fisheries. He has now mastered the process but is deeply in debt from paying rent on a corner site for his restaurant during the months when he had nothing to sell. He blames BNP for failure to provide technical assistance.

5. An auto body shop in Panama City was established as a going concern with sufficient working capital and adequate technical capability. However, it is deeply in debt as the result of accepting contracts to repair government vehicles. The government agencies refuse to pay, claiming they are out of funds.

6. A radio station in David obtained a loan to modernize by purchasing needed equipment. The equipment was ordered and loan funds were disbursed. However, the payment intended for the equipment was repossessed by BNP to satisfy the unpaid balance on a previous commercial loan account! The proprietor now owes the equipment supplier and is unable to make his payments.

If we take a moment for the analysis of these sketches, three types of situation can be identified. The first two cases reflect the frequently-heard complaint that the Bank itself is responsible for the proprietors predicament because of misunderstandings over disbursement. The third and fourth business operators received their money but are convinced that BNP technical assistance could have been utilized to enable them to use it effectively. The fifth and sixth enterprises suffer from financial problems over which, it would appear BNP has little or no control.

All six of the cases described above appear to be in serious difficulty with a strong possibility of failure. The evaluation team retains the impression that perhaps half of these cases, and the same proportion of the other sample enterprises in the same situation, could have benefited from more effective intervention by BNP personnel. We say "perhaps half" because we are fully aware that (1) a number of these entrepreneurs are less than competent and share some or most of the blame for their difficulties, and (2) it is unreasonable to expect that no entrepreneurs will fail in a supervised credit program. In fact, two enterprises in our high risk group, not described above, would appear to be the simple victims of bad choice of location for commercial ventures. Perhaps a better project study would have disclosed this; but, perhaps local conditions have changed since the study was prepared.

However, if there are failures and high risks who are apt to become so, there are also low risks about which nothing has been said. In the course of its operation, BNP staff has identified a number of entrepreneurs who are sufficiently impressive to justify increased confidence in their business aptitude. These proprietors have been encouraged to apply for additional credit (adiciones) before their initial obligations are fully repaid.

Within our sample survey of 53 clients, 11 (the same number as the high risk cases) were identified as having received adiciones. Not all of these entrepreneurs were exemplary successes. Several had applied for additional financing because of impending financial difficulties. However, they appeared to be better prepared than the average business person in our sample, and more sophisticated in discussing their future prospects. Unlike the high risk proprietors, they inspired confidence.

# CHAPTER VI

## MANAGING THE PROJECT:

## Controls and Supports for Client Enterprises

### Executive Summary

Each of the foregoing chapters has described a facet of the Banco Nacional de Panama supervised credit program. It is best to begin a discussion of the controls and supports available for program management with a review of the major findings. In this way, we may highlight both the problem areas toward which management should be directed, and also the tools possessed by management for coping with them. Each of the following sections is oriented toward a previous chapter. Chapters will be reviewed in sequence.

1. Design of the Employment Planning and Generation Program.

The USAID/GOP project consists of three components, which are logically complementary:

A. The PAR System.

The PAR System offers to provide technical assistance to various components of governemnt through an inter-agency committee authorized to conduct policy-oriented research. The PARS consists of an Employment Development Commission and a Technical/Administrative Unit. The studies which it is in the rocess of framing and funding will cover major phases of enterprise development: small scale enterprises, employment needs and manpower, investment incentives, finance and credit, and pricing policies. PARS should establish the guidelines within which a supervised credit program can be operated to greatest advantage.

B. The Manpower Information System.

To make an assessment of manpower resources available for employment and enterprise development, EP and G also provided support for the construction of a Human Resources Information System. The major feature will be a computerized data bank providing access to the consolidated manpower resources of all government agencies.

C. The BNP Supervised Credit Program.

In theory, the $10 million BNP loan program is the adhesive which could link PARS policy analysis and Manpower Information System data together into an action program which would achieve enterprise developemnt goals while reducing

TO Bernai Velarde

FROM Bob Hackenberg

SUBJECT Employment Planning and Generation Evaluation

DATE October 24, 1983

UNIVERSITY OF COLORADO

Interdepartmental Memorandum

Here is a revised and expanded Chapter VI for the evaluation report on the Banco Nacional de Panama.

Please substitute this supplement for previous pages 142-146.

With these additional pages, I believe the final report is complete.

unemployment. It would accomplish these twin objectives by supporting the creation of a set of priority enterprises which could, at the same time, meet consumer requirements for goods and services while training and absorbing surplus manpower. The mechanism for this achievement would be the 323 small and medium enterprises (industrial, commercial, and service) intended to provide 1,600 new jobs.

Because of its limited funding, the BNP program could not be expected to engage in major problem-solving. Its most substantial achievement might be in providing an illustrative model of the proper procedure for attainment of government enterprise and manpower goals through the stimulation of private enterprise within the framework of a market economy.

To date, the separatism which exists among the components of the EP&G Project makes it unlikely that the illustrative model's possibilities will be recognized. This is unfortunate because there appears to be a excellent prospect that each of the three components will succeed as an independent entity. This study is concerned with the documentation of the present status of only one of these entities: the BNP supervised credit program.

2. The Supervised Credit Program: Loan Terms and Bank Operations.

The intent of the program is to fund 323 loans, unequally apportioned to industry (67), commerce (117) and services (139), with an average value of $31,000 and a quota of 5 new jobs to be generated per enterprise. The average cost per new job provided is to be $6,234. Loans are to be provided to owner-operators who are not eligible for credit from the commercial banking system. Interest is 12%, with 3% collected for the provision of technical assistance. Maximum loan size is $100,000 (industrial) with lower limits for commercial ($50,000) and service ($30,000 enterprises). The project is to be operated over four years. Collateral requirements are to be liberalized. See Tables 1-3.

The BNP created a separate organization with an elaborate structure for the administration of the USAID program (and two others which are unrelated). It contains a Technical Director, four departments and seven technical subunits (see Table 5) which are the core of the administration. There are separate functional units for (1) accounting; (2) collections; (3) analysis and evaluation (which handles applications); (4) supervision and monitoring (which verifies expenditures); (5) technical assistance; and (7) a legal department (see pp. 22-25). See Tables 4-7.

This rather complex organization appears to have emerged "full blown" from the beginning, despite the lack of any substantial number of loans to administer during the first six months of operation (in fact, there were 79, or approximately 12 approvals per month). It appears to have been kept busy by assignment of personnel to other responsibilities originating in the FODEM and BID projects, also administered here. Division of labor and responsibilities between these three assignments has never been clarified.

It may be because of their multiple responsibilities, but a clear separation of duties toward USAID loan recipients between BNP departments has never evolved. Loan inquiries are addressed to all supervisory personnel, as are requests for advice and technical assistance. Recommendations concerning the revision of loan contract terms, repayment schedules, and possible termination can likewise come from a variety of sources. The applications procedure has been reduced to a clear-cut series of steps managed within the Department of Analysis and Evaluation. It is one of the few to be identified within the programs administration.

3. Information Resources within the BNP Credit Program.

Separate forms, with a high level of redundancy, are maintained by the units in charge of collections, analysis and evaluation, supervision and technical assistance, and accounting. All of these have been duplicated and entered in the appendices; the sources for each within BNP and the justification for its use are given in Chapter III (pp. 29-38). The redundancy of items on these multiple (and frequently altered) documents is matched by the level of incompleteness and irregularity with which entries are made in them. Furthermore, such items as may be entered are usually partial and undated.

The BNP management, on the contrary, prides itself on its completeness of record-keeping and statistical analysis. This is the result of the all-too-common confusion between effort expended and results achieved. The effort expended on the BNP record system is indeed prodigious. The information value of the output, unfortunately, is microscopic. One of the byproducts of this was that the evaluation team was required to develop its own statistics from raw data borrowed from rather reluctant sources within the individual technical units.

This experience leads us to our single most-repeated conclusion throughout the body of the report: the BNP must be persuaded to introduce a logical and

comprehensive information system. A pre-requisite to this is that the importance and use of dated entry of unequivocal items on simple report forms for automated data processing must be taught. To overcome the lack of usable data within the institution, the evaluation team decided to complete a random sample survey of loan recipients. Conclusions on pp. 43-44 should be reviewed.

4. Entering the System: Getting a Loan from the Bank.

Applying for a BNP loan is a process of natural selection. Many are called but few are chosen (see Tables 8-9). The BNP has developed an 11-step process which extends from first contact to signature of a loan agreement (see odd-numbered steps, Table 10). There are also 10 decision points at which an application may be rejected (see even-numbered steps, Table 10). Using Bank data, we estimate that a client has a .70 probability of being eliminated before preparation of his project study, and .84 probability of never arriving at the point where a loan agreement is signed (see Table 12). At least, this has been the situation during the first six months of 1983.

The Bank estimates that it takes 30-52 working days for the successful applicant (who has a .16 probability of success) to complete the process. Using data from a field sample survey, the evaluation team concluded that 60-working days was the median and 90 working days was the average time required. The duration of the applications process reached 200 working days for several sample members!

And that is not the end. Following the completion of a successful application, there is a further substantial interval of months which intervenes before the first disbursement is received. In general, this time is consumed by the legal department in verifying documents.

Further evidence was introduced (p. 64) to confirm that the rate of rejection for applicants with completed project studies (see step #5, Table 10) has fluctuated wildly since program inception, October, 1981. The ratio of approvals to rejections was 1:1.6 at the beginning, and rose to 1:2.9 in the last half of 1982. It was argued (p. 65) that program management was using the applications process to attempt to counteract the high failure rate caused by withdrawal and termination of successful applicants who were approved during the first half of 1982. Between the first and second halves of 1982, the number of approvals dropped from 77 to 37 (see Table 15).

5. Operating the System: Loan Performance, 1981-83.

The inquiry completed by the evaluation team covered the first 21 months of program operation. The BNP approved 192 loans over that interval with an average value of $24,048 (Table 15). Loans were characterized by wide range of cases extending from $5,000 to $186,000 in approved value (Table 16). Goals defined in the project paper indicate that there should have been 140 loans approved with an average value of $30,960 during that period. Only in the final quarter (April-June, 1983) did performance approximate the target: for the final three months the number of approved loans was 21 with a mean value of $28,905.

Movement toward the target was accomplished by a conservative policy toward approvals. Since the third quarter of 1982, loans to existing firms have been favored over new ones, and clients from the metropolitan area have received preference over those from the non-metropolitan region (Table 18). Prior to the third quarter of 1982, a disproportionate number of loans went to food-related enterprises: groceries, bakeries and restaurants which (together with meat, fish and poultry dealers) represent 28.6% of the total (see Table 20, 24-A, 24-C, 24-D, 24-F). The excessive preference for these commercial venture was greatly reduced in the latter half of 1982. See summary points in Chapter V, p. 82, p. 100 for additional detail.

The enactment of a conservative lending policy was explained by discovery of the relationship between approved applications and and active loan accounts (pp. 101-104). In Table 25, we demonstrated that the 192 approvals shrink to 135 active accounts when the 33 loans not yet disbursed (29 from 1983), and 24 withdrawals and terminations are subtracted.

Analysis of these statistics (Tables 26-27, pp. 104-107) confirmed that there was a much higher failure rate for new enterprises---in fact, three times higher! Furthermore, the probability of a withdrawal or termination befalling a disbursed loan was 50% greater outside the metropolitan region (.19) than in Panama City (.12). In the city of Colon, the probability of failure soared to an incredible .57!. The failure rate for commercial ventures (.23) was also twice as high as for industrial (.12) or service (.13) enterprises.

These negative outcomes of approval practises fit into a concise time frame: almost all withdrawals and terminations reported occurred to clients whose loans were approved prior to the second half of 1982. The immediate consequence was the enforcement of a much more conservative approval policy in the months following June of that year. The new set of priorities favors existing firms and those within the

metropolitan area. Favoritism displayed for food-related enterprises has been reduced, and loans to Colon have been eliminated.

More than one-sixth of the active loans approved thus far have ended in either withdrawal or termination, which raises the following questions:

1. Through what circumstances did these failures occur? How could they be prevented or reduced in the future?
2. Did the occurrence of all withdrawals and terminations prior to July, 1982, indicate that these circumstances have ceased to exist and that there will be no more failures?

Unpaid amortization seems to be responsible for the terminations reported above. Table 28 confirms that the number of accounts delinquent for more than 150 days increased from 22 in January, 1983, to 32 in July. The status of these current accounts suggests that occurrence of terminations has not ~~ceased;~~ 40 of the 135 active accounts were delinquent to some degree (Table 29) in July, 1983.

However, for the first six months of 1983, recovery of payments was 81.2% of the amounts due and payable on current accounts (see Table 30 and p. 111). The overall repayment record, as reflected in these statistics, is approximately the same as that of the Ministry of Commerce and Industry's small business loan program (Direccion General de la Pequena Empresa). The MICI program, of course, does not attempt to maintain the same degree of control over disbursements and supervision of business performance.

A major factor in the dating of the unsuccessful enterprises, and the recent absence of terminations, is the length of time required for approval of applications, and subsequently, for disbursement to follow. Of 135 active loans, only 5 have been approved since January, 1983. Of these, only 27 represent full disbursement of the sums approved (Table 31).

While there are no substantial differences in the size distribution of the 192 approvals and the 135 active loans (Tables 16 and 32), there is a discrepancy between the mean value of metropolitan and non-metropolitan which is quite significant: $26,676 versus $16,792 (Table 33, p. 117). The magnitude of this difference is even greater for industrial loans. In all cases, clients within Panama City have received much larger loan values.

Among the 135 loan approvals were 25 (18.5%) which had been in arrears for 150 days or more (Table 29). One-third of these are involved in food sales or in food processing (Table 35). All 25 were approved prior to the final quarter of 1982. However, the length of time required for disbursement following approval convinced the evaluation team that more recent approvals had not yet had sufficient

time to time to reach the 150-day delinquency level which defines the "high risk" loan classification (p. 121). We expect that over the next several quarters, a number of active loans approved during the second half of 1982 will join the high risk category as the length of time required becomes sufficient.

Since BNP records were either lacking or insufficient for the purpose, a sample survey of 40% of the active loans was conducted in the field to gather information on (1) employment generated; (2) loan investment per job; (3) disbursement of loan funds; (4) technical assistance; (5) characteristics of entrepreneurs, and (6) explanation of the "high risk" loan accounts.

In the sample of 53 clients interviewed, 180 jobs had been generated for an average of 3.4 per enterprise. The project paper sets a target of 5 jobs per enterprise. Project studies completed by BNP prior to approval of these loans proposes a goal of 5.05 jobs per enterprise. The observed employment is 67% of that which is expected. This figure is reached without making allowance for terminations and withdrawals, since it is based on a sample of active loans only. Since 11 of the 53 sample survey enterprises are in the high risk category, furthermore, we may expect that the level of employment generated will diminish in the future as businesses continue to close.

The quality of employment provided (Table 37) proved to be more encouraging than the quantity. More than 50% of all jobs recorded were in management, clerical and skilled occupations (p. 129). This implies that workers in loan-supported enterprises are being not only paid but trained. Only the substantial number of personal service workers (32.2%) raises any doubt about jobs provided---these are mostly restaurant and food service employees.

The cost of employment generated (Table 38) is $8,063 per job, compared with the project design target mean of $6,234. Performance exceeds the goal by a factor of 1.3; however, only 79% of the approved funds for sample enterprises have been disbursed thus far. When cost per job is recalculated on the basis of disbursement (rather than approval), the figure drops to $6,343. However, it may not be realistic to expect that when the balance of the loan accounts is disbursed more persons will be employed. The prospect for the BNP credit program to stay close to the job figure in the project paper requires that by the time the $1.451 million approved for the 53 sample loans has been disbursed, the employment generated must rise from 180 to 230. If so, then the cost per job will remain at $6,308. An increase of 28% in employment seems unlikely, however. The team predicts that as remaining loan funds

are disbursed to sample firms, the cost per job will rise and will eventually approximate a figure close to $8,000. Table 38 also confirms that jobs in industry are much more expensive than those in commerce or services, as the project paper predicted.

Disbursements have been routinely delayed for sample firms until after the end of the grace period. The median grace period was 3 months, but could be as much as 20. But 60% of the sample waited for from 5 months to more than one year before obtaining from 80 to 100% of their loan funds (Table 40). One important consequence of this is to reduce their amortization payments, since they have only been charged for the portion of loan received. This in turn has reduced the probability of their entering the "high risk" category of 150+ days of delinquency.

Control of disbursements, like approval of applications, has been used as a management tool by BNP personnel. The primary category of loan to which it has been applied appears to be the class which is collateralized by equipment purchases to be made at a future date with a portion of the loan. In these cases, only a portion of the funds (sufficient to cover the purchase) is released; the balance is retained until the purchase has been delivered and verified (p. 135).

However, clients also try to manipulate the balance of their accounts to refrain from accepting disbursements as long as possible. They do this because their amortization payment has been pro-rated cy BNP to correspond to the amount they have received. Abstention from applying for disbursements keeps their payments down. It also restricts the completion of the investment plan for which funds were approved.

An inquiry into the provision of technical assistance disclosed that the median number of visits to clients was 3, with a range from zero to 7. There was no significant difference between visits to metropolitan and non-metropolitan clients. High risk clients in the sample were visited no more consistently and no more frequently than others (see p. 137).

Sample survey interviews indicate that assistance is of little value to the high end of the distribution of loans by size. They need a higher quality of service than BNP can provide, if they need any at all. At the low end (family-operated enterprises), the informal nature of the business renders management practises inapplicable. There is neither provision of, not interest in, technical assistance at this level. Technical assistance now provided consists of basic techniques: filing, record-keeping, payroll, tax records, calculation of profit and loss, etc., This is most useful for

recipients of mid-size loans who are making a shift from wage-work to business management. It seems ill-suited for those who have already operated a business successfully for a period of time. Specialized technical advice or consultation on management, manufacturing or marketing is not available.

Most entrepreneurs were owner-operators, as prescribed by the project paper. During the course of the field inquiry, it became clear that the impression prevails that favoritism has determined which owner-operators received the loans. This tends to cloud the reputation of the program and to deter persons without influence. It was clear that many successful applicants had obtained earlier loans at commercial rates from BNP and from other sources. There was no reason to suspect that they needed the interest advantage provided by this program. This observation does not apply to low-end borrowers who have no other sources available. There was no evidence that projects had been selected by BNP to meet community needs or to improve local supplies of domestically produced goods and services (see pp. 138-139).

High-risk entrepreneurs (there were 11 in the sample) were of three kinds: (1) those whose predicament could be traced to misunderstandings concerning disbursements; (2) those who failed to obtain timely technical assistance, and (3) those with problems attributable to business conditions beyond anyone's control. The rather serious nature of these difficulties leads to the prediction that further business failures among the 135 active loan accounts are probable.

Toward the end of the field work period, the evaluators became aware of the practise of granting additions (adiciones) or supplements to clients whose loan performance appeared to justify it. Among the sample cases, there were 11 additions (the same number as high risk cases). The supplements tended to place them at the upper end of the size-class distribution and among proprietors who appeared to be immune to the prospect of failure.

The average value of the sample loan which had been augmented with a supplement (adicion) was a startling $59,545.[1] Conversely, the average value of the 11 high risk loans was $22,200---which is substantially below the mean for the entire sample: $27,384. Clearly, high risks are concentrated among the below-average size loans. Only one of the high risk loans was also in the category of recipients of additions. It was evident that the supplements had not been given to prospective delinquents.

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1. However, this group of recipients of supplementary loans includes the extreme deviant case in the sample; the $186,000 loan to Lito Arte Panamex, a photo-engraving business in Panama City. A second out-size loan of $131,00 is also included to Taller de Reparaciones Peru. With these two removed, the mean for adiciones drops to $37,500.

A Program Assessment

On the basis of the foregoing summary, and the references it contains to the earlier text sections, the evaluation team has identified a number of issues which USAID/Panama and GOP administrators responsible for the supervised credit program may wish to address in the months ahead. The present section contains a program assessment which will focus on problems emerging from the evaluation. The following section will address mechanisms presently employed by BNP administrators seeking to deal with them and will evaluate their effectiveness.

1. The level of applications received by the program.

During 1983, the number of prospective clients expressing interest in the program was given by the Department of Analysis and Evaluation as 50 per month (p. 45). Data provided by the department affirmed that 15 of these were advanced to the point of project study preparation during the same period (p. 47). During the first two quarters of 1983, approvals (Table 15) were slightly less than 6 per month. This is not quite sufficient to make the project paper quota of twenty approvals per quarter.

Other data presented in Chapter IV (Table 8) confirms, however, that during 1983, the rejection rate for project studies dropped sharply when compared with the second half of 1982 (p. 64): specifically, the rejection ratio dropped from 1:3 to 1:1.5 while the number of approvals remained constant at 6 per month! This suggests that standards for approvals were relaxed during the first half of 1983 after having been drastically tightened during the second half of 1982 in response to the spectacular failure rate posted by loans approved during the first half of 1982. See detailed summary on p. 65.

While Bank officials refuse to discuss this issue specifically, the evaluation team concludes from the evidence set forth above that the management of the program remains uncertain about (1) the number of applications it needs to generate, and (2) the level of selection it must maintain, in order to (3) provide the minimum output (20 per quarter) of loan-supported enterprises with a high probability of success. This uncertainty can only be removed by the development of policies intended to regulate the flow of applicants toward attainment of a higher proportion of positive outcomes than were obtained during the first year of the program!

In simplest terms, if a ratio of 1:3 between accepted and rejected proposals is needed after step #5 in Table 10 has been reached to insure choice of successful projects, then a number of expressions of initial interest in the program greater than 50 per month must be obtained. At present, the number of persons visiting the bank to inquire about the program (prospective applicants) seems insufficient.

However, the development of policy guidelines required for processing the inquiries of an expanded number of prospective applicants must be based on information gleaned from the first 21 months of experience with the program. At present, BNP personnel do not appear to have processed and analyzed that information.

2. The distribution of loans by size and type of business.

The project paper prescribed a distribution of loans by size and type. The desired frequency by type for the 323 loans proposed may be compared with the actual frequency by type for the first 192 approvals, as follows:

Target and Actual Frequencies: Business Type

| | Approvals: 21-months | | Project Targets | |
|---|---|---|---|---|
| | % by Type[1] | Mean Value[2] | % by Type | Mean Value |
| Industrial | 33.9 | $26,471 | 20.7 | $60,000 |
| Commercial | 35.9 | 23,155 | 36.3 | 30,000 |
| Service | 30.2 | 18,719 | 43.0 | 18,000 |
| TOTAL | 100.0 | $22,679 | 100.0 | $30,960 |

1) based on 192 approvals in Table 19.

2) based on 135 active loans in Table 33.

Among the approvals to date, there is a substantial excess of industrial enterprises, and a deficiency of service firms. However, the industries to which loans have been provided have received less than one-half the average sum intended!

It is noteworthy that the average loan to all enterprises among the 135 active loan accounts is only about two-thirds the target mean. Could it be that BNP fails to recruit at the proper level for applicant enterprises? The failure rate is higher among the smaller loan clients. Bringing the average loan closer to the target figure then might also serve to reduce the number of withdrawals and terminations.

3. The delay in implementing approvals.

It has been frequently noted (Table 25) that of the 35 loans approved during the first half of 1983, only 5 have received disbursements. The interval of time which follows approval and precedes disbursement is not discussed by BNP officials. However, it would appear to be a primary factor in motivating clients to withdraw from the program. It is also a reason for others to attest to the Bank's administrative responsibility for the poor progress of their businesses. Clients have obtained the impression that they can receive their loan funds immediately after approval. This is not true and may not be possible. Either disbursement policy or information released concerning disbursements (or both) are in need of revision.

4. The level of disbursements.

By June 30, 1983, 192 projects had been approved with a total prospective budget of $4,617,213. However, only 3,049,042 (66%) had been disbursed by July 31, 1983. True, a proportion of the sum approved was locked in the 30 approvals made in 1983 and not disbursed. However, among the 53 sample survey cases all drawn from the file of active (approved and disbursed) loans, only 78.9% of disbursements had been received (Table 38)! Only 27 active loans are fully disbursed (Table 31)

Since there is no adequate explanation for either (1) delay in releasing funds to approved projects in 1983, or (2) failure to release total amounts to active loan accounts, BNP performance appears to be unsatisfactory to the evaluation team. Reasons for this situation reviewed in the text (pp. 133-135) do not equal a justification for the practise.

5. The proportion of delinquents, withdrawals and terminations.

Of the 192 loan approvals, 33 have yet to be disbursed. Of the remaining 159, there are 24 withdrawals and terminations (Tables 25-27), and 25 with levels of delinquency equal to or greater than 150 days (Tables 28-29). The 59 cases in the failure or high risk category equal almost one-third of the active loan accounts. This proportion of failures appears to be unacceptable. The argument that only loans made "early in the program" are in trouble fails to convince the evaluators. Only loans made early in the program have had sufficient time to get into this much trouble! Time required includes approval time, disbursement time, grace period time and an additional interval to register a significant amount of delinquency.

6. Level of employment generated and cost per job.

From the sample survey we learned that only 3.4 jobs per enterprise had thus far been generated, not the 5 jobs per approved loan described in project studies. Only 67% of the employment target has been reached in this sample of loans from the active accounts. If all approvals were included, the average would be much lower because of the 33 undisbursed, and 24 failed accounts which register zero employment generated. See Table 37.

The projected investment level per job from the project paper equals $6,234. The sample data providea figure of $8,063 per job (Table 38) if total approved loan amounts for sample firms are used as a denominator. However, if only the 79% of loans disbursed is used as a denominator, then the average cost per job drops to $6,343. The evaluation team believes that the larger figure is closer to the ultimate truth, however. It seems unlikely that employment among sample firms will be increased by 28% when remaining loan funds are disbursed (see argument, p. 148).

7. Program costs and internal rate of return.

Because the administrative costs of the USAID/GOP supervised credit program are commingled with those of two other programs (p. 16 above) they are apportioned according to a formula (p. 22 above) which assigns 38% of office expenses at the Gerencia Ejecutiva de Desarrollo Local (GEDEL) to the Programa de Planificacion y Generacion de Emoleo (PPGE), or supervised credit program. No basis for this formula was provided to the evaluation team.

Because of the retentive attitude maintained by BNP about financial information pertaining to both clients, loans and administrative costs throughout the evaluation, the sensitivity analysis requested by USAID could not be provided. There is evidence to indicate that the PPGE office does not have the information requested; at least, not for more than the past six months.

In Table 41 opposite, a ledger sheet provided by the Department of Operations for the first six months of 1983 has been abstracted to show profit and loss. The project paper (pp. 30-31) provides guidance concerning the anticipated rate of return. It is expected that the equilibrium point will be reached "before year five of the project when total income and total expense are equal as illustrated in Chart No. 3 of Annex XI. The break even point of the project will be reached in year nine. At this point the expense or deficit generated by the project will have been covered."

On this time schedule, one should expect that the project's current balance sheet should still be in deficit status, since the time elapsed for cost recovery is still less than two years. The chart referred to above (reproduced as Table 42 opposite) appears to give the equilibrium point an anticipated date approximately 4.5 years into the project. With these qualifications, then, the following observations from Table 41 should be expected:

1. The balance generated by subtracting total costs (Gastos) from total income (Ingresos) in both quarters is a minus figure ($2,059 and $18,682).

2. The rate of return (Tasa de Rendimiento) for both quarters, likewise, is a minus figure (.086 and .732%).

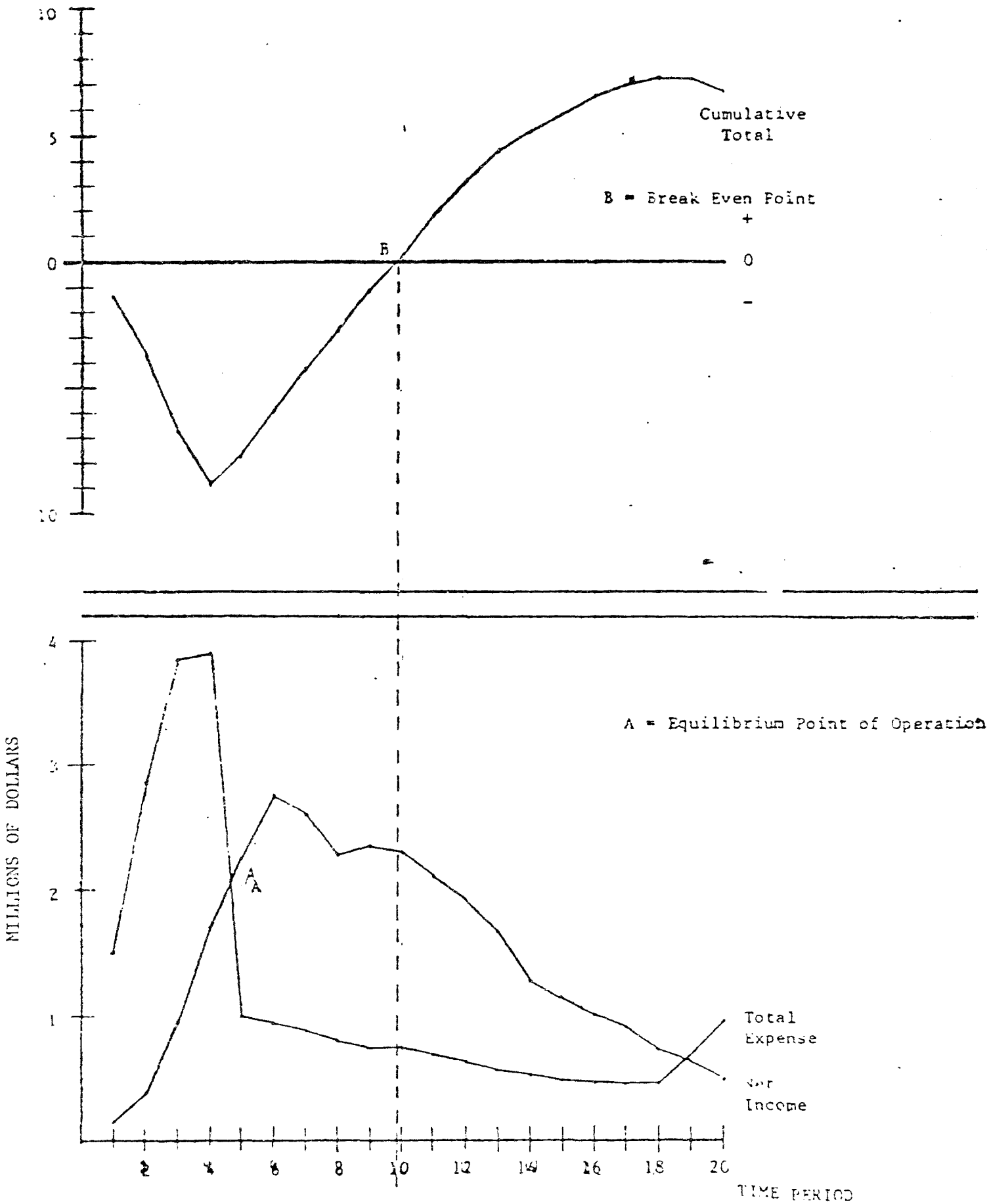
Further cost data with more complete entries should be available from an internal audit completed by the Bank during the first half of 1983. However, the results were not made available to the evaluation team. Quarterly statements in the form presented in Table 41, if made available in the future, should permit a time series to be constructed which will disclose trends in expenses, income, and rate of return.

PROFIT, LOSS AND RATE OF RETURN

ANP RESOURCE FLOW

| | I 1983 | II 1983 |
|---|---|---|
| *****INGRESOS | | |
| COMISION DE SERVICIOS | | 4283 |
| INTERESES GANADOS | 48715 | 40428 |
| INGRESOS LEGALES | 220 | 2055 |
| INGRESOS DE CARTERA | 48935 | 46766 |
| OTROS INGRESOS | 3 | 112 |
| TOTAL INGRESOS DIRECTOS | 48938 | 46878 |
| INGRESOS MARGINALES: | | |
| INTS. INST/DEP APORTES | 13159 | 8857 |
| BENEFICIO SOCIO-ECON | 5964 | 6792 |
| TOTAL DE INGRESOS | 68061 | 62527 |
| *****EGRESOS | | |
| PERSONAL | 40945 | 35887 |
| PROMOCION Y DIVULGACION | | 109 |
| OFICINA | 2576 | 9104 |
| OPERACIONES | 4925 | 15225 |
| RESERVAS | 4165 | 2864 |
| OTROS | 921 | -183 |
| SUBTOTAL OPERATIVO | 53532 | 63006 |
| UTILIDAD OPERATIVA | -4594 | -16128 |
| GASTO FINANCIERO AID | 7450 | 8859 |
| TOTAL GASTOS DIRECTOS | 60982 | 71865 |
| UTILIDAD NETA DIRECTA | -12044 | -24987 |
| GASTOS INDIRECTOS: | | |
| GASTOS NACIONALES | 9138 | 9344 |
| SUBTOTAL INDIRECTOS | 9138 | 9344 |
| TOTAL GASTOS DIR&INDIREC | 70120 | 81209 |
| RESULTADO FINANCIERO | -2059 | -18682 |
| S/CARTERA PROMEDIO | 2385837 | 2551363 |
| TASA DE RENDIMIENTO % | -.086301 | -.732236 |
| TOTAL DE RECURSOS | 3093545 | 3121790 |
| COSTO FONDO TOTAL % | 2.266655 | 2.601360 |
| RECURSOS OPG. INTERNAT | 1707679 | 1771790 |
| COSTO FINANCIERO | .4362647 | .5000023 |

CASH FLOW BREAK EVEN POINT



8. Level of information about the program.

The lack of information in the files of the Departments of Supervision and Technical Assistance pertaining to employment data were reported in Chapter III above (pp. 36-37). A general conclusion is that data are lacking for roughly 50% of the active accounts in both Departments. This is not a judgement of the quality of the data, but merely of the presence or absence of any data on this critical subject area. The following statement (p. 43) cannot be improved upon so it is quoted here in full:

> There are no time level entries which may be placed in sequence to reflect growth trends or patterns within the program. For example, it was not thought necessary to record the date on which clients filed their loan applications. The interval between date of application and date of disbursal (measuring time elapsed in the review process) cannot be recovered.
>
> Costs of administering the USAID-funded PPGE have never been separated effectively from those of the others within the same office: FODEM and BID.
>
> When recorded at all, employment data have been reported only once for each client. The date for reporting has no significance. It does not take place six months after first disbursement, and at six month intervals thereafter, for example.
>
> There is no time series data for any variables in the system except for disbursements and amortization payments.
>
> Establishment of trends in the program at this point would require retrospective efforts to recover events occurring since October, 1981.

The most important conclusion reached by the evaluation team was the one with which the study was begun. The following quote is from our memo of February 25, 1983:

> Initiating suitable information gathering procedures, automated data processing, and standardized reporting operations at the earliest possible date at BNP is a high priority objective.

Only the priority has increased as a result of the evaluation now completed. The rudiments of a suitable information system have been presented in Appendix J of this report.

Controls and Supports for Client Enterprises

Awareness of the problems described in points 1 through 8 above is minimal at BNP because of the lack of information which permeates the operation. It is not possible for them to address points raised under 1 through 6 above without more

information than they have at hand at present. There is a general awareness, however, that (1) the level of failed enterprises and (2) the level of delinquency among many current accounts which may be on the edge of failure are too high to be considered acceptable.

This awareness is based more on an intuitive grasp of the situation than on any attempt at analysis or systematic reporting. However, in April a comprehensive review of all active loan accounts was undertaken by the Department of Supervision and Monitoring with the following results. Of the 77 approvals (presumably from the year 1982) which remained active or potentially so at that date, a four-fold classification was made:

| | | |
|---|---|---|
| Type A. | No problems discerned in their operation or repayment performance. | 26 |
| B. | Small problems in their operation but nothing serious. No lengthy delinquency. | 12 |
| C. | Serious problems in administration and delinquent in repayments. | 29 |
| D. | Loans still in process, not yet disbursed.. No problems. | 10 |
| | TOTAL | 77 |

We do not know why the review was only involved with 77 of the loan accounts. It was also not explained why this review was only undertaken at one point in time. However, it was also rumored (but not fully documented) that an earlier review had been undertaken in January by senior staff of several departments. Following this, a number of loan accounts were reprogrammed, i.e., repayment schedules were extended and amounts of monthly payments reduced (this is modificacion).

This is sufficient evidence to inform the evaluation team members that BNP personnel know they have a problem. In the review quoted above, for example, it was concluded that a substantial proportion of the Type C loans will eventually be terminated by business failure. The critical question to be raised in this section concerns the controls and supports which the BNP has available for dealing with their limited understanding of the situation.

There are three categories of controls and supports---management tools---available to BNP administrators: (1) selection procedures; (2) scheduling mechanisms;

(3) support services; (4) informal communication. Each category will be reviewed below.

1. Selection procedures.

The first type of control available to the Bank is the selection among applicants, which is largely in the hands of the Department of Analysis and Evaluation. There are three dimensions of selection exercised before preparation of a project study in response to questions addressed to the applicant upon first contact with the Bank:

a. Type of business and nature of firm: new or existing.

b. Location of business activity.

c. Size of loan to be requested.

The project assessment just completed (p. 152) has pointed to the need for greater care in choosing type of business and size of loan if the distribution criteria presented in the project design are to be realized. The analysis presented in earlier portions of the study affirms that type, size and location factors are all important in determining a project's success. Enterprises which are non-metropolitan, small and commercial in nature represent the greatest risk of failure (pp. 146-147).

Description of procedures employed in getting a loan from the bank (Chapter III, pp. 49-50) confirm that all these criteria are employed by the credit analyst who deals with a prospective applicant on his first visit to the Bank. It seems unlikely, however, that all analysts are in possession of adequate data concerning priorities to be utilized in screening inquiries. They follow regulations concerning types of applications to be excluded. They could also be trained to recognize and encourage the types of applicants who should be included: industries, larger scale enterprises, experienced entrepreneurs, producers of essential goods and necessary services, etc.,

The second opportunity to exercise selection pertains to the preparation and evaluation of the project study. The following parts of the study provide ample opportunity to differentiate applicants on the basis of the quality of their proposals:

a. Plan of investment.

b. Employment to be generated.

c. Plan of payment.

d. Collateral requirement.

e. Financial analysis.

Evidence developed in the course of the evaluation suggests that each of these might

be improved upon. The inventory of project study components and their uses in the decision-making process are reviewed on pp. 32-33 above.

The plan of investment specifies the apportionment of loan funds between such categories as construction, equipment and working capital. Lack of sufficient working capital has been a frequent complaint of proprietors of loan-supported projects. This complaint should be considered in view of the discrepancy now existing between the average approved loan ($24,048) and the intended average in the project design: $30,960. There is apparently some latitude for addition of working capital to investment plans.

The section on employment to be generated in the project studies reviewed does not contain any statement pertaining to types of jobs, wage levels, or logical relationship of loan funds to expansion of employment required. The failure of active loan accounts to meet targets for generation of employment can be traced in part to the failure of the project study to take this requirement seriously. The present level of employment in existing businesses could be evaluated, for example, to see whether the relationship between the size of the loan and projected employment expansion is reasonable and proportional.

The plan of payment has frequently saddled proprietors with a larger monthly obligation than could be met within the time frame established by the project study. This has resulted in "informal" arrangements to reduce payments, lengthen the repayment schedule, etc., It suggests that the project studies are frequently not realistic with respect to payment amounts and schedules. Particularly, it appears that the length of time allowed to a client to expand his business before beginning to make substantial monthly repayments is not sufficient.

Liberal collateral requirements were intended by project designers at USAID when the project paper was in preparation. This intention was implemented by permitting applicants to purchase equipment with a portion of their funds, and then pledge this equipment as collateral. This practise was much more frequently utilized early in the program. Of the 54 cases in our sample survey, the use of equipment to be purchased as collateral occurred 17 times in the first 27 sample firms (63%), but only 3 times in the second 27 members of the sample (11%).

The conclusion from this would seem to be that equipment to be purchased with loan funds was perceived by Bank personnel as a contributing factor to failure of loan-supported enterprises. In our sample data, there are 11 clients who received additions and also 11 in the high risk category. If the use of equipment to be purchased as collateral is associated with failure, then it should appear more often

among the high risk firms than among the adiciones. Actually the reverse is true. The practise in question appears twice as often among clients receiving supplements as it does among those designated as high risk.

A financial analysis is required as part of the project study to determine the "break even point" in the trajectory of improved profits to be obtained by the loan recipient with the credit provided. According to the project studies, all firms are expected to make substantial gains by their employment of credit, and the gains are to be sufficient to generate an internal rate of return greater than the cost of the loan.

The failure rate among supported firms suggests that the financial analysis is inadequate in a substantial number of cases. Particularly, the estimate of the time required for enterprises to break even through the use of credit appears to be too short. It is possible, although we could not confirm it, that many of the subsequent problems encountered in loan administration may be traced to inadequate financial analysis.

The first screening of applicants to determine which clients should be advanced to the stage of project study preparation is, apparently, the responsibility of any one of the ten credit analysts within the Department of Analysis and Evaluation. It might be better procedure to have joint participation in this decision by senior staff and other members of the credit analyst group. This would provide for discussion of priorities and the assurance that uniform standards in selection are being employed throughout the Department.

The second screening, based on the project study, is ended with several group decisions made by the entire Department plus the Technical Director. However, these decisions are based on the report of a single credit analyst, once again, for only one staff member prepares each project study. Since there are no written policy guidelines for (1) rejection of clients making initial inquiries, or (2) preparation of project studies, there is much room for individual variation and idiosyncratic decision making.

Since selection procedures continue to be the most potent control utilized by BNP in managing the program, much could be gained by utilizing it as a more effective steering mechanism. This could be accomplished by (1) purposive recruitment of entrepreneurs representing priority categories; (2) codifying selection policies and informing the creditanalysts responsible for preliminary screening; (3) increasing the investment in preparation of project studies; (4) expanding the number of persons implicated in screening decisions before rejecting prospective applicants.

We were told by Department of Analysis and Evaluation personnel that the time required for the field work component of the project study is about two hours (see p. 50). Since the product of this investment is used not only for decision making concerning the applicants, but also as a continuing reference for guidance in administering the loan, a more substantial investment in its preparation appears to be justified.

2. Scheduling mechanisms.

There are three time-specific sets of reference points employed in the administration of the loan account once approval has been obtained from the Credit Committee:

a. Grace period.

b. Disbursement schedule.

c. Repayment schedule.

These also provide substantive opportunities for the BNP to exercise control and to provide support.

While the intent was to disburse the total amount of loan funds during the grace period, this has seldom been achieved. Grace periods tend to be short (the median is 3 months, p. 133) and disbursements extend far beyond them (p. 134). Among explanations for this are (1) the time required for equipment to be pledged as collateral to be delivered; (2) desire on the part of the client to defer the date on which his entire amortozation payment must begin.

By tacit agreement (there never was a formal policy) collection of the amount scheduled for repayment has been reduced to correspond to the progressive level of disbursement in each loan account. Clients do not become liable for the full payment until the loan is fully disbursed. By deferral of disbursement the client can reduce his liability. Of course, he also fails to get the full benefit of his approved loan.

Clearly, the grace period, disbursement schedule and repayment are interdependent elements of an integrated schedule. If the grace period is not sufficient, the client cannot receive and apply his disbursements in time to increase his profit margin. Without an increase in profit, he cannot make his scheduled repayment on the loan. The evaluation team suspects that shortening or eliminating the grace period is a device for expediting cost recovery on the fund and reducing the negative balance reported in Table 41. This practise may increase the probability of a loan entering the high risk category. It seems likely that grace periods should

be more carefully scheduled to correspond to the investment plan and financial study.

3. Support services.

Both selection procedures and scheduling mechanisms pertain to the early months of loan account activity. What services are available for loan control and client support after a business has become fully operative under its credit program? It is for continuing loan management during the bulk of the repayment period that a continuous flow of information is necessary. The absence of systematic surveillance forces BNP personnel to rely entirely on intuitive and informal procedures for supervision of accounts.

Formal support services provided include the following:

a. Technical assistance visits.

b. Instruction.

c. Modifications/additions.

The frequency and uses of technical assistance were fully discussed (pp. 136-137) and evaluated (p. 149). Approximately three visits have been made per client and the content of technical assistance provided has been in the form of advice on basic business skills.

Classroom instruction has also been provided to a majority of business proprietors through contracts with business consultants. As the selection pattern favoring experienced over new businesses has developed, the value of this type of technical assistance and instruction has diminished. The type of client now receiving the majority of loans doesn't need it. The type of technical assistance needed by the seasoned entrepreneur is not available.

Another form of support available through the program consists of project revision or reprogramming. This make take either the form of modificacion (extending number of payments and reducing the amount of each) or adicion (increasing the amount of the loan) depending on the status of the account. Those in danger of failure are considered for modificacion in the hope that it may reverse the trend. Conspicuous successes are urged to accept adiciones.

Use of modificaciones and adiciones appears to be a relatively new departure in credit management by the Bank. Beneficiaries appear to have been chosen during the present year (1983). This suggests that these practises may have been introduced as preventive measures intended to lower the prospect of failure. However, none of the 11 high risk accounts identified in our sample survey had received modifications. Bank personnel did not discuss these issues with the evaluation team.

4. Informal communication.

It was noted at the end of Chapter III (p. 43) that "Bank personnel are satisfied with existing procedures and will need to be convinced that modernization (by automated data processing) will provide benefits to them." This is true even though systematic, time-level observations by controlled measurement across the entire loan portfolio is almost completely lacking. Despite this absence of hard statistical data, Bank personnel are convinced that they "know" their clients.

The explanation for this is the extremely high level of informal communication which exists between Bank personnel and business proprietors. There are four units within the BNP which maintain close and regular contact with clients: Analysis/Evaluation, Supervision/Monitoring, Technical Assistance, and Collections. During our interviews with members of these units at the Bank, clients came to visit, and there were frequent telephone calls.

Individual clients appear to have their favorites among administrators to whom they address their requests for advice or assistance. There is no apparent relationship between the nature of the problem and the departmental affiliation of the person queried. The heads of all four units reported that their advice is sought by clients on management problems, technical questions, and delays in payment on their loans.

The frequency of visits with clients by the staff of two of the four units is reported in Table 43 below.

Table 43

Visits to Clients
During 1983[1]

| Department | Total | Jan. | Feb. | March | April | May | June |
|---|---|---|---|---|---|---|---|
| Analisis/Eval. | 275 | 19 | 34 | 61 | 50 | 93 | 19 |
| Supervision | 299 | 30+ | 17+ | 14+ | 95* | 64* | 79* |
| Total | 574 | 49 | 51 | 75 | 145 | 156 | 98 |

* From entries of visits recorded by "Supervision".

\+ From AID report, Velarde

1 Visits reported are from only two departments. Technical assistance and the collections unit of the Operations Department also visit clients.

The accessibility of BNP staff is commented upon positively by owner-operators of loan-supported enterprises. It is a facet of the program which builds rapport and provides supervised credit procedures with a "personality". However, there are also difficulties for program administration which Bank personnel do not appreciate.

a. Lack of specialization of services.

b. Individualization of solutions.

c. Competition for clients' patronage.

Loan recipients can go to any of the Bank's divisions with their problems. There is no sense of differentiation between the quality of advice to be obtained from one unit as opposed to any of the others. The Department of Supervision and Monitoring is to verify that expenditures in the investment plan go for the purposes intended; e.g., Supervision is supposed to complete forms confirming that equipment has been purchased and is in operating condition. The Department of Technical Assistance is supposed to convey information on business administration to the clients. However, representatives of both departments offer advice freely on whatever questions are raised by clients during their visits. Both attempt to record data on employment generated, though neither does it very effectively.

Representatives of Analysis/Evaluation and Collections are also confronted with client's questions on a wide range of subjects. Employees of all departments seem to admonish proprietors whose accounts have become delinquent. One is left with the impression that Bank employees are interchangeable and that no one has any specialized knowledge or responsibility which is not shared with the others. If so, then a rather low level of efficiency has been achieved by what appears to be a rather complex and specialized table of organization (see Tables 5-6) and division of labor (see pp. 22-25).

Furthermore, the capacity of each supervisor or analyst to advise on a wide range of client needs leads inevitably to "personalism" in dealing with a particular account. Clients return to Bank personnel with whom they have established a personal relationship for any and all purposes. This leads to each client getting a personalized answer to his problems. There is no necessary comparability between the solutions provided to different clients by different Bank employees for the same problem! Individualization of solutions prohibits accumulation of experience within the program. There can be no "learning" by the institution and there will be no routines established for dealing with recurrent problems which could best be treated

in identical ways by all.

Personalism in dealing with a client's needs inevitably leads to competition among Bank employees seeking to retain and hold the patronage of particular loan customers. Owner-operators who are comfortable in a "patron-client" relationship with a BNP employee, conversely, will be regarded as "good customers". Those who resent the implied inferiority of the position in which they are placed will be defined as "bad customers" and may be denied the same level of support and assistance as "good customers" receive.

Some of the assertions made above must be considered as speculative since they emerged from casual conversation with the respondents to our sample survey on matters which were peripheral to the survey questions themselves. However, the conclusion of the evaluation team from the entire series of contacts with Bank employees is that personalism rather than professionalism guides a good deal of their interaction with loan recipients.

A Management Alternative: The Automated Information System

The existing formal management practises employed to guide the supervised credit program are one-dimensional. The only primary datum entered for each active loan at specific intervals is the payment record. It is the only periodic information source providing a measure of performance on all accounts. Typically, when payments are not forthcoming for several months, delinquency triggers an inquiry into the status of the account.

Investigation of a delinquent account results in (1) an acceptable explanation of the delinquency, e.g., an inventory shipment is late or a government account has not yet been paid; (2) assurance that payment will be made by a specified future date; (3) recognition that a serious problem exists and revision of the terms of the loan may be necessary (adjustment of the amount and number of payments). In the first two cases, little or no further action is taken by the Bank.

To gain a greater degree of control over the program, thus increasing its level of performance and more closely approximating the objectives of the project design, a more adequate level of information must be obtained. Specifically, all the following items should be reported for all active accounts at pre-arranged intervals:

1. Changes in owner-operator status and responsibility for the project.

The employment status of the borrower should be reported. What is his/her role in the loan-supported enterprise? What other jobs does he/she hold at the same time? What is his/her education level? What special training/experience has been obtained which relates to management of this business? What is the ra-

ported level of monthly household income of the borrower? Who really runs this business (this question is especially important where the owner/borrower has another job as manay of them do)?

2. Changes in the conditions of conducting the business.

The total scope of business activity in which a client is engaged affects the prospects of his loan-supported activity. Many are engaged in multiple enterprises and the character and composition of these change over time. Volume of sales, business receipts and factors affecting the profit margin of an enterprise are also subject to change, e.g., the requirement to negotiate a new lease for business property. Changes in prices, costs, level of inventory, access to raw-materials and related factors are actual causes of failure to make monthly payments. They are also conditions which contribute to capacity of a firm to absorb additional credit as an adicion.

3. Changes in level of employment generated.

The relationship between business growth or reversal and jobs created or terminated is very dynamic. Both the nature of work (occupations) and the duration of employment (hours worked per week and continuity from month to month) must be reported. Wages received for each job produced must also be established. It is possible to prepare sophisticated analyses of the most effective type of enterprise in generating both quality and quantity of employment, and cost factors for each, if these data are made available.

4. Changes in terms of credit received.

There are variations over time in amounts disbursed, amount of monthly payment requested, and status of collateral. There are also differences in the plan of investment. Applications for disbursement and the reasons for each request are of interest. Time elapsed between applications for disbursement and receipt of payment are also significant.

5. Changes in level of assistance requested and received.

The number and purpose of visits by all representative of the Bank are of interest. The circumstances surrounding requests for aid, including the individual and department to whom they are addressed, are of interest. So is the nature and value of the response received.

Because of the volatility of the business climate in Panama, and the speed with which circumstances pertaining to an enterprise may change, we recommend that data on each of these categories of variable should be reported quarterly. While

Bank personnel will be able to control their enthusisam for this suggestion, it should be pointed out to them that their frequency of contact with clients provides multiple opportunities during each quarter for the collection of these data. However, so that time levels have meaning, it is necessary for all data representing a particular quarter to be collected during the same week.

The development of a management information system for BNP must begin with the preparation of experimental instruments for data capture and data processing. Through their manipulation by the application of computerized routines, powerful procedures for the continuous control of the loan portfolio and support of loan recipients can be formulated.

To initiate this process, the evaluation team has prepared a set of instruments based on two tested information sources:

1. The file folder on each loan approval which is contained in the archivo at BNP, consisting of the application form, project study, records pertaining to garantias and disbursements. This source must be supplemented with data from the Estado de Cuento and Control de Cobros (see. pp. 29-30 above).

   From this archival resource, a data sheet has been prepared for completion by BNP personnel (see Table 44). There should be 192 completed data sheets for the period of program activity ending June 30, 1983. For use by the evaluation team, a summary card suitable for preliminary hand tabulation has been completed with items culled from the sources listed above by team members (see Table 45).

   These cards have been employed in the preparation of many of the tables constructed for earlier chapters of this manuscript.

2. The 54 sample survey interviews completed for a random sample of loan recipients whose accounts are presently considered to be active by BNP. At least, they were active at the time our sample was selected. Between that date and the present, two of the firms terminated their operations. The interview schedule is described in Appendix H-1 and reproduced in Appendix H-2.

The summary cards prepared for hand-sorting by the evaluation team are a first step toward the orderly retrieval of the scattered data sources on each loan account contained within the Bank. With the personnel resources available to BNP, a much more comprehensive retrieval could be accomplished.

Using these two data sources (Table 45 and Appendix H-2), the evaluation team sought to initiate preparation of a basic information system. To the present time, the following steps have been completed, and are documented with the numbered records referenced and illustrated in the text:

1. A selection of 32 variables has been prepared from a merge of items in both data sources identified above. The merged variable list is presented as Table 46.

# DATA INVENTORY: BNP/SCP EVALUATION

Loan Number _____ Loan Recipient _____ Sex __

Loan Amount B/_____ Legal Represent. _____ Sex __

Loan addition B/_____ Business Name _____

Total Loan B/_____ Location of Loan: Province _____

Loan Type (I,C,S) _____ City _____ Correg _____

Loan Class (Corp, Pers) _____ Description of business activity (Code) _____

New/Existing Business _____ _____

Employment: Before loan _____ Employees; Projected _____ Employees (First loan)

Projected _____ Employees (Additional loan)

FIRST LOAN: Approval Date _____ Funds Assigned to:

Amortization (Program) B/_____ BNP B/_____ AID B/_____

Duration of Loan (Months) _____ BNP _____ GOB B/_____

Grace period (Months) _____ BNP B/_____

Amortization (Grace) B/_____

Categories of Authorized Expenditure by Source of Funds

| | | | |
|---|---|---|---|
| Working Capital (Cap T/CT) | AID: B/_____ | GOB: B/_____ | BNP: B/_____ |
| Construction (Mejoras/MJ) | AID: B/_____ | GOB: B/_____ | BNP: B/_____ |
| Machinery/Equipment (MAQ/EQ) | AID: B/_____ | GOB: B/_____ | BNP: B/_____ |
| Vehicles (Vehículos/VEH) | AID: B/_____ | GOB: B/_____ | BNP: B/_____ |
| Land (Terreños) | | | BNP: B/_____ |

SECOND LOAN: (Addition) Approval Date _____

Repeat all of the above data under First Loan.

MODIFICATION: Approval Date _____

Repeat all of the above data necessary under First Loan.

DISBURSEMENTS:

Date of First Disbursement _____ Total disbursed (7/15/83) B/_____

Amount of loan undisbursed B/_____ Percent of loan disbursed (7/15/83) _____%

Disbursement Schedule by category of expenditure, date, and amount.

REPAYMENT:

Date of First Mortgage Payment _____

Total amount repaid (12/31/82) B/_____ (6/30/83) B/_____

Mortgage payments made for 1983: Jan B/_____ Mar B/_____ May B/_____

Total payments 1983 B/ Feb B/_____ Apr B/_____ June B/_____

Table 45

SUMMARY CARD FOR HAND TABULATION

DATA COLLECTION: BNP/SCP EVALUATION

Loan [redacted] Loan PROVINCE Loan Corp/Pers. Purpose of the Loan (type of business) (code) Loan Type Addition Amt. Loan Amount

Sex Name of the Business/Corporation Approval Date

Name of Applicant/Legal Representative (Year of Birth) Amortization

Existing employees, New/projected employees Term of Loan (

New/projected employees for additional loan Grace period

Actual address, City and street, Correg. Grace amortizat

AID funds

GOB funds

BNP funds

Ad- Addition date

Repeat above

M- Modification da
Repeat above

New business/Existing business also called amplification

Distribution of loan funds: Capital Trabajo (AID amount, GOB amount) Vehiculo, MAQ or EQ is Equipment/Machinery, MEJORAS is building, Also BNP

Loan amount disbursed 5/31/83, remainder, %. Repeat for 7/15/83 if it has changed

over

Type of disbursement - Year - month - Amount

Table 46

FILE STRUCTURE FOR BNP LOAN DATA: VARIABLE LIST

| Field No. | Field Label | Type* | Width | Decimal | Reason for Inclusion/Observations |
|---|---|---|---|---|---|
| 001 | NUMBER | C | 3 | | File key |
| 002 | NAME | C | 24 | | For key and search |
| 003 | PROVINCE | C | 2 | | Broad locational distribution |
| 004 | CITY | C | 12 | | Locational distribution |
| 005 | PLACE | C | 3 | | Project location |
| 006 | PURPOSE | C | 1 | | Determines new or existing busines |
| 007 | TYPE:LOAN | C | 1 | | Control of business type by activi |
| 008 | INCOME | N | 10 | 2 | For income distribution recipients |
| 009 | SEX:OCCUP | C | 4 | | Profile of borrower |
| 010 | COLLATERAL | C | 6 | | Control collateral and contract |
| 011 | APPR:DATE | C | 6 | | Control program execution |
| 012 | JOBS:EST | N | 2 | | Estimated jobs to be generated |
| 013 | AMOUNT | N | 10 | 2 | Loan amount as approved |
| 014 | AID:AMT | N | 10 | 2 | Control AID commitment |
| 015 | GOB:AMT | N | 10 | 2 | Control GOB commitment |
| 016 | BNP:AMT | N | 10 | 2 | Determination other loan sources |
| 017 | ADDITION | C | 1 | | Determines if additional financing |
| 018 | GRACE | N | 2 | | Grace period |
| 019 | AMORT:PER | N | 3 | | Total amortization period |
| 020 | PYMT:GRACE | N | 7 | 2 | For control of recovery |
| 021 | PYMT:AMORT | N | 7 | 2 | Forcontrol recovery and receivables |
| 022 | STATUS | C | 1 | | Status of project for monitoring |
| 023 | ECON:ACTIV | C | 4 | | Economic activity as executed |
| 024 | DISBURSAL | N | 10 | 2 | Amount of disbursal to date |
| 025 | LENGTH:DIS | N | 2 | | Monitors length of disbursals |
| 026 | MOPOSIDAD | N | 10 | 2 | Payment in arrears to principal |
| 027 | INT:VENCID | N | 10 | 2 | Payment in arrears to interests |
| 028 | JOBS:GEN | N | 2 | | Monitors employment generated |
| 029 | JOBS:CLASS | C | 20 | | Displays occupational distribution |
| 030 | SALARIES | N | 10 | | Monitors income generated |
| 031 | SALES:INCR | N | 10 | | For impact on business |
| 032 | DATE | C | 6 | | Control of update of record |

* N:Numeric, C:Character

2. The variable list is actually a structured file for computer analysis and manipulation of the merged data using the micro-computer recently installed at USAID headquarters in Panama. It is compatible with the dBase-II software package for file management and data processing.

3. The definitions needed for reference with the variable list (Table 46) and data sources (Tables 44-45, Appendix H-2) have been prepared and included below. They are included as Table 47 (four pages).

With the resources reported and indexed above, the evaluation team completed its assignment under this contract by preparing a set of 53 loan records for each firm in the sample survey. These records are suitable for file construction and continuous revision with the dBase-II software package. They are intended to be used for the initiation of continuous project monitoring as described above. A sample loan record is inserted below as Table 48 (see p. 177).

As a final step in starting USAID and BNP on the path toward computerized project management, a format for sensitivity analysis of cost data, profit and loss statements and receipts from loan accounts has been constructed for use with the USAID computer. It is compatible with the SuperCalc software recently delivered in Panama City. The format and data for the first two quarters of 1983 have been entered in the SuperCalc matrix. Table 41 (Profit, Loss and Rate of Return) was prepared using this matrix.

In the opinion of the evaluation team, judicious use of these data as guidelines for management decisions at BNP will remedy the problems which came to light in the course of the study. However, this can only be accomplished if mature analysis relating all the dimensions of the enterprise is prepared. The characteristics of the owner-operator, the size and location of the firm, the skill levels and wages paid to employees, and the volume of sales are all related variables. Taken together, and modified over time, they chart the path toward success or failure pursued by the firm. If a record of the path is continuously maintained as it unfolds and its direction is established, strategic points for intervention can be identified. Individualized assistance can be provided, failure rates can be sharply reduced, and clients who can make beneficial use of supplementary loan support can be located.

These measures will accomplish the improvement of the elements of the supervised credit program at BNP which pertain to the management of existing accounts. Beyond this, two points remain which require policy revision and innovation: the unacceptable delay in processing applications and releasing disbursements, and the even more basic problem of generating a sufficient volume of inquiries to sustain the program with high quality applicants in the remaining two years of the project.

Table 47

DEFINITIONS AND DATA CODING SYSTEM
( Four pages)

NUMBER

The loan number assigned when approved by the Comite de Prestamos

NAME

The legal name of borrower according to the loan contract. Borrowers may be persons or firms

PROVINCE

The province in which the small business is located:

PA Panama
CN Colón
CL Coclé
HE Herrera
LS Los Santos
VE Veraguas
BO Bocas del Toro
CH Chiriquí
DA Darién

CITY

The name of the city where the small business is located

PLACE

The Corregimiento where the project is located. Three-digit code to be decided

PURPOSE

The purpose of financing, whether to new or existing businesses: N: New, E: Existing

TYPE:LOAN

The classification of the loan by type of economic activity as proposed in the study: C: Commercial, I: Industrial, S: Service

INCOME

The annual income of the borrower or the firm's legal representative

SEX:OCCUP

The sex and occupation of the borrower or legal representative according to the following layout: one character for sex (M or F) followed by the first digit code of the CIUO classification (Classificación International Uniforme de Ocupaciones, COTA 1980, Contraloria General, Panamá)

COLLATERAL

The types of collateral used in the loan by order of value or importance. e.g. layout: L/E/F

L Land
H House or building
E Equipment
V Bonds or securities
F Furniture, Jewels
C Co-signer

APPR:DATE

Date of loan approval according to the Comite de Credito report

JOBS:EST

Projected or estimated number of jobs to be generated according to the project study

AMOUNT

Amount of loan approved to date. First loan plus additional financing if applicable

AID:AMT

Loan allocation for AID financing in dollars

GOB:AMT

Dollar allocation of loan financing with counterpart funds

BNP:AMT

Dollar allocation of loan financing with BNP funds

ADDITION

Additional financing or modifications after first loan: 0: No additional financing, 1: One additional financing, 2: Two additional financing, M: modification of loan contract terms

GRACE

Grace period in months. Zero indicates no grace period

AMORT:PER

Total amortization period in months

PYMT:GRACE

Amount of montly payment during the grace period in dollars

PYMT:AMORT

Amount of montly payments after the grace period

STATUS

Status of the project as of date:

- OP In operation
- CE Cerrado (project not in operation but received funds)
- DE Desistido (client decided not to use the loan)
- SE Sequestrado (foreclosed or repossesed by BNP)
- ND Project not disbursed (legal charges not included)
- PO Loan has been paid off
- SU Suspendido (BNP decided to discontinue financing after disbursal)

ECON:ACTIV

Nature of the economic activity for projects in operation. Codes selected according to the 4-digit CIIU classification (Ineternational Standard Classification of all Economic Activities, Series M, No. 4, Statistical Office of the United Nations)

DISBUSAL

Total amount disbursed to date

LENGHT:DIS

Time in months between first and last disbursal

MOROSIDAD

Amount of payments in arrears to principal

INT:VENCID

Amount in arrears to interest payments

JOBS:GEN

Number of employees in payroll generated by the loan as verified in the field

JOBS:CLASS

Occupational distribution of jobs created with the loan. One-digit CIUO code per employee. Example layout: 1338888 means 1 manager, 2 salesmen and 4 laborers

SALARIES

Total amount of annual salaries for employees generated with the loan

SALES:INCR

Change in dollars of annual sales with the loan investment

DATE

Date of update of the record

Table 48

Loan No. _____

SAMPLE DATA FOR PROJECT MONITORING WITH DBMS

| Field No. | Field Label | Value in Record |
|---|---|---|
| 001 | NUMBER | |
| 002 | NAME | |
| 003 | PROVINCE | |
| 004 | CITY | |
| 005 | PLACE | |
| 006 | PURPOSE | |
| 007 | TYPE:LOAN | |
| 008 | INCOME | |
| 009 | SEX:OCCUP | |
| 010 | COLLATERAL | |
| 011 | APPR:DATE | |
| 012 | JOBS:EST | |
| 013 | AMOUNT | |
| 014 | AID:AMT | |
| 015 | GOB:AMT | |
| 016 | BNP:AMT | |
| 017 | ADDITION | |
| 018 | GRACE | |
| 019 | AMORT:PER | |
| 020 | PYMT:GRACE | |
| 021 | PYMT:AMORT | |
| 022 | STATUS | |
| 023 | ECON:ACTIV | |
| 024 | DISBURSAL | |
| 025 | LENGTH:DIS | |
| 026 | MOROSIDAD | |
| 027 | INT:VENCID | |
| 028 | JOBS:GEN | |
| 029 | JOBS:CLASS | |
| 030 | SALARIES | |
| 031 | SALES:INCR | |
| 032 | DATE | |