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# COOPERATIVE AGREEMENT ON HUMAN SETTLEMENTS AND NATURAL RESOURCE SYSTEMS ANALYSIS

Evaluation Report

## RURAL GROWTH AND SERVICE CENTERS: THE SMALL SCALE ENTERPRISE COMPONENT

by

Robert A. Hackenberg
Rene Hinojosa
Beverly H. Hackenberg

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

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

**Institute for Development Anthropology**
Suite 302, P.O. Box 818
99 Collier Street
Binghamton, NY 13902

EVALUATION REPORT

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## Overview of Project URBE

### The URBE Concept

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

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

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

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

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

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

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

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

The Small Scale Enterprise Component

The task of employment generation was distributed among several components of the URBE Project: agro-industry, housing and small scale enterprise were all viewed as contributing to this objective. However, the specific role of the small scale enterprise component was to create jobs. The vehicle through which this was to be accomplished was the establishment of a loan program for small business and industry.

The organization chosen for this purpose was the small business credit component established within the Industrial Development and Productivity Department of the Ministry of Commerce and Industry (MICI). Although it had handled only small allocations of capital, the organization which was to become the Department of Small business (Direccion General de la Pequeña Empresa, or DGPE) had been giving loans to the private sector since 1965. As a component of MICI, a nationwide unit of the national government, it possessed a regional organization with offices in David, Santiago, Chitre and Los Santos.

The following chapters contain an account of the effort by the DGPE to reach its primary objective of employment generation within the URBE project. Unfortunately, the analysis to follow is less than satisfactory with reference to this goal. For DGPE, the operation of a credit program rather than the generation of employment became an end in itself. No form was ever prepared to gather information on jobs created, and no field inquiry was ever conducted to determine whether employees were added following the successful negotiation of the loan.

Institution-building was the second goal of the URBE Project in the small scale enterprise area. It was the intention in creating this component that it should establish its viability and survive beyond the period of USAID support. It might be argued that the best case to be made for continuation of the small scale enterprise lending program rests on a successful record of employment generated. If so, we must reiterate the problem created by the failure of either the Government of Panama (GOP) or USAID to require that records be kept on this dimension of the project.

Instead, management of this component has centered on issues of financial responsibility. The assumption that the credit program should become self-financing has created a pervasive concern about cash flow and liquidity.

The single issue which captures GOP and USAID attention more frequently than all others is that of repayment schedules, cash reflows or morosidad (delinquency in repayments).

The tendency to substitute means for ends has focused attention on the monthly balance sheet and current cash reserves. This leads to the omission of interest in the health of the businesses and industries which have been financed, or in their relative degree of success in employment generation. There is only the one-dimensional interest in whether they have made their payments on time. The narrow view precludes recognition of the argument that the best claim for continued capitalization of the loan program might be found in evidence of success in attaining its goals.

The evaluation included a sample survey of 20% of the three hundred small scale businesses and industries placed in operation or expanded by the URBE project component. For most, this was the first time data had been obtained on either employment generation or the profitability of the enterprises. Results were surprisingly positive. Not only had jobs been created, but the level of employment was far above that of unskilled labor. It involved new jobs and also skills training. Not only was business profitability improved, but a number of firms had generated savings sufficient to establish spin-off enterprises: second-generation businesses with further expansion of employment.

Field data shed new light on the question of loan repayment. It was learned that many loan recipients chose to omit monthly payments in favor of larger remittances at longer intervals of two to three months. This repayment schedule corresponded with their own collections from customers. However, management's practice of carrying each letra morosa (skipped monthly payment) as a debit while keeping a monthly balance on accounts from each province could generate high anxiety. In the province of Veraguas in 1982, for example, monthly payments fell to a low of 54% in February; yet, for the entire year, the province collected 86% of the total accounts due and payable.

The evaluation shed additional light on the inadequacy of accounting procedures within the small scale enterprise component. The rate at which new loans are created is a critical issue to the management of the small scale enterprise program. Since they lack an empirical base for assessment of the program's success in terms of employment generation or business expansion, their requests for new funding are based on the claim that the growth of new accounts plus the poor performance of existing loans (non-repayment), has created a liquidity problem.

This leads to miscalculating the number of loans in force and exaggerating projections of the GOP's capacity to generate new loans in the immediate future. At the end of 1982, credit was claimed for 310 lending projects: In fact, only 265 were in force while the remainder were in the indeterminate status of "approved but not disbursed." Two months later (end of February), the total had risen to only 289 loans disbursed. By that date, however, credit was being claimed for 332 loans, once again including those "approved but not disbursed."

Inflating the total number of loans in force tends also to escalate the estimated expenditures. In the annual report for 1982 submitted by the Ministry of Commerce and Industry, $2,585,352 was reported in the category of loan funds approved. However, on December 31, 1982 the amount of expenditures (actual disbursements) was only $2,103,482. Since the total USAID budget available for small scale enterprise in the URBE Project is $3,400,000, the difference is significant. Depending on which figure is used, the program has depleted either 62% of 76% of its resources.

Despite the optimistic prediction that a target of 26 loans per month with an average value of $258,000 will be reached during the first three months of 1983, performance has fallen far short of this. During the first two months of the present year, there were only eleven loans per month with an average value of $105,000. This does not reflect intentional deceit on the part of the management. Only inadequate record keeping due to the complete lack of an information system. Information contained in the following chapters was obtained from first-hand review of original applications and payment records together with field work. It is not available from the responsible administrative agencies, and will not correspond with reports which emanate from them.

These introductory notes should be sufficient to alert the reader to several features of the chapters to follow. What they contain is more than a historical review of the small scale enterprise program from 1979 through 1982. Since both the GOP and USAID presently perceive the program as being in a precarious position, the analysis seeks to offer an evaluation of both strengths and weaknesses. Perversely, it reaches the conclusion that the program is worst at the center, where all technical assistance received has been expended; it is best in the field where regional offices and loan recipients are encountered.

While the program contains much that is commendable, and deserves to be continued (even expanded), it is still possible for administrators to snatch defeat from the jaws of victory. They must change their mind set. At present, they are focused upon converting an intermediate credit facility intended to recruit new entrepreneurs to private enterprise into a permanent financial institution. Their goal is to open a bank. Since present reflows from loans outstanding are less than sufficient to pay operating expenses, this will require substantial transfers of new capital.

This can only be justified by a three phase program which will (1) improve the repayment ratio on existing loans; (2) raise the rate of return on new loans; and (3) substantially increase the overall volume of loan operations. This can be accomplished by raising the profitability of marginal business operations already funded; increasing the interest rates charged to new loan customers, and engaging in intensive recruitment of new entrepreneurs. The key elements in reaching these goals are contained in a combined package of research and technical assistance aimed at both business operators and future applicants.

The forms of technical assistance required, and the objectives of the research to be recommended will be the substance of this report. Among other interim goals, an argument will be outlined which will support the position that shortening the time presently required to process loan applications will generate acceptance (if not enthusiam) for the proposed increase in interest rates to near-market levels.

In addition to employment generation and institution building, a third objective of the small scale enterprise program was coordination. The Project URBE design is broad in scope, posesses substantial time depth, and is characterized by multisectorial organization requiring the simultaneous implementation of all its components for maximum impact.

The URBE concept set forth in the 1978 project paper comprehends the following components:

1) program to improve urban and regional development planning capacity by incorporating technical assistance, community participation and appropriate GOP ministry expertise;

2) agro-industrial projects to incorporate (a) studies of appropriate raw materials and processes; (b) identification and training of suitable managers; (c) provision of loans and technical assistance; (d) employment generation; (e) supervision by appropriate GOP ministries and officials;

3) small business and industry projects to include (a) initiatives to retailers and potential small manufacturers including women as entrepreneurs; (b) a promotional campaign and technical assistance to prospective managers; (c) provision of immediate credit and long-term credit; (d) employment generation; (e) supervision by appropriate GOP agencies.

4) industrial park projects to incorporate phases of (a) site selection and preparation (18 months) and (b) formation of quasi-public corporations consisting of industrialists and officials to recruit participants and perform management functions (18 months) for a projected period of fifteen years.

5) shelter projects intended to provide a range of housing solutions aimed at (a) retention of technical and management personnel within the region; (b) elimination of squatter problems resulting from rapid and unplanned growth; (c) implementation of city plans; they were also intended to produce a demonstration effect among private developers who would produce additional shelter solutions;

6) transport terminals were to be provided in three communities (David, Santiago and Chitre-Los Santos) to complement projected completion of rural road networks which would facilitate (a) urban access to raw materials produced in the rual areas; (b) rural access to new community services;

7) sewer systems as basic sanitation solutions to be provided in Penonome and Puerto Armuelles, intended to increase the attraction of these communities for both residents and prospective investors.

8) construction or improvement of five cultural centers within the URBE project area to improve the quality of life and facilitate retention of population.

9) coordinating, monitoring and supervision, while a function of MIPPE, was also to include an inter-ministry Coordinating Committee; furthermore, a planning junta was to be established in each of the eight growth and service centers to include local officials, regional representatives of the ministries, the business community and the public at large.

All of the components contained in the URBE concept represent a mutually reinforcing network of elements. Taken together, they were intended to generate employment, provide new income sources and improve the quality of life throughout the region. As such, it was important that they be coordinated effectively to generate a combined impact on target communities or the URBE premise becomes invalid. Linkage between project components is the sine qua non for the attainment of all objectives.

These observations were essential to establish the climate which prevailed at the time the project paper was prepared (June, 1978). Before beginning the discussion of small scale enterprises, a few comments on the current status of the overall URBE Project are in order.

URBE Project Status in 1983

The expiration date for the URBE project is May 31, 1983. During the interval since January, 1979, when funds became available and actual work on components was initiated, progress has been uneven. In terms of level of completeness, a rank order of project components could be given somewhat as follows:

1. Subtantially complete or well advanced, and will probably be completed by end of project period.

   A. Town plans were completed for five major locations within the URBE area by June, 1980.

   B. The sewer system for Penonomé was completed December, 1981; the Puerto Armuelles system will be finished in April, 1983.

2. Subtantial progress, but unlikely to be completed within the project period.

A. Shelter components are appoximately 1/3 constructed according to the original plan with 717 "near completion" in December, 1982. However, a request from MIVI is now in process which will reprogram $4.3 million from the original $5.4 million in HIG funds for home improvement loans.

B. Of the agro-industrial projects to be financed by COFINA, twelve have been negotiated to date. Of the $3.2 million provided under the URBE budget, $2.2 million has been approved for release to borrowers.

C. Of the $3.4 million provided for small business and industry 310 loans have been approved with a total commitment of $2.6 million as of December, 1982. As noted above, however, disbursements have been made for only 265 loans and $2.1 million.

3. Less substantial progress at present and no chance for completion within the project period.

A. Technical Assistance arrangements have lagged. Of the $1.3 million provided, $.6 million remains uncommitted and presently under negotiation through the Ministry of Planning.

B. In the case of the industrial parks to be constructed in David and Chitre-Los Santos, accomplishment thus far consists of partial site preparation (5.6 hectares of a total of 10.5 in David, 3.7 of total of 14 hectares in Chitre-Los Santos). Contracting for construction of buildings is now in progress. The proposed quasi-public corporations for administration of the parks are in process of organization.

C. The transport terminals are still at the initiation stage. Negotiations for land purchase are in progress and a final plan has been completed for the David terminal. In Santiago plans are at the pre-design level. The status of the terminal proposed for Chitre-Los Santos is unclear since funding is now believed to be insufficient for a third terminal. The balance of $2.5 million originally provided for this construction remains unexpended.

It follows that the primary issue of interest to USAID/Panama and GOP administrators at this point is project completion rather than impact assessment. The major management concern centers on reprogramming unutilized funds to best achieve those initial goals of the URBE project which remain within reach. A reallocation of financial support together with an extension of the project termination date might permit this.

The prospect of program revision presents two options, and a choice between them is required. First, it is still possible to adhere to the original project design while attempting to reschedule completion of those URBE components which are lagging: technical assistance, transport terminals

and industrial parks. Second, funds from lagging components might be recovered and reassigned to others, such as small business, which have demonstrated their viability in the socioeconomic and administrative environment surrounding the project today.

This current concern directs the evaluation toward the present environment and future prospects of the URBE project. The resources made available for this effort might best be employed to help USAID and GOP administrators resolve the reprogramming issue, even at the expense of devoting less time to the course taken by the various components of the project between 1978-1983. A focus on current issues of project planning, organizing and implementation by the evaluation team is also dictated by the strategies of inquiry available to us. As noted above, information essential to an assessment in time depth has not been collected.

Another recent development which changes the course of the evaluation first proposed in mid-1982 has to do with the administration of the URBE Project itself. The design proposed was that of an integrated rural development program based in intermediate cities of the region. As such, coordination of the separate components was intended to produce an interdependence between them which would maximize the impact of all.

Because of the uneven pace of advance described above, however, this integrated effort was abandoned by USAID in November, 1982. The separate project components, previously administered from the Office of Agriculture, were distributed to the separate operating units of USAID/Panama as follows:

1. Transport terminals were assigned to the Engineering office.

2. Industrial parks, agro-industry and the small scale enterprise components were assigned to the Office of Human Resources Development.

3. Shelter components were ascribed to the Regional Housing Office, where actual responsibility had been lodged for several years.

4. Responsibility for planning technical assistance remained with Office of Agriculture which continued to assume a chairmanship role where broader issues were involved.

On the GOP side, a similar conflict surrounding coordination was also in progress. The Ministry of Planning and Economic Policy (MIPPE) had been assigned the task of coordinating components which were within the separate jurisdiction of the Ministry of Housing (MIVI), the Ministry of Commerce and Industry (MICI), the National Finance Corporation (COFINA) and the National Water and Sewer Institute (IDAAN).

A partial explanation concerning the uneven pace at which the separate components moved toward their combined URBE Project objective is to be found in the failure of MIPPE to effectively implement its coordinating role. Reasons abound. Ministerial and lower level personnel changes within MIPPE were frequent. Treaty negotiations further deprived all ministries of key

staff as the Canal Authority was recruited from the ranks of existing bureaucrats. Contract problems involving the GOP developed early and obstructed recruitment of technical assistance. In their absence, institution building lagged and implementation of particular components was ineffective.

As a consequence, the small scale enterprise component of Project URBE has acquired a separate and independent identity. It will be the subject of a separate report. The dismemberment of Project URBE was considered essential to separate the more successful from the less successful components. It was also considered necessary to free the components which were advancing (housing, small scale enterprise) from the burden of coordination through the Ministry of Planning and Economic Policy (MIPPE).

Beneath this decision lies a growing disaffection of sponsoring agencies with integrated regional development programs --perhaps with the concept of multisectoral development per se. But such issues go beyond the scope of the present report. Although, to the sponsors of the original design among both GOP and USAID personnel, they remain of critical importance. 1/

1/ For a carefully reasoned and fully documented argument in favor of retaining the integrated development focus within Project URBE, and continuing the coordinating function within the Ministry of Planning, see Carlos A. Morales, "Proceso de Ejecucion del Proyecto URBE/AID: Informe General de la Coordinacion del Proyecto." Ministry of Planning and Economic Policy. December, 1982. Panama.

# The URBE Small Scale Enterprise Component

## I. Introduction

Each component of Project URBE was designed to make simultaneous advances along three dimensions of regional development:

1. Fulfill a basic need within the region by providing an appropriate service financed by the loan.

2. Build a government institution with the capability to continue to meet that need by providing services beyond the term of the loan.

3. Multiply the effectiveness of both services and institutions by constructing linkages between each.

This section is concerned with the small scale enterprise (SSE) component of the URBE Project. The component was incorporated in the Department of Small Business (Direccion General de la Pequeña Empresa, or DGPE) of the Ministry of Commerce and Industry.

## II. The URBE Small Scale Enterprise Component, 1978

### A. The Basic Need: Employment Generation through Private Sector Expansion.

To fulfill its mission of population retention and income redistribution, the URBE Project sought to improve living conditions in the non-metropolitan region of western Panama. Both immediate aims would be served by developing new employment through small scale enterprises. At the same time, new goods and services would be made available to the residents of the growth and service centers, adding to their "braking power" against the attraction of Panama. Finally, a demand would be created for local raw materials to be processed and sold by SSE's.

The Project Paper (BAS-002) clearly affirms that the provision of a credit facility within the target communities is the mechanism to be utilized for the achievement of these goals. There was, in the opinion of the authors, a shortage of medium to long term credit available to prospective entrepreneurs, and to those already in business who might wish to expand their operations.

### B. The Solution Intended: An Expanded Small Industry Loan Program

The instrument through which employment was to be generated would be an extension of the loan program already established within the Industrial

Development and Productivity Department of the Ministry of Commerce and Industry. The Department's experience dated from June 1965 when MICI opened a small enterprise loan window with $20,000 from a private industrial bank and $20,000 from USAID. The GOP later added $208,000. By 1978, 150 loans valued at $500,000 had been disbursed and $300,000 were currently outstanding. Small industries but not commercial enterprises could apply.

Lending terms were designated "the most advantageous available" to SSE's in 1978 (BAS-002: 66). MICI was lending 85% of the investment needed for existing enterprises and 90% for new enterprises. The maximum loan was $15,000 and the maximum interest rate was 8%. A surcharge of up to .7% was added for administrative costs. Co-signers were required and the default rate was considered to be quite low (about 7% of the outstanding balance).

MICI small business loans in 1978 averaged $3,500; new enterprises were 44% and existing enterprises were 56% of the total. It was the intention of Project URBE to expand MICI's portfolio to include commercial and service enterprises in addition to small industry The previous program was administered by 14 employees within MICI, of whom only 5 were assigned fulltime to SSE's. MICI had regional offices in David, Santiago, Chitre and Los Santos.

Project URBE intended to build on this foundation. An allocation of $3 million in USAID loan funds, plus $800,000 in GOP resources would be made available. Subloans were not to exceed $50,000. To maintain emphasis on productive activities, retail operations were not to exceed more than 50% of the portfolio. The GOP must maintain the fund level at a minimum of $3.4 million for ten years after the end of the project.

The new enterprises created with URBE loan funds were expected to generate 750 to 1,300 new jobs depending on the mix between commercial, industrial and service industries. About 80-85% of these jobs should be for "target group workers." The aim of the project was to generate one job for each $3,500 invested.

Eligibility requirements for borrowers were originally those established by the terms of the Ministry's loan regulations issued in 1977 to cover the Programa de Financiamiento para la Pequeña Industria. This small industry project had a maximum loan limit of $10,000, which was extended to $15,000 in 1978. Changes contemplated for the Project URBE program included (1) extension of eligibility to commercial establishments and cooperatives; (2) encouragement of women applicants; (3) raising the ceiling to $50,000 ($20,000 for working capital only); (4) requiring the project to create new employment and provide "essential goods and services to target group members;" (5) a requirement that borrowers should not be eligible for commercial credit.

Finally, the Project Paper establishes an applications procedure which was probably derived from MICI's existing series of steps employed in processing industrial loans. Since this procedure is presently an issue, it will be quoted in its entirety (BAS-002: 31):

"Interested entrepreneurs will contact MICI representatives who will assist in preparing subloan applications. These applications will be forwarded to MICI's small loan office in Panama City where they will be reviewed by financial and technical analysts. The application and the analyst's recommendation will be reviewed by the Chief of the Financial Section who will present acceptable loan requests to a credit committee. Upon approval by the credit committee, subsequent approval by the Vice Minister, and signature of a loan contract, MICI will disburse the subloan funds in accordance with the approved financial plan for the subproject. Loan applications rejected at any point in the analysis will be returned to the field representative with appropriate explanation."

The outline above was later elaborated into a sequence of twenty steps which have produced delays sufficient to seriously jeopardize the effectiveness of the program.

C. Institution Building Proposed: A Self-financing Credit Facility

The description to this point represents an extension of the existing small industry loan program with modifications and substantially expanded lending capacity. It was the intention of Project URBE, however, to initiate a substantially different type of institution: a self-financing permanent credit facility. The first step in this process was to redefine the client population to include commercial as well as industrial enterprises. The next step was to engage in recruitment of a much greater volume of applicants than before. The third step was to introduce experiments aimed at generating continuing sources of revenue so that the growth and evolution of the credit facility would be insured.

In order to obtain applicants sufficient for the new credit available, the Project URBE design includes the provision that MICI should advertise throughout the URBE area for new entrepreneurs. However, it was noted that MICI had a backlog of 65 loan applications in 1978 with a total value of $598,000 in its regional office. To upgrade the quality of service provided by MICI to its expanded client group, "technical assistance will be provided to upgrade the quality of the current staff... to handle the larger size loans planned under this project. Approximately 19 months of technical assistance is programmed... in the following fields: loan application appraisal, loan preparation and small business management."

Courses in small business management were to be provided by MICI to its borrowers. These courses, to be financed by the Project, would concentrate on basic business skills: bookkeeping, accounting, sales promotion, advertising, store and shop layout, and employer responsibilities and employee rights. The URBE Project design also envisioned that the field representatives of MICI would provide technical assistance to the borrowers before, during and after subloan approval.

The objective of the SSE loan component in Project URBE was to increase the availability of "medium long-term" credit (up to seven years) for small businesses and industries in rural areas. While private banks and credit unions were financing for shorter terms (three years), more lenient financing was not available. The planners of Project URBE perceived that their scheme was not without defects, however. The following is from the Project Paper (BAS-002: 32-33):

> "...a sizeable increase in the availability of long term capital in the centers is not likely to be achieved through the proposed arrangement for two reasons. First, MICI is a government ministry, not a financial institution. Its only source of new capital is from GOP budget appropriations. Second, it is charging too low an interest rate to permit adequate expansion of the fund (given the normal shrinkage in small loan programs)."

The authors note that the requirement that GOP maintain the fund at a level of $3.4 million for ten years is a partial guarantee against "shrinkage." But further measures were contemplated:

> "... by the end of the second year of loan implementation, the GOP will carry out a study (using loan-funded technical advisors) on the design and implementation of alternative mechanisms for increasing the availability of long-term capital for small businesses. The study will analyze... the following alternatives: (a) use of reflows from the small business fund to finance a productive credit guaranty system for eligible loans from private banks; (b) use of fund reflows to create a discount line for loans from private financial institutions (including credit unions); and (c) an active small loan credit program by Banco Nacional de Panamá with MICI's assistance... With USAID concurrence, a new arrangement may be initated during the implementation of this project."

The institution building concern within the URBE Project design reflects the recognition on the part of the authors that the lending capacity for private sector expansion contained within the project was inadequate to solve the problem of unemployment. The expenditure of $3.8 million in an area the size of western Panama could not be expected to have much more than a demonstration effect. In the words of the USAID project manager, associated with URBE since its inception, "It was intended to test a concept, not to solve a problem." It was estimated that if the SSE project were 100% successful in attaining its employment generation goal of creating 1,300 new jobs, it would have reduced the regional unemployment problem by less than 2%.

This recognition leads to the placement of maximum emphasis on the effort to translate the program into a permanent institution capable of both expansion and self-perpetuation. The role of research and technical assistance in achieving this objective was not well-defined, however. In the case of agro-industries, for example, a research component was provided through the Ministry of Agriculture, which was commissioned to determine the

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availability of raw materials suitable for agroprocessing, and to prepare feasibility studies for potential investors. 1/

In the SSE area, a similar research program intended to investigate the climate for business and industrial investment would have been immensely helpful. The aim was to provide goods and services for intermediate cities, but no effort was made to determine which goods or which services were in demand. Likewise, the intent to generate employment was not related to any manpower data aimed at discovering the nature of the available labor pool. These deficiencies were to hamper both the attempt to rapidly finance SSE's in the target area, and the institution-building goal of creating a permanent and growing credit facility.

D. Linkages to Be Constructed: The Missing Links

With reference to other components of the URBE Project design, a substantial effort was devoted to the development of linkages between components and between ministries. For example, the National Finance Corporation (COFINA) and the Ministry of Agriculture were to jointly develop agro-industries. The Ministry of Housing and Ministry of Planning were to jointly design comprehensive growth plans for URBE communities.

Within the Ministry of Commerce, little attention was given to development of similar linkages. For several reasons, this appears to have been a lost opportunity. A substantial proportion of overall URBE expenditure, for example, was to be devoted to housing projects on peripheral sites at the edges of urban centers and beyond. Occupants of these sites might have been perceived as the persons most in need of additional goods and services. It would have been reasonable to assume, furthermore, that such households, with the additional burden of amortization payments, would require supplementary income from additional employment. In other developing countries, it has become conventional to package housing projects with SSE opportunities. Within Project URBE, this relationship was never exploited.

Funding for sub-project lending in Project URBE, furthermore, has been divided between agro-industrial lending and SSE loans. The relationships between agro-processing on a large scale, and small supporting enterprises (maintenance, supply, transportation, repair service) were not recognized. This natural interdependence between small and large enterprises could have been intentionally developed through coordinated planning to the benefit of both.

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1/ The roles assigned to technical assistance in the case of SSE's and COFINA were quite different. In SSE's, TA was assigned the function of upgrading the operation effectiveness of the MICI staff. In COFINA, TA was provided for studies intended to identify potential subprojects. For COFINA, 25 months of TA were funded; for MICI, the support was reduced to 19 months.

## III. Evaluation Strategy

The evaluation strategy to be employed in the study of the SSE component was shaped by the limitations imposed by the state of the project itself, and the failure to anticipate evaluation requirements in the process of implementation. These limitations have been fully discussed in the document entitled "Interim Report and Work Plan for the URBE Evaluation" (R.A. Hackenberg, February 3, 1983).

The major limitation encountered was the lack of progress reports, records or working documents in either USAID or GOP ministries. While, at first, this appeared to be the result of neglect or inadequate coordination, the root of the problem emerged at a deeper level. Information reporting procedures and record keeping proved to be inadequate to the task of keeping management in touch with the status of each component of the loan program sponsored by URBE Project.

As described in the memorandum of February 3rd concerning the work plan, the evaluation methods to be employed consisted of the following:

1. Inspection of official and unofficial records.
2. Interviews with officials responsible for the program in both MICI and USAID, and also with field personnel and recipients of loans.
3. Sample survey of the projects themselves, including visits to each SSE selected and discussions with proprietor and with MICI personnel responsible for its administration.

A brief review of the results of each of these information-gathering procedures will complete this section.

### A. Record Sources

The record sources which proved to be of value included the following documents, each of which is part of the permanent project file. The source of each of these documents, unless otherwise noted, was the Direccion General de la Pequeña Empresa office in Panama City. The DGPE is a subdivision of the Ministry of Commerce and Industry to be described in the following section.

#### 1. Source Documents.

##### a. Application forms and documents.

Separate sets of application forms are used for loans in different denominations: up to $5,000, $5,000 to $20,000, and $20,000 to $50,000. There are appropriate documents for reporting technical studies, credit reports, and expected market for a specific service. Copies of complete sets were obtained and used for evaluation of procedures.

##### b. Application files.

A single file is maintained for each of the 265 loans in force as of the end of 1982. Each file was abstracted for key information

items concerning the proprietor, the nature of the business, repayment record, volume of trade, etc. File cards prepared on each case were subsequently used for tabulating and preparing all tables in the chapters to follow which are based on 265 cases.

c. Ledger Sheets.

Application files in DGPE do not contain information on payments. These were entered on ledger sheets maintained separately for each province by the DGPE auditor. Fortunately for the evaluation team, the first audit ever conducted was in progress during the months of February-March. The auditor himself undertook the tedious task of assembling payment records for each individual loan by province for the year 1982, and for the entire interval (1979-1982) covered by the Project URBE program. The auditor shared his ledger sheets with the evaluation team. Our tables presenting data on the 265 loans mentioned in No. 2 above (payments delinquent, proportion of payments collected) are from this source. Consequently, the statistics presented are often at variance with the "official reports" prepared by the DGPE staff and issued at various times to USAID. Our source is the audit which we consider to be authentic. We retain copies of the ledger sheets recording the status of each of the 265 loans.

2. Official Reports

a. Préstamos Desembolsados del 1 de enero al 31 de diciembre de 1980

This is the official list of disbursements for the year 1980. It contains basic data on amount of loan, province, type of industry, employees generated, division of loan into working and fixed capital, and whether a project is new or an expansion of an older one. Unfortunately, these reports have been issued in several versions containing different entries. This accounts for the variance in reports presently in circulation which are based on these lists.

b. Préstamos Desembolsados del 1 de enero al 31 de diciembre de 1981

Same as above. There is a third partial list for 1979.

c. Préstamos Desembolsados del 1 de enero al 31 de diciembre de 1982.

Same as above.

d. Informe Anual, 1980

DGPE. Proyecto URBE Pequeños Negocios. February 1980.

Much of the data in this report pertains to the status of finances within the revolving funds, payments received and vouchers

prepared. The portion concerning individual loans which can be independently verified agrees with the audit figures.

e. Informe Anual, 1981 del Programa Urbe.

DGPE. Panama. Junio, 1982.

Same as above.

f. El Emprendero, Año II, No. 8

Boletin Informativo de la DGPE. MICI.

This issue of the DGPE house journal contains the 1982 annual report on Programa URBE-AID-MICI in abbreviated form. Numbers do not agree with audit.

g. Programa de Credito URBE 1983. Estado al 31-12-1982

This was the document submitted to USAID as the annual report of DGPE for the year 1982. It claims that 310 loans have been approved since the inception of program. In fact, only 265 loans were disbursed as of that date.

h. Analysis de la Morosidad al 31-12-1982.

This is one of several brief documents circulated to report the performance of DGPE during 1982. Figures contained cannot be verified.

i. Informe de Actividades del Programa URBE, del 1 de enero de 1982 al 10 de febrero de 1983

Dirección Provincial de Santiago.

A very useful document which carefully separates loan activity by status of loan processing (approved, committed and disbursed) eliminating customary sources of confusion in statistics prepared in Panama City by DGPE.

3. Documents Pertaining to Operations.

a. Costos Operacionales, 1982

Prepared at the evaluation team's request, this is an attempt by the DGPE staff to compute administrative expenses for the loan program during 1982. Staff were unable to separate USAID from World Bank operations, however.

b. Cronograma Tentativo para un Programa de Consultatorias y Asesorías para el Desarrollo de la DGPE. March 15, 1983.

A response to the USAID request to DGPE to identify its technical assistance and research requirements. The list is heavily weighted toward a massive investment in institution building within the central office.

c. Flujo de Fondos, Programa URBE-AID. March 14, 1983.

One of several documents aimed at indicating the anticipated disappearance of loan funds from all sources at DGPE within the present year.

d. Justificación y Alternativas para Transferencia de Fondos (Reembolsable); del Proyecto URBE Pequeños Negocios. February 12, 1983.

Another document recognizing the liquidity problem which has become a major concern within DGPE during the present year.

e. Programa de Crédito a la Pequeña Empresa: Requisitos Básicos. n.d.

One of several documents acquired during the evaluation listing the number of steps required in the loan application process, and identifying the documents to be presented by the applicant at each step.

f. Proyecto de Rediseño de Procedimientos en el Trámite de Sub-préstamos de los Programas de Crédito que Operan en la Pequeña Empresa, desde las Direcciones Provinciales. n.d.

This working paper outlines possibilities for reducing the time consumed in the processing of loan applications. It is the only document prepared within DGPE which addresses this critical concern.

g. Programa de Financiamiento para la Pequeña Industria: Información Histórica.

This brief statement traces the development of the present loan program through four stages beginning with 1965.

h. Reseña Histórica del Desenvolvimiento de los Programas para Financiamiento a la Pequeña Empresa.

An update through 1982.

i. Programa de Pequeña Empresa APEDE-AID. Manual para la Pequeña Empresa. Trámites, Regulación e Impuesto. No. 1.

This manual was prepared as a guidebook for the would-be entrepreneur by the Panamanian businessmen's association, APEDE.

j. Manual de Procedimientos para la Presentación de Solicitudes de Financiamiento. February, 1981.

An instruction manual for the preparation of applications to be submitted to DGPE.

4. Documents Pertaining to the Bank Proposal.

a. Planteamientos para una Estrategia Integral. February, 1983.

Outlines a growth plan for DGPE culminating in the creation of a bank for small bulsiness loans.

b. Costo de Inversión y Operación del Banco (Instituto) de Fomento para el Desarrollo de la Pequeña Empresa - BFDPE.

A report on the estimated operating costs of the proposed bank.

c. Proyecto de Ley para Creación del Banco o Instituto de Fomento para la Pequeña Empresa in Panama. January 27, 1983.

A proposed piece of legislation to create the bank and finance its operation with excise taxes.

Additional documents were obtained in each of the foregoing categories but the items listed are representative of the total. The internal memoranda prepared by USAID staff were also of great value but have been excluded from this listing.

B. Interviews with Officials.

Interviews were conducted in Panama with USAID personnel in the Division of Human Resources and with their counterparts in the Ministry of Commerce and Industry, Department of Small Business. The evaluation team visited each of the MICI field offices: Penonome, Chitre, Santiago, David and Las Tablas. In each case, the provincial director was interviewed on the status of PRBE-supported projects within the province.

In addition, the personnel directly in charge of the SSE project were also interviewed. Efforts were made to gain insights into program details at the operational level. Suggestions were compiled and discussed. Specific examples were requested to document all assertions emerging from these discussions. Copies of reports and technical studies were obtained where possible.

C. The Sample Survey

Since all application folders are maintained at the central office of the Department of Small Business (DGPE) in Panama, they were inspected and abstracted by the evaluation team. Of the 265 abstracts prepared a 20%

systematic sample was drawn, yielding 53 cases proportionately distributed in all five provinces; in fact, 56 were actually interviewed, as follows:

| | | Loan Amounts |
|---|---|---|
| Chiriqui | 13 | $140,266 |
| Cocle | 13 | 87,293 |
| Herrera | 8 | 59,161 |
| Los Santos | 10 | 44,554 |
| Veraguas | 12 | 79,115 |
| TOTALS | 56 | $410,389 |

In each province, the evaluation team, supplemented by two members of the Ministry of Planning and Economic Policy (MIPPE) began with a return visit to the provincial MICI office. Our first request was for the precise location of each of the sample loans from the list above. The evaluation team then divided into two subgroups, each accompanied by a member of the local MICI office, for visits to the sample businesses.

An interview schedule prepared in Spanish by Rene Hinojosa of the evaluation team was utilized for the sample survey. It is attached as Appendix D to this report. Extensive photographs were taken with the intention of documenting the nature of employment generated by each sample enterprise. A selection of these has been included below.

## IV. Level of Accomplishment, 1983

The descriptive portion of the SSE analysis will be set forth in three dimensions of regional development described in the introduction. Each of the following will be reviewed:

First---businesses and industries established in URBE communities will be described, together with measures of their vitality, impact and effectiveness as employment generators.

Second---the institution-building achievements and goals within MICI's Department of Small Business will be considered and evaluated.

Third---linkages between institutions, and especially between the Department of Small Business and its client population of loan recipients will be examined.

Each dimension of the analysis as separated above will be contained in a unit of this chapter, beginning with the presentation of the loan program itself.

### A. The Establishment of Small Scale Enterprise

It would be deceptive to approach the subject of generating employment through small scale enterprises as if it were a one-dimensional

lending operation, concerned only with loans and collections. It is much more than that. By concentrating credit resources in communities which have previously been without them, an SSE program seeks to build upon the resource base, complement the existing private sector economy, and expand the opportunities for local entrepreneurship. Only then can it succeed in generating employment. It combines research, lending, technical assistance and training functions:

Research. Preliminary inquiry is needed to inventory the local resource base, identify demand for goods and services, and determine the local manpower situation (which skills are available, and which types of labor are needed).

The lending function. Provision of credit must be guided by research toward the recruitment of entrepreneurs who will capitalize on the raw materials and labor market to meet demand from the community for products, thus providing steady and expanding employment.

Technical Assistance. Professional help must be given to convey the knowledge of business management and production processes required by would-be entrepreneurs.

Training. New skills may be required by the employees who are recruited for participation in the newly financed SSE's.

The SSE program within the URBE Project will be judged according to the criteria set forth above. The description to which the evaluation will be applied comprises the larger portion of this monograph. It will be divided into the following sections.

1. Loans and Repayments: An Overview from Current Accounts, 1979-1982

   This section will briefly recapitulate the history of the Department of Small Business within MICI. It will then summarize the performance of the Department from 1979 through 1982 in the two basic dimensions of its operation identified above. The number of loans by dates, amounts and rates of repayment will be examined.

2. Small Scale Enterprises: Characteristics from Applications

   This section will review descriptive data concerning the types and locations of businesses and industries funded from the SSE program, the characteristics of proprietors and repayment records by nature of enterprise and amount of support received. Employment projected will also be considered.

3. Business and Industry: Details from the Sample Survey

This section will provide first-hand insights into business operations from the field trips completed in each of the provinces. Particular attention will be given to the types of employment generated by each class of SSE receiving support and the cost of jobs produced by each category of business and industry. The employment projections contained in the applications (see No. 2 above) will be compared with the jobs now being provided.

The intent in this section is to move from the general considerations which are the substance of official reports to the particular insights which can only emerge from field visits.

1. Loans and Repayment: An Overview from Current Accounts, 1979-1982

In an unpublished historical study, Eduardo Castaño, the consultant retained by the Department of Small Business, identifies four steps or stages in the development of the SSE program within the Ministry of Commerce and Industry.

First Step. This was dated June 1965 and consisted of the joint effort by Desarrollo Industrial, S.A. (DISA), the Panamanian Institute for Development (IMPADE), and USAID to provide a loan fund for small industries. While this fund was initiated with a capitalization of only $40,000, it succeeded during its life span (1965-1974) in providing 118 loans with a value of $326,000. The average amount was $2,763; 265 jobs were created at an average cost of $1,230.

Second Step. This was dated June, 1974 and was marked by the increase in the maximum loan authorization from $5,000 to $10,000. With capitalization of $248,000, primarily provided by the GOP, an additional 39 loans were made with a value of $195,505. The average size loan increased to $5,013; 98 new jobs were generated at an average cost of $1,995, from 1974 to 1976.

Third Step. This stage began in November, 1976 with the assumption of responsibility for the lending function by the Ministry of Commerce and Industry (MICI). The maximum value of loans was increased to $15,000. A Program of Finance for small industry was established within the ministry with a departmental structure including units for technical review of projects, finance and accounting. During this stage (1976-1979), 60 loans were made with an aggregate value of $334,144. The average loan was $5,569 and 148 new employees were hired at an average cost of $2,257.

Fourth Step. In Mr. Castaño's account, the final step in the growth of the SSE program to its present scale of operations was the establishment of the Department of Small Business (Direccion General de la Pequeña Empresa, or DGPE) within the Ministry on the 10th of May, 1979. Its

charter, according to Executive Order No. 43, was to "....promote both financial and technical assistance by creating and developing small industrial, commercial and service enterprises."

The establishment of DGPE was a consequence of the participation by the Ministry of Commerce and Industry in Project URBE, for which the loan agreement was completed during the previous year. The DGPE received $3.4 million to establish a credit program, the major characteristics of which were as follows: (1) interest rates were fixed at 8.5%; (2) maximum amount of each loan was $50,000; (3) loans were to be made for periods of up to seven years; (4) the loan could finance up to 90% of the total cost of the projects; (5) any industrial, service or commercial project could be considered, and (6) all loans were to be restricted to the URBE communities: Penonome, Aguadulce, Santiago, Chitre, Los Santos, Las Tablas, David, Concepción and Puerto Armuelles.

In addition to its participation in Project URBE, the DGPE has a second resource obtained through participation in a World Bank supported project begun in June, 1982. This program was provided with $1 million from the World Bank and $176,000 in counterpart funds by the GOP. Major differences from the Project URBE Program are (1) the interest rate is 12%; (2) the period of amortization is five years; (3) projects must be located in the Panama-Colon corridor, and in the provinces of Bocas del Toro, Darien and San Blas. Projects must request less than $50,000.

Until the first of November, 1982, the World Bank project within DGPE had disbursed $521,401 to support 33 projects. Another 15 projects with a value of $363,037 were classified as "pending". The average value of these projects is $18,425 --- approximately twice as much as the average URBE loan made through the SSE program. The difference may arise from location. The majority of the World Bank loans are located in the Panama-Colon corridor.

There is a third program administered by the DGPE which is the remanent of its earlier period of organization. It is called the Program for Financing Small Industry. Through 1982 it provided support to 112 proprietors. This program was begun in 1970 with a government budget of $250,000. The maximum loan provided was $10,000. The total sums available have been disbursed. Because recovery rates were poor, the project has not been maintained as a revolving fund. The majority of loans (67) were made within Panama City and the delinquency rate on these accounts was 60.3%. Recovery rates on subsequent programs have been much better due to more careful screening of applicants and more rigorous administrative procedures.

(a) Applications Procedures at DGPE: The basic problem.

Administrative routines do not provide inspiring text material. They are frequently consigned to an appendix as a result. The importance of this procedure to the survival and evolution of the SSE program requires that it be described and evaluated, however. Revisions and changes are needed and all parties agree on this point. But there is no agreement on what is to be done.

The basic documentation required for eligibility to become a borrower in the DGPE program is similar to that in other Latin American countries. In Appendix A requirements are reprinted from the manual issued to prospective clients by DGPE. Eligibility rules are different for individuals and for corporations, and differ also for new projects and those already in operation.

Once eligibility is established, however, the procedure for all applicants is substantially the same. A conceptual model of the process, prepared by the Department of Small Business, appears opposite as Figure 1. The process begins with receipt of a request at a provincial office in one of the URBE communities. A technical study is prepared in the regional office and forwarded, together with the application and supporting documents to the DGPE office in Panama. Verification and review of these materials is followed by a meeting of the Credit Committee which approves or disapproves the loan. Following this decision, the file is returned to the provincial office for presentation and registry of the project. Certification of registry is returned to the DGPE Panama office and the project is placed in line for processing.

A number of additional formalities must be concluded before a contract is signed by the Vice-Minister. A check is then prepared for signature by the DGPE Director and co-signature by the MICI Auditor-Controller. The check is returned to the provincial office for delivery to the applicant. A voucher is then prepared for USAID reimbursement and returned to DGPE in Panama. The foregoing synopsis is presented in greater detail in Figure 1, in which the responsible department and staff member/group are identified for each procedural step.

The conceptual model is accurate, but does not convey the full complexity of the process. The Assistant Director of DGPE, Vladimir Salazar, was formerly in charge of the provincial DGPE office in Santiago, Veraguas. From the comprehensive view of the application process which he has acquired, he prepared the draft of Figure 2, which is a step-by-step sequence of the path which must be negotiated by the applicant.

As described by Salazar, the entire process requires four stages, 23 steps, and 12 weeks. Most information sources interviewed by the evaluation team agree with the substance of Figure 2 but reject the time frame which accompanies it. A particular source of dismay to both provincial officials of DGPE and the loan recipients interviewed was the lengthy delay following approval of the loan by the Credit Committee.

Both Figures 1 and 2 confirm that approval of the loan by the Credit Committee occurs at a mid-point in the process. In Salazar's chronology, the meeting of the Credit Committee is step No. 11 of a total of 23 required. He assumes that two months are required to reach that point. This estimate may be reasonable for the average case. It is his assertion that the remaining 12 steps can be completed in a final four weeks which is questionable.

Figure 1

MINISTRY OF COMMERCE AND INDUSTRY

Small Business General Directorate

STEPS FOLLOWED IN PROCESSING LOAN REQUESTS FROM PROVINCIAL AND/OR REGIONAL DIRECTORATES.

From receipt of loan request until cancellation.

| Department | Responsible Staff Member | Procedure |
|---|---|---|
| Provincial and/or Regional Directorate - Small Business Department. | Provincial Technician | Processes request and prepares study. |
| | Credit and Project Analyst. | Verifies request documentation, evaluates the credit and the financial technical study. |
| Small Business General Directorate. | Analyst Technician | Reviews the guarantee, amortization, construction budget, quotations. Verifies documentation enclosed with request, as per Form 10a or Form 10b. |
| Technical Assistance and Administrative Department. | Chief of the Technical Assistance Department. | Convenes Credit Committee. |
| | Credit Committee. | Makes decision on credit request Approves or disapproves credit. |
| | Chief of the Technical Assistance Department. | Notifies the Provincial Directorate of Credit Decision. Forwards copy of minutes of Credit Committee. |

| | | |
|---|---|---|
| Provincial and/or Regional Directorate. | Provincial Technician. | Prepares minutes, notarizes and registers contracts, drafts, and other documents in the Public Registry Office. |
| Small Business Department | Credit and Project Analyst. | Verifies documentation for disbursement, as per Form F26. |
| | Provincial and/or Regional Director. | Forwards documentation for disbursement to the Technical Assistance and Administrative Department. |
| Technical Assistance Department - Small Business General Directorate. | Clerk | Reviews and verifies documentation for disbursement[ sent by the Provincial and/or Regional Directorate, as per Form F26 |
| | Chief of the Technical Assistance Department. | Forwards documentation to the Chief of Credit and Operation Department. |
| | Chief of Credit and Operations. | Forwards loan contracts for Vice-Minister signature and orders preparation of disbursement request form and checks. |
| | Staff member of the Department. | Prepares disbursement request forms and checks. |

Credit and Operations Department.

| | |
|---|---|
| Chief of Credit and Operations. | Reviews disbursement request form and checks and sends to the Small Business Director for his signature. |
| Small Business Director | Signs checks. |
| Chief of Credits and Operations | Sends checks with documentation (requests) to MICI Internal Audit for revision. |
| Auditor - Comptroller | Signs checks. |
| Chief of Credit and Operations. | Sends checks to the Provincial and/or Regional Directorate for delivery. |
| Provincial and/or Regional Directorate. | Registers loan payment and sends vouchers to the Credit and Operations Department. |

Figure 2

PROCEDURE FOR HANDLING LOAN APPLICATION
FROM THE PROVINCIAL AND REGIONAL MANAGEMENTS

| Department | Number of Sub-Stages | Processing Stages | Handling Process | Technical Units | Official or Unit Executing Technician | Time in Working Weeks |
|---|---|---|---|---|---|---|
| Provincial and Regional Office | 1.1 | 1 | Interview with | | Technician assigned to and Project | |
| | 1.2 | Application | Area Inspection of the Project | | " | |
| | 1.3 | | Technical Report | | " | |
| | 1.4 | | Documentation | | " | 4 weeks |
| | 2.1 | 2 | Investigation and Data Collection | | " | |
| | 2.2 | Study Making 1 | Preparation of the Study | 1 | " " | |
| | 2.3 | | Type, arrange and revise study | 1 1 | Secretary Project Technician | 2 weeks |
| Technical Assistance and Administrative Department | 3.1 | Credit Evaluation | Preparation of Basic Summary | | Credit Analyst | |
| | | | Application and Project Evaluation | 2 | Guaranty Analyst | |
| | 3.2 | 3 | Internal Evaluation Committee | 5 | Dept. Chief 4 Technicians | |
| | 3.3 | | Calling of Credit Committee | 1 | Dept. Chief | 2 weeks |

| Department | Number of Sub-Stages | Processing Stages | Handling Process | Technical Units | Official or Unit Executing Technician | Time in Working Weeks |
|---|---|---|---|---|---|---|
| National Direction of Enterprise, Gen. Direction of Commerce | 3.4 | | Credit Committee | 5 | 4 Directors MICI 1 Chief | |
| Techaical Asst. Dept. | 4.1 | | Notification of the Committee's Decision to the Provincial Office | 1 | Technical Dept. Dept. Coordinator | |
| Regional and Provincial Offices | 4.2 | 4 | Preparation minutes draft | 1 | Technician of the Provincial Office | |
| | 4.3 | Disbursement | Type original draft original | 1 | Secretary P.E. Prov. Office | |
| | 4.4 | | Preparation and Notarization of Minutes | 2 | Secretary Notary Officer | |
| | 4.5 | | Registry of Deed (Minutes) | 2 | Technical Registry | 2 weeks |
| | 4.6 | | Preparation of Contract and drafts | 1 | Provincial Office | |
| | 4.7 | | Signing of Contracts and drafts | | Client and Codebtors | |
| ATT Dept. C. & O. | 4.8 | | Revision and Verification of Documentation | 2 | A.T. & C.O. Technician | |
| Credit and Operations | 4.9 | | Signing of Contracts | 1 | Vice-Minister | |

| Department | Number of Sub-Stages | Processing Stages | Handling Process | Technical Units | Official or Unit Executing Technician | Time in Working Weeks |
|---|---|---|---|---|---|---|
| | 4.10 | | Preparation of Disbursement Orders | 1 | C. & O. Officer | |
| | 4.11 | | Authorization to make checks | 2 | C. & O. Deputy Chief | |
| | 4.12 | | Signing of Checks | 2 | Dir. P. E. Auditor Contract | |
| Total Steps | 23 | 4 | Clearing | | Provincial Director | 2 weeks |
| | | | | 32 | | 12 weeks<br>3 months |

This source of delay is not unknown to USAID personnel. The following is quoted from a memorandum prepared by Frank Almaguer, Deputy Director, dated April 23, 1982. It reports his findings from a visit to the regional office of DGPE in David:

> "The regional staff is concerned because...the backlog of loan applications is increasing once again. This time the blame is being placed on the inability of the MICI central headquarters staff to keep up with the paper flow requirements. The Auditor de la Contraloría assigned to MICI is seen as a major bottleneck as he is a one-man operation for all Ministry activities and he must certify each and every transaction that commits funds....There are approximately 23 steps that MICI must follow to process an application and some steps must be repeated whenever there is a delay (which is the norm). For example, the potential borrower must submit a vendor's cost estimate of the equipment he proposes to buy, as well as credit references. The loan approval committee in Panama routinely requests that these documents be updated....The vendor may have been asked to submit up to four price quotations for one (relatively small) transaction."

A second trip report, prepared by Bernai Velarde of the USAID Office of Human Resources, resulted in the followng observations based on visits to Penonome, Chitre and Santiago (January 26 and 27, 1983):

> "The three provincial MICI directors said that the major problem was the time involved to process and disburse a loan. Average time is from three to six months.
>
> All but two of the SSE's complained about the time delay to receive a loan. Minimum time was two months and maximum was one year. So much time had elapsed for some loan requests that they did not expect to receive them."

A detailed account of the applications procedure, prepared by Mr. Felix Berrocal, Provincial Director for Cocle, is part of the Velarde memorandum. It identifies fifteen steps and further complications, but by this point, the message should be clear.

The role of delay in frustrating the applications process has been well documented by both USAID personnel and by the evaluation team. It has a further effect, however, which other observers have failed to comment upon. When a loan is approved by the MICI credit committee at DGPE, it is treated as a completed event for statistical purposes even though it has only survived half the review process.

Quarterly reports periodically submitted by DGPE to USAID are counts of approved projects. There is substantial slippage and great delay in the remainder of the review process which intervenes between approval

and disbursement. For example, at the end of calendar year 1982, DGPE had approved 310 projects, but disbursements had been completed for only 265. One of each six loans for which credit was being claimed was actually caught somewhere in the bureaucratic machinery.

It was learned in field interviews with both officials and clients that the delay between approval and disbursement frequently results in a client withdrawing his application. Such actions have substantial negative impact on both the program's achievements and its statistics. In terms of employment generated, for example, the job count is based on the project approved. However, until disbursements are made, no one has been hired and no labor has been performed. And, of course, no wages have been paid.

There are other problems with the applications procedure, some of which were noted in the Almaguer trip report of April 22, 1982. These involve the collateral and credit requirements.

> "The 80% collateral requirement for the total value of the project is considered too high in some instances. In a small community where everyone knows everybody else, a person's reputation and proven skills are as important as physical assets. One of the advantages seen to decentralized approvals is that the local review committee could take these intangibles into account....
>
> Another impediment to reaching the desired target is the requirement for a credit history. In most instances, the MICI loan is the first credit these individuals may have acquired and, thus, they have no credit references. MICI/Chiriqui feels that the insistence on credit references kills many potentially good projects."

These statements are quoted from the Almaguer and Velarde trip reports because they are independent documentation of statements made to members of the evaluation team. They also imply that these issues are not of recent origin.

Felix Berrocal (Penonome), Said Diaz (David) and Melba de Quintero (Las Tablas) --- all provincial MICI directors --- independently confirmed the following points pertaining to the processing of loan agreements:

1. There are too many steps in the approval process and too many offices involved.

2. Many defects could be remedied if the central office of DGPE in Panama would decentralize its control. Many essential steps could be verified more quickly at the provincial office level.

3. The lack of certainty concerning the outcome of applications, even after approval has been obtained from

the credit committee, has persuaded some would-be entrepreneurs to withdraw their requests for funds. An unknown number of others have become discouraged and have failed to file applications because of the negative publicity received.

There is another dimension to this story which was only added when the evaluation team continued its inquiry with officials of DGPE in Panama.

The central office of DGPE is sensitive to the problems caused by delays in the procedure for processing applications. It was the considered opinion of some of the most knowledgeable officials that the source of the problem is the reluctance on the part of MICI to relinquish control over DGPE. The intervention in the review process by the Vice-Minister, Auditor and Controller (see Figures 1-2) exemplifies this.

To gain perspective on this observation, a glance at the organizational charts opposite (Figures 3-4) may be instructive. The Dirección General de la Pequeña Empresa is one of three components of the Dirección Nacional de Desarrollo Empresarial, or Department of National Business Development, appearing on Figure 3. Its internal structure (Fig. 4) is rather simple by comparison.

The Department of Small Business, from the point of view of the Ministry of Commerce and Industry, is an integral part of its organization. it is a rather small cog in a large bureaucratic machine. From its own point of view, however, DGPE perceives itself as a semi-autonomous and specialized unit, with its own mission to perform. This conflict of self-image probably originates from its mixed sources of funding.

The DGPE receives its core support (salaries, physical plant, etc.) from the Ministry of Commerce and Industry. MICI perceives DGPE as a "wholly-owned subsidiary". But DGPE is quite conscious of its special relationship with external sources of funding: World Bank and USAID. The relationship is the source of its sense of independence, and also of its resentment toward "outside interference". This sense of dependence, and resistance expressed toward it, finds its expression in the single-minded commitment to the creation of a bank from the present Department of Small Business.

It follows that, from the position of DGPE in Panama, the solution to the problem of processing applications will be found in the establishment of the bank. However, not all energy has been concentrated on realizing that outcome. Vladimir Salazar, the DGPE Assistant Director who prepared Figure 2, also contributed an analysis of the applications procedure entitled "Proyecto de Rediseño de Procedimientos en el Trámite de Sub-Préstamos de los Programas de Crédito que Operan en la Pequeña Empresa, desde las Direcciones Provinciales." A summary and translation of the original appears as Appendix B. It was prepared by our colleague, Ing. Julio Benedetti, an economist with previous experience as a loan officer in the

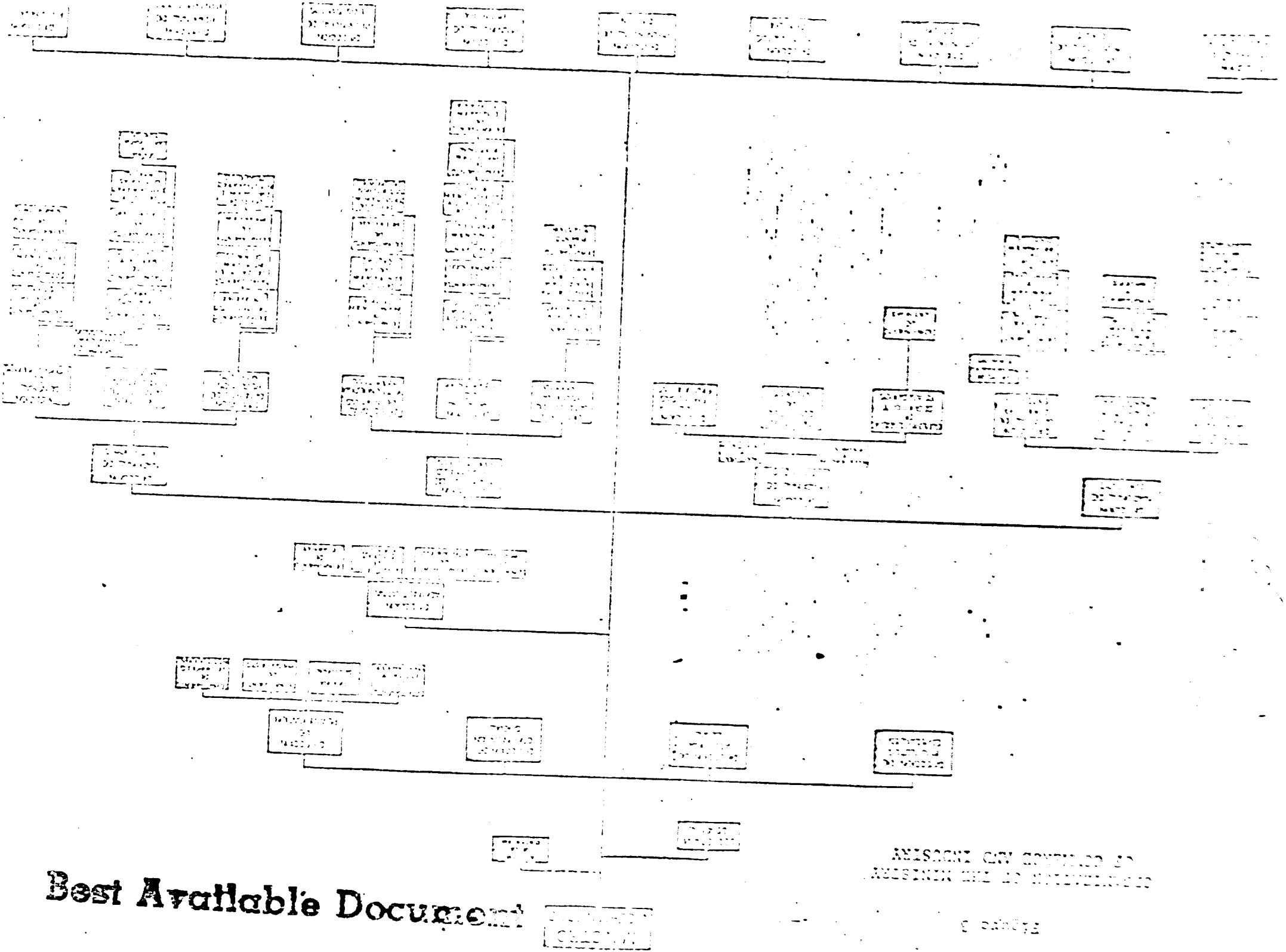

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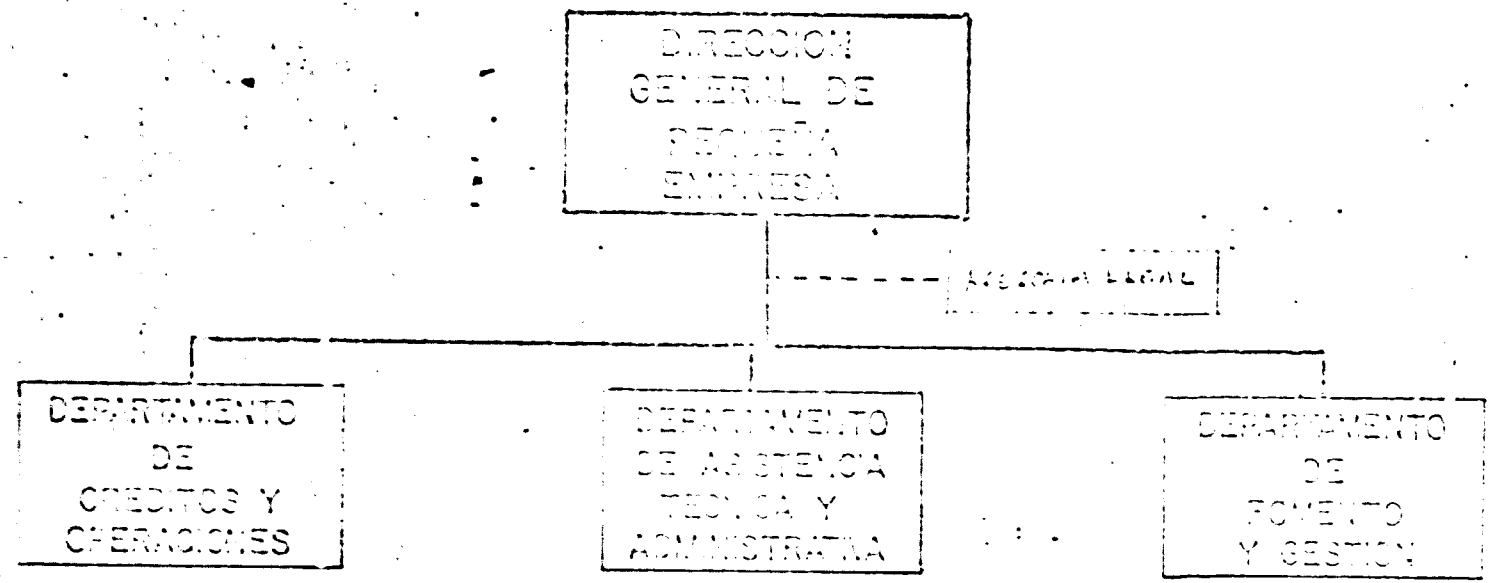
FIGURE 4

THE ORGANIZATION OF THE DEPARTMENT
SMALL BUSINESS



GOP. Ing. Benedetti also offers his comments and recommendations based on this document and his knowledge of the credit process in Panama.

There are some technical points in the memorandum concerning the standardization of forms, consolidation of steps, and reallocation of responsibilities among technical personnel. While these are important, they tend to obscure the primary message, which is that the burden of review and decision making must be shifted from the central office to the provinces themselves.

While the author does not comment on this point, it was apparent to the translator and evaluator that the redistribution of burdens recommended within DGPE would place a severe strain upon the resources of the local offices in the provincial cities. Our independent study of the manpower situation within DGPE confirms that personnel are already assymetrically weighted in favor of the central office. Benedetti's recommendation is to transfer the bulk of the positions within the Panama office to the field.

Of course, this advice is offered without consulting DGPE administrators or the persons to be relocated. Nonetheless, the logic of the argument is beyond dispute. Applications would be expedited, customer service would be improved, and the capacity to provide technical assistance to clients from the provincial offices would be multiplied by a substantial factor. And it would be cheaper than the bank plan. Benedetti's analysis calls attention to the organizational implications of the endless talk which takes place concerning decentralization.

Yet, this is the solution nobody wants. It would disperse DGPE staff. It would reduce MICI control, and tend to reduce authority of central office administrators in both the department office and the parent agency. If it is to take place, it must be imposed by an external authority. But, unpopular as it would be within the Ministry, it is a solution which speaks both to the needs of the loan recipients and to the growth of the Department of Small Business.

In the subtitle to this section, the applications procedure was identified as the basic problem. If it is not the source of dissatisfaction with the program on the part of prospective entrepreneurs, then it is symptomatic of it. Until it is improved by the acceptance of Vladimir Salazar's solution or something else equally innovative, growth of the program will be stunted.

For the evaluation team, pursuing the implications of the ubiquitous complaints concerning the applications process was an enlightening experience. As the theme developed, it took us to the heart of organizational, administrative and information processing problems at the core of the DGPE's operation. It is from that perspective that we offer the observation that an effort to reform the applications procedure might very well cure many of other ills encountered in the SSE program.

TABLE I.

SMALL BUSINESS AND INDUSTRY:
FREQUENCY DISTRIBUTION
OF LOANS BY SIZE TO DECEMBER 31, 1982.

| SIZE OF LOAN | | | NUMBER | % |
|---|---|---|---|---|
| 0 | - | 2,499 | 60 | 22.7 |
| 2,500 | - | 4,999 | 60 | 22.7 |
| 5,000 | - | 7,499 | 43 | 16.2 |
| 7,500 | - | 9,999 | 26 | 9.8 |
| 10,000 | - | 12,499 | 25 | 9.4 |
| 12,500 | - | 14,999 | 21 | 7.9 |
| 15,000 | - | 17,499 | 4 | 1.5 |
| 17,500 | - | 19,999 | 3 | 1.1 |
| 20,000 | - | 22,499 | 9 | 3.4 |
| 22,500 | - | 24,999 | 3 | 1.1 |
| 25,000 | - | | 11 | 4.2 |
| | | | 265 | 100.0 |

**Notes:**

1. Of 265 loans disbursed through 1982, 120 or 44.6% were less than $5,000 each.

2. Of 265 loans disbursed through 1982, 23 loans or 8.7% were more than $20,000 each.

TABLE 2

SMALL BUSINESS AND INDUSTRY:
LOAN DISTRIBUTION BY PROVINCE AND YEAR, 1979-1982

| PROVINCE | YEAR 1979 | 1980 | 1981 | 1982 | TOTAL |
|---|---|---|---|---|---|
| Coclé | | | | | |
| Loans completed | 3 | 17 | 18 | 19 | 57 |
| Amount | 24,084.00 | 101,176.00 | 144,025.33 | 191,396.00 | 460,681.33 |
| Chiriquí | | | | | |
| Loans completed | 9 | 9 | 6 | 24 | 48 |
| Amount | 56,371.00 | 60,388.00 | 34,423.00 | 259,999.00 | 411,181.00 |
| Herrera | | | | | |
| Loans completed | 4 | 9 | 17 | 29 | 59 |
| Amount | 23,295.00 | 75,609.00 | 131,960.00 | 298,854.00 | 529,718.00 |
| Los Santos | | | | | |
| Loans completed | 3 | 6 | 9 | 21 | 39 |
| Amount | 22,220.00 | 54,746.00 | 64,651.95 | 150,950.00 | 292,567.95 |
| Veraguas | | | | | |
| Loans completed | 3 | 20 | 18 | 21 | 62 |
| Amount | 20,969.00 | 96,791.00 | 109,604.41 | 181,969.42 | 409,333.83 |
| TOTAL | | | | | |
| Loans completed | 22 | 61 | 68 | 114 | 265 |
| Amount | 146,939.00 | 388,710.00 | 484,664.69 | 1,083,168.42 | 2,103,482.11 |

(b) Loans and repayments: the 1979-1982 performance record.

(1) Loan by size, year and location.

Deeper understanding of the problems within the Department of Small Business requires that we measure its progress since the inception of the URBE-financed program. From May, 1979, through December, 1982, the SSE program disbursed 265 loans (see Table 1). The total disbursement (Table 2) was $2,103,482.11 and the average loan was $7,938. However, this figure is misleading. The median loan amount is only $5,245. The frequency distribution presented in Table 1 confirms that 44.6% of the loans were less than $5,000 each.

Many proposals for the administrative reorganization of DGPE have suggested that authority to approve loans of $5,000 or less be transferred to the provincial offices. Since this figure is close to the median loan value, acting on this suggestion would shift half the burden of loan processing away from Panama City. However, since loans below the median are by definition less than $5,245, they would shift disbursement of less than one-third of the dollar-value of loans granted away from central headquarters.

This suggestion meets a frequently verbalized objection to the process of decentralization. Critics offer the opinion that moving control of the lending operation away from the capital would increase the risk of graft and fraud in handling loan accounts. However, if control over processing can be distributed, while control over two-thirds or more of the finances is retained at the center, the objection is difficult to sustain.

The data in Table 2 suggests that the average loan has gained substantially in value during the life of the project. The averages by year are as follows:

| | | |
|---|---|---|
| 1979 | - | $6,679 |
| 1980 | - | 6,372 |
| 1981 | - | 7,127 |
| 1982 | - | 9,501 |

There is also growth of volume within the program over its short lifespan. The $2,103,482 expended between 1979 and 1982 was distributed as follows by years:

| Year | No. of Loans | Total Amounts | % of Total |
|---|---|---|---|
| 1979 | 22 | 146,939 | 7.0 |
| 1980 | 61 | 388,710 | 18.5 |
| 1981 | 68 | 484,665 | 23.0 |
| 1982 | 114 | 1,083,168 | 51.5 |
| TOTALS | 265 | 2,103,482 | 100.0 |

During the final year of operation, 1982, the average monthly disbursement was $90,264.

The growth spurt experienced between 1981 and 1982 was largely the result of increased lending operations in the provinces of Chiriqui, Herrera and Los Santos. In these three provinces, both the number and value of loans increased sharply over the preceding year. The other two provinces, Cocle and Veraguas, reached early lending peaks in the year 1980 and were gradually eclipsed by the others in subsequent years.

For the peak year, 1982, there are substantial differences in the value of the average loan by province, as follows:

| Province | No. | 1982 Loan Average |
|---|---|---|
| Cocle | 19 | $10,073.47 |
| Chiriqui | 24 | 10,833.29 |
| Herrera | 29 | 10,305.31 |
| Los Santos | 21 | 7,188.10 |
| Veraguas | 21 | 8,665.19 |
| All Provinces | 114 | $9,501.48 |

The cities designated as growth centers in the URBE design, David and Chitre, are located in the two provinces with the largest average loans, Chiriqui and Herrera. When types of businesses and amounts of loans by year are reviewed (Table 13), the reasons for some of the differences in provincial averages will become apparent.

(2) The problem of approvals and disbursements.

It has been implied in the earlier pages of this analysis that DGPE's procedures for processing loans, and the point in the process at which a loan becomes a statistical event, is the source of much confusion in record-keeping, reporting, monitoring and evaluating performance. The problem is exemplified in Table 3, which compares loans granted (disbursed) with loans committed (approved) for two proximate dates near the end of 1982.

The table discloses that while only 265 loans had been granted up to that date, another 52 were approved and at some stage in the process prior to disbursement. The reader should recall, lest the illustration is dimissed as trivial, that the number of loans approved but not disbursed in January, 1983 was equal to 46% of all loans disbursed in calendar 1982' Evidence of this sort supports the conclusion that a revision in the application process is urgent. The indeterminant status of these 52 loans required the DGPE to obligate $512,984; however, this sum could not begin earning interest until ultimately disbursed.

TABLE 3

SMALL BUSINESS AND INDUSTRY

LOAN DISTRIBUTION BY PROVINCE: GRANTED AND COMMITTED
AS OF JANUARY 31, 1983 1/

| | Loans Granted as of December 31, 1982 (otorgados) | | Loans Committed or Pending as of January 31, 1983 (comprometidos) | |
|---|---|---|---|---|
| PROVINCE | No. | AMOUNT | No. | AMOUNT |
| Coclé | 57 | 460,681.33 | 7 | 100,229.00 |
| Chiriquí | 48 | 411,181.00 | 13 | 132,364.00 |
| Herrera | 59 | 529,718.00 | 8 | 59,718.00 |
| Los Santos | 39 | 292,567.95 | 5 | 27,678.00 |
| Veraguas | 62 | 409,333.83 | 19 | 192,995.71 |
| | 265 | 2,103,482.11 | 52 | 512,984.71 |

1/ Loans granted are described as "otorgados". Loans committed are described as "comprometidos". There is much confusion between these categories in the computation of statistics by DGPE.

(3) The problem of repayments and collections

Among DGPE personnel and USAID administrators, the status of collections on loans outstanding is a subject of frequent discussion. It is considered to be an index of the efficiency with which the program is operating. It is also believed to be a critical factor in the drive toward self-sustained financing within the Department. The repayments situation will be reviewed to conclude this section.

A first glimpse of the status of repayments is presented in Table 4 opposite. The overview provided has a Latin flavor because it is cast in the form favored by local accounting procedures. First a calculation is made concerning the "number of letras outstanding," i.e., the total number of payments (letras) including both principal and interest. A second calculation is then made concerning the number of payments which are due and not yet paid. Thirdly, the overdue payments are divided by the total number of payments required to wipe out the debt. The resulting small fraction is the proportion of payments "moroso", or delinquent.

Calculated in this fashion, the morosidad factor equals 6.6%---a fraction that is insignificant if not trivial. However, it shrinks to microscopic size only because the amount delinquent, $127,560.87, is divided by the huge figure representing the total balance to be collected: $1,914,203.92. An alternative view can be obtained by a different procedure.

Scheduled payments to be collected from all disbursed loans in 1982 equal $391,537.52. The amount reported delinquent in Table 4, $127,560.87, is 33% of the total to be collected. This proportion is neither trivial nor insignificant. This demonstration should inspire caution in the acceptance of interpretations of indebtedness. Later data introduced below (Tables 6A and 6B) will confirm that the situation is neither as good as presented in Table 4 nor as bad as the 33% figure suggests.

Table 5 presents another common Latin procedure for computing delinquency. The value of the number of delinquent payments from all outstanding loans is computed as a lump sum. This procedure fails to take the date of the loan and the length of time it has been in force into account. The average delinquent account (there were 137 identified in Table 4) divided into the total number of delinquent payments (there are 584 listed in Table 5), yields an average of 4.26 payments delinquent. However, a delinquent account producing the average figure (4.26 letras morosas) could have been in force for six months to three years.

For an official report on collection problems with DGPE, the reader is referred to Appendix G, "Analysis de la Morosidad al 31 de diciembre de 1982". This document describes the total outstanding uncollected payments for all three programs currently operated at DGPE: World Bank ($21,503 in arrears); URBE-USAID ($99,493 in delinquent accounts), and the old MICI Small Industry Program ($177,191 uncollected).

TABLE 4.

DELINQUENT REPAYMENTS OF SMALL BUSINESS AND INDUSTRY LOANS IN RELATION TO OUTSTANDING BALANCE AS OF DECEMBER 31, 1982.

| Province | No. of Current Accounts | No. of Delinquent Accounts | Amount Delinquent | Outstanding Balance to be Recovered | Percent Delinquent of Outstanding Balance |
|---|---|---|---|---|---|
| Chiriqui | 45 | 31 | 43,808.57 | 382,152.63 | 11.5% |
| Coclé | 56 | 33 | 35,639.53 | 437,198.30 | 8.2 |
| Herrera | 52 | 21 | 18,366.62 | 491,380.82 | 3.7 |
| Los Santos | 37 | 15 | 5,415.26 | 264,653.22 | 2.0 |
| Veraguas | 56 | 37 | 24,330.89 | 338,818.95 | 9.8 |
| Total | 201 | 137 | 127,560.87 | 1,914,203.92 | 6.6% |

This chart shows that delinquent accounts are still a small portion of the balance to be recovered.

TABLE 5

STATUS OF ACCOUNTS: SMALL BUSINESS AND INDUSTRY LOANS
AS OF DECEMBER 31, 1982.

| Province | No. of Payments Delinquent | Value of Payments Delinquent 1/ | Total of Delinquent Accounts 2/ |
|---|---|---|---|
| Los Santos | 43 | 5,091.33 | 5,141.38 |
| Herrera | 68 | 17,408.02 | 17,408.02 |
| Coclé | 192 | 30,514.93 | 30,851.67 |
| Chiriquí | 167 | 34,533.08 | 38,283.57 |
| Veraguas | 114 | 19,714.18 | 20,508.93 |
| | 584 | 107,261.54 | 112,193.57 |

Source: Status of Accounts in DGPE.

1/ Includes surcharge of 1%.
2/ Includes interest payments accrued during the grace period.

The reader may have perceived that the amounts described as uncollected payments for Project URBE in Tables 4-5 and Appendix C do not correspond with each other. This is the norm rather than the exception with statistics prepared at DGPE. The variation reflects changing definitions utilized by different clerical personnel and the dynamic character of a file in which the status of individual loans is subject to reinterpretation from month to month. The basis of instability is dual: loans disbursed enter a grace period of variable length during which payments are not assessed against them. As the grace period expires they are added to the active file and delinquency will be measured if payments are not made promptly. Furthermore, as loans are paid up, they are cancelled from the active file and delinquent payments previously charged against them are deleted.

The evaluation team remained unconvinced that the accounting procedures employed in Tables 4-5 were of substantial value in understanding the repayment situation within the Department of Small Business. We believe that the repayment situation should be examined for (1) a fixed number of loan accounts, over (2) a delimited period of time. Table 6 (Panels A and B) was prepared as a result, using ledger sheets supplied by the DGPE internal audit. It gives a different picture from either Tables 4-5 or Appendix C.

Table 6, Panel A examines total payments scheduled to be collected during 1982 ($391,537) and asks, what proportion of that total was actually paid? The answer is $308,730 or 78.9% (neither as good as the 6.6% from Table 4 nor as bad as the 33% figure calculated from the uncollected balance at the end of 1982 in Table 4, divided by all payments scheduled to be collected in 1982).

Table 6, Panel A further discloses that there are substantial differences between the repayment records for 1982 encountered in the different provinces. The best collection rate (86%) appears in Veraguas, and the worst (61.9%) in Chiriqui. In the latter province, the evaluation team was told by the provincial MICI director that he had acquired a loan portfolio with a number of accounts opened by persons with political connections who maintained that they were not required to pay. Except for Chiriqui, all other provinces were equal to or above the national average.

An interesting sidelight is presented by the lower portion of Table 6, Panel A, devoted to payroll deduction payments. These are alleged to be automatic and never delinquent. They are repayments which are authorized to be deducted from the paychecks of permanent employees, usually government workers. However, the level of delinquency for the year in these payroll deductions (77.6%) is about the same as that of the rest of the western Panama region. The explanation most frequently given is that the government is tardy in issuing paychecks because it frequently lacks funds to pay its current accounts. Another explanation is that the GOP employees frequently change from one government job to another and deductions have trouble keeping up with the moves and short periods of unemployment between jobs.

TABLE 6

SCHEDULED PAYMENTS AND COLLECTIONS BY PROVINCE FOR 1982 1/

(Percent of Scheduled Payments Made for the Year)

Panel A

| | ANNUAL TOTALS |
|---|---|
| **A. Payments Made to Provincial Offices** | |
| **Province** | |
| **Chiriqui** | |
| Scheduled Payments | $65,644.13 |
| Actual Payments | 40,659.32 |
| Percent Paid | 61.9% |
| **Cocle** | |
| Scheduled Payments | $85,095.00 |
| Actual Payments | 66,735.62 |
| Percent Paid | 78.5% |
| **Herrera** | |
| Scheduled Payments | $91,986.86 |
| Actual Payments | 77,582.59 |
| Percent Paid | 84.3% |
| **Los Santos** | |
| Scheduled Payments | $46,898.97 |
| Actual Payments | 37,231.65 |
| Percent Paid | 79.4% |
| **Veraguas** | |
| Scheduled Payments | $88,1[illegible].65 |
| Actual Payments | 75,795.00 |
| Percent Paid | 86.0% |
| **B. Payments Made to Central Office by Payroll Deduction in Panama.** | |
| **Panama City** | |
| Scheduled Payments | $14,765.91 |
| Actual Payments | 10,675.84 |
| Percent Paid | 77.6% |
| **C. All Provinces** | |
| Scheduled Payments | $391,537.52 |
| Actual Payments | 308,730.11 |
| Percent Paid | 78.9% |

1/ Balance from 1981 not carried forward.

SCHEDULED PAYMENTS AND COLLECTIONS BY MONTH AND PROVINCE FOR 1982 1/

(Percent of Scheduled Payments Made in Each Month)

Panel B

A. Payments Made to Provincial Offices

| Province | January | February | March | April | May | June | July | August | September | October | November | December |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Chiriqui | | | | | | | | | | | | |
| Scheduled Payments | 2967.62 | 3020.03 | 3603.99 | 3907.57 | 4074.90 | 5108.77 | 5612.88 | 6284.46 | 7425.57 | 7439.74 | 7959.94 | 8335.66 |
| Actual Payments | 2171.28 | 2230.60 | 3708.69 | 1653.69 | 2792.71 | 3812.69 | 3056.68 | 2430.04 | 7132.78 | 2780.69 | 3201.42 | 3638.04 |
| Percent Paid | 73.2% | 73.9% | 102.9% | 43.4% | 68.5% | 74.6% | 55.0% | 38.7% | 96.1% | 37.4% | 65.4% | 43.9% |
| Cocle | | | | | | | | | | | | |
| Scheduled Payments | 3969.39 | 6355.40 | 6555.31 | 6909.89 | 6951.77 | 7065.55 | 7193.73 | 7397.51 | 7389.19 | 7403.11 | 7737.22 | 7916.93 |
| Actual Payments | 6341.08 | 3444.84 | 5748.01 | 5369.00 | 7331.76 | 5555.56 | 3935.08 | 6907.67 | 5182.61 | 4669.63 | 5697.43 | 6502.95 |
| Percent Paid | 106.6% | 54.2% | 87.7% | 77.7% | 105.5% | 78.6% | 54.7% | 93.4% | 70.1% | 61.4% | 73.6% | 82.1% |
| Herrera | | | | | | | | | | | | |
| Scheduled Payments | 4740.00 | 4839.82 | 5327.09 | 5664.44 | 6478.65 | 7201.52 | 8115.51 | 8471.73 | 9512.15 | 9145.92 | 10[illegible]61.26 | 10828.77 |
| Actual Payments | 2885.34 | 4435.84 | 5373.23 | 7405.53 | 6443.42 | 6813.23 | 6320.78 | 7647.33 | 6783.85 | 8291.71 | 7271.03 | 7921.30 |
| Percent Paid | 60.9% | 91.7% | 100.9% | 130.7% | 92.3% | 94.6% | 77.9% | 90.3% | 71.3% | 84.1% | 69.5% | 73.2% |
| Los Santos | | | | | | | | | | | | |
| Scheduled Payments | 2779.41 | 2779.41 | 2806.81 | 3184.44 | 3495.18 | 3570.81 | 3852.96 | 4481.17 | 4620.48 | 4731.33 | 5172.51 | 5324.46 |
| Actual Payments | 2220.32 | 1208.87 | 2191.05 | 2630.16 | 3569.02 | 2326.92 | 2328.70 | 4650.25 | 4520.77 | 3068.60 | 5420.41 | 3086.58 |
| Percent Paid | 79.9% | 43.5% | 78.1% | 82.6% | 102.1% | 65.2% | 60.4% | 103.8% | 98.1% | 63.5% | 104.8% | 58.0% |
| Veraguas | | | | | | | | | | | | |
| Scheduled Payments | 5859.79 | 5984.18 | 6089.98 | 5953.55 | 6491.49 | 7649.02 | 7691.74 | 7939.63 | 8409.19 | 8536.83 | 8291.29 | 8959.96 |
| Actual Payments | 5327.94 | 3264.15 | 8054.87 | 4622.21 | 6979.88 | 5930.67 | 5843.04 | 7950.69 | 6594.45 | 6478.56 | 7124.43 | 7423.98 |
| Percent Paid | 90.9% | 54.5% | 132.3% | 77.6% | 107.7% | 77.5% | 74.0% | 100.1% | 78.4% | 75.9% | 84.9% | 82.9% |

B. Payments Made to Central Office by Payroll Deduction in Panama

| Panama City | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Scheduled Payments | 1252.44 | 1252.44 | 1260.20 | 1231.95 | 1131.78 | 1131.78 | 1084.22 | 1084.22 | 1084.22 | 1084.22 | 1084.22 | 1084.22 |
| Actual Payments | 765.03 | 1093.85 | 1218.26 | 1204.98 | 666.82 | 1006.82 | 866.82 | 977.83 | 638.21 | 1020.92 | 713.83 | 302.67 |
| Percent Paid | 61.1% | 87.3% | 96.7% | 97.8% | 76.6% | 89.0% | 80.0% | 90.2% | 58.9% | 94.2% | 65.8% | 27.9% |

1/ Does not carry balance forward from 1981

A closer view of the 1982 repayment situation is provided by Table 6, Panel B. Here the percent of scheduled payments made by month is examined by province. The low figure for the year (37.4%) appears for October in Chiriqui. The months of April (43.4%) and August (38.7%) were almost as bad. However, Chiriqui was the province with the worst overall repayment record for the year.

Veraguas, which had the best annual proportion of collections, still had some extremely poor individual months; for example, the level of collection in February was a discouraging 54.5%. The reader should also note that in the lower panel presenting government payroll deductions, the month of December (27.9%) is lower than the poorest month in Chiriqui' Month-to-month inconsistency appears as a recurrent theme throughout the 1982 records of repayment.

A further peculiarity appears in the monthly repayment records. For each province there is at least one month in which repayments are more than 100% of scheduled collections. The irregularity of the statistics compiled from the DGPE ledger sheets requires a few comments on payment patterns encountered in the course of interviews with DGPE provincial personnel.

It was observed in several of the provinces that it is unusual for businessmen to make monthly payments on their loans unless their incomes are evenly distributed over time. For most of them, business is seasonal and payments for their goods or services may be delayed. Consequently, many of them establish their own rhythm for settling their loan accounts. This usually means that they batch their payments and make them at intervals of two, three or four months. Once the pattern is established, it is unlikely that provincial loan officers responsible for collections will do more than verify their intention to pay at a specified future date.

Because delinquency is calculated as letras morosas, persons who consolidate payments into two-month or three-month units are always listed as delinquent except during the thirty days immediately following a payment. The bookkeeping system tends to maximize the visibility of this pattern and encourage a negative interpretation of it. In the view of the evaluation team, a borrower who makes three payments every three months is to be considered "good pay". It would be wasteful to pursue him for regular payments.

Yet much concern has been expressed in Panama City about the need to "go after" these delinquent accounts. What is usually implied is that an elaborate bill collection set up should be initiated, with penalties for non-payment: cancellation, repossession, foreclosure, etc. Provincial loan personnel are less enthusiastic, maintaining (1) you cannot collect from clients until they have made their own collections from customers, and (2) their worst cases of delinquencies have the highest level of political protection and are virtually immune.

An additional perspective, developed by the evaluation team, is presented in Table 7. The table examines delinquency as a

TABLE 7

Number of Payments Delinquent by Percent of Loan Already Paid

| % of Loan * Already Paid | Payments Current/Ahead | Moroso 1-2 Letra | Moroso 3-9 Letras | Moroso 11-30+ Letras | Total |
|---|---|---|---|---|---|
| 0 - 4 | 9 | 6 | 6 | 4 | 25 |
| 5 - 9 | 4 | 3 | 4 | 3 | 14 |
| 10 - 14 | 11 | 8 | 5 | 5 | 29 |
| 15 - 19 | 4 | 10 | 2 | - | 16 |
| 20 - 24 | 6 | 6 | 4 | 2 | 18 |
| 25 - 29 | 2 | 3 | 2 | 2 | 9 |
| 30 - 34 | - | 6 | 2 | 1 | 9 |
| 35 - 39 | 2 | 2 | 7 | 1 | 12 |
| 40 - 44 | - | - | 7 | 3 | 10 |
| 45 - 49 | 6 | 2 | 3 | 1 | 12 |
| 50 - 54 | 3 | 5 | 6 | 4 | 18 |
| 55 - 59 | 2 | 1 | 5 | 1 | 9 |
| 60 - 64 | 5 | 4 | 1 | - | 10 |
| 65 - 69 | 2 | 2 | 3 | - | 7 |
| 70 - 74 | - | - | - | - | 2 |
| 75 - 79 | 5 | 1 | 1 | - | 7 |
| 80 - 84 | - | 2 | - | - | 2 |
| 85 - 89 | - | - | - | - | 0 |
| 90 - 94 | - | 3 | - | - | 3 |
| 95 - 100 | - | - | - | - | 1 |
| Total | 64 | 64 | 58 | 27 | 213 |

* Computed number of letras due divided by total letras issued.

Number of paid up loans not included: 20
Number of grace period loans not included: 37

progressive factor which must be viewed at different stages in the life cycle of the loan. The key factor here is to order the loans in terms of the proportion of payments outstanding, which simulates a chronological sequence. The table discloses the following pattern for the life cycle of the current portfolio:

| % of Loan Already Paid | Total Number | % of Total Loans |
|---|---|---|
| 00 - 24% | 102 | 48 |
| 25 - 49 | 52 | 24 |
| 50 - 74 | 46 | 22 |
| 74 - 99 | 13 | 6 |
| TOTAL | 213 | 100 |

The distribution reflects the youth of the program: 43% of the entire portfolio represents loans made in 1982. However, the results are more interesting when delinquency is examined by stages in the life cycle of the loans.

| % of Loan Already Paid | Number | % with more than 3 delinquent payments |
|---|---|---|
| 00 - 24% | 35 | 35% |
| 25 - 49 | 29 | 55 |
| 50 - 74 | 20 | 44 |
| 75 - 99 | 1 | 8 |
| TOTAL | 85 | 40% |

The illustration above discloses that 40% of all active loans are delinquent by three or more payments. Seriously delinquent loans (ten to thirty letras morosas) account for only 13% of the total portfolio, however. Roughly one-fourth of the loans (27%) fall between three and nine payments delinquent. These proportions may now be related to the life cycle chart in Table 7.

Loan recipients evidently get off to a slow start. More than one-third of those with less than 25% of their loans repaid are delinquent by more than three payments. As the loan period progresses, the problem becomes worse. Of those proprietors with 25 to 49% of their loans repaid, more than half (55%) owe three payments or more to DGPE. The situation improves somewhat for loans in the 50 to 74% repaid category; 44% may be considered seriously delinquent. For proprietors who have repaid 75% or more of their loans, however, an excellent repayment record is encountered; only 8% are more than three payments in arrears.

The life cycle of the loan portfolio describes a delinquency curve. It indicates that delinquency of three payments or more is less than average at the beginning, rises sharply to 55% among those who have repaid 25 to 49% and then sharply declines to near zero among the loans

nearing maturity. These data raise an interesting question. It would have been useful to determine what proportion of the collection made in each province during specific months were past-due-payments, and the level of delinquency represented.

Certainly, there is enough negative evidence in these figures to sound the alarm over collections procedures. The program has frequently been berated for failure to introduce strict retribution against delinquent accounts. This is not an easy task for a government agency operating within the ideology of a populist democracy established by the Torrijos regime. Government tends to be perceived as a resource rather than as a regulator.

Recovery measures have been undertaken. Field personnel visit accounts to make collections. A legal officer was retained to make calls on delinquent clients. However, authorization of the MICI Vice-Minister appears to be required before legal action can be taken. Such action is interpreted as a political, rather than a financial statement' Hampered by this job definition, the legal officer interpreted his task as one of preparing revised schedules for refinancing. Thirty to forty of these have apparently been arranged during 1982.

When confronted with a barrage of statistics on repayment, delinquency, rates of collection, and the like, it is easy to lose perspective. The fact has been established that the repayment records of 40% of the loan recipients could be improved upon. Improvements of this sort in a supervised credit program are always desirable. Inculcating good habits regarding the use of credit is one of the goals of the program.

But, from the point of view of the program's financial status, what difference does it make? Cash flow is a perpetual concern at DGPE headquarters in Panama City. During calendar 1982, collections of $308,730 averaged $25,727.50 per month. If the total amount due and payable ($391,537) had been collected, the monthly average would have risen to $32,628---a gain of 27%. This degree of improvement, if accomplished, would be commendable. But its impact on the underlying issue of self-support from reflows would be near zero.

Evidence in support of this can be drawn from Table 8. For the first two months of 1983, the loans disbursed at DGPE equalled $121,320 per month. The average collections for the last two months of 1982, as reported in Table 6, Panel B, were $30,200 per month. This was less than 25% of the amount disbursed per month during the subsequent two months of January-February, 1983, as reported in Table 8. The average amount scheduled for collection during the last two months of 1982 was $41,651 (collections were short by 27% --- the same proportion as for the entire year). If scheduled collections had been made on time, they would have equalled only 34.3% of January-February average disbursements. The shortfall of two-thirds demonstrated by these figures does not take administrative expenses or contingencies into account.

TABLE 8

SMALL BUSINESS AND INDUSTRY
LOAN ACTIVITY DURING JANUARY-FEBRUARY, 1983

| | January 1983 | | February 1983 | | Totals | |
|---|---|---|---|---|---|---|
| | No. | Amount | No. | Amount | No. | Amount |
| Loans approved (aprobados) | 11 | $ 77,474 | 11 | $132,568 | 22 | $210,042 |
| Loans disbursed (desembolsados) | 14 | $146,467 | 10 | $ 96,174 | 24 | 242,64[illegible] |
| Loans disbursement pending (por desembolsar) | 29 | $299,504 | 25 | $203,816 | -- | --- |

In short, DGPE is a long way from solving its liquidity problem by financing through reflows on loans alone. Introducing cumbersome collection machinery at this point would probably fail to pay for itself. The evaluation team remains unconvinced that simpler measures would not serve as well. For example, there has not been any effort to impose a late payment charge on letras morosas outstanding.

(4) The operating costs within DGPE

The concern over cash flow, self-financing, cost recovery and liquidity in DGPE, and also among its USAID observers, raises a related issue: that of the costs themselves. Because MICI provides the payroll for DGPE operations, and subsidizes both salary and office expenses for Panama City and field offices, cost accounting is an opaque issue. In response to the evaluation team's specific inquiry, an effort at cost accounting was made by Eduardo Castaño, chief consultant to DGPE's Panama office.

The results he provided are given below:

DGPE Operating Costs for 1982

| | |
|---|---|
| Salaries | $360,948 |
| Fringe Benefits | 144,379 |
| Rentals | 27,000 |
| Utilities | 24,000 |
| Expenses (equipment maintenance, transportation expenses, per diem, teaching materials, seminar-workshop expenditure, security services, etc.) | 31,707 |
| TOTAL | $588,034 |
| Interest payment to COFINA | 21,704 |
| GRAND TOTAL | $609,738 |

The expense figures given above are for the total Department of Small Business. It should be recalled that a portion of those costs are allocated to the administration of the World Bank portion of the SSE program. On the basis of proportional loan fund disbursement during 1982 ($500,000 from the World Bank fund and $1,000,000 from URBE-USAID) it is reasonable to project that two-thirds of DGPE expenditure should be charged to its Project URBE operations.

If that figure is realistic, then $400,000 is a reasonable figure for the administrative expenditures made by DGPE on behalf the Project URBE program. This was an amount approximately equal to (but not greater than) the sum total of accounts receivable ($391,000 in Table 6, Panel A) during calendar 1982.

Rather than utilizing its reflows for lending purposes, then, a self-sustaining DGPE, organized as it is at present, would consume almost all of its cash to meet its operating expenses. There would be little or nothing left for relending and the revolving fund would be stuck near the zero point.

(5) The record of employment generated.

An additional dimension of performance regarding the loan program of the Department of Small Business receives relatively little attention: the question of employment generated. This is the nominal purpose of the program and the reason for providing the loan funds. To discharge its obligation in this area, however, DGPE provides only the most rudimentary information at the time a loan application is prepared. There is no follow-up.

On the basis of the annual reports prepared in 1980, 1981 and 1982 by the DGPE, the following numbers have become available:

| | Number of Jobs Created | Number of Loans |
|---|---|---|
| April, 1979 - December, 1980 | 243 | 83 |
| January, 1981 - December, 1981 | 342 | 112 |
| January, 1982 - December, 1982 | 346 | 121 |
| Totals | 931 | 316 |

They are not very convincing. The right-hand column, while not clearly designated as such in the reports, obviously refers to loans approved, and not to loans disbursed. The correct figure for loans disbursed at the end of 1982 was 265. Therefore, the "jobs created" column might more accurately be headed "jobs intended".

The intention of the applicants at the time their papers were being processed was to employ the number of workers stated: 931. This equals three workers per loan. The total loan fund to which this figure should relate is the sum of "loans granted" and "loans committed" in Table 3: $2,606,566. The loan funds required to produce one job, using these figures, appears to be $2,800. If the 931 employees were actually "out there" drawing paychecks, this would be a respectable investment level for the results achieved. For reasons specified, however, neither the number of loans nor the number of jobs created can be granted a high degree of credibility.

A further defect in the employment generation aspect of the program is that no attempt is made to report either the skill levels of the applicants or the types of SSE's doing the hiring. Wage rates are not recorded and job continuity is not an issue.

The DGPE pays a hidden cost for its neglect of employment information. Since it fails to utilize facts concerning businesses initiated or jobs created to justify its existence, the strength or weakness

TABLE 9

SMALL BUSINESS AND INDUSTRY LOANS BY NEW AND OLD BUSINESS, AND BY WORKING CAPITAL OR FIXED INVESTMENT, 1979-1982

| | | No. of Loans | | | | Use of Loan | |
|---|---|---|---|---|---|---|---|
| Year | N | New Business | Old Business | Amount | No. of Loans Rejected/ Void | Working Capital | Fixed |
| 1979 | 22 | 9* | 12 | 145,433.00 | 2 | 57,438.54 | 87,994.46 |
| 1980 | 61 | 27 | 34 | 388,710.00 | 13 | 171,376.76 | 217,333.24 |
| 1981 | 68 | 40 | 28 | 484,664.69 | 12 | 237,602.62 | 247,062.07 |
| 1982 | 114 | 56 | 58 | 1,083,168.42 | 6 | 791,720.63 | 291,447.79 |
| TOTALS | 265 | 132 | 132 | $2,101,976.11 | 33 | $1,258,138.55 | $843,837.56 |

* Data unavailable on one loan ($1,506) already repaid.
When added to total of 264 loans, they equal $2,103,482.11, the total of Table 2.

of the program depends entirely on the assessment of the credit operation itself. There are no other data (and even these tend to be misleading as sections 2-3 have documented).

A far different view of the operation, and a much more favorable prognosis for its expansion, might be obtained if the observer's attention were directed away from the central office and toward the accomplishments taking place in the field. For this to occur, however, a more comprehensive information gathering network on business operations and employment will be needed.

(6) The loan as fixed vs. working capital.

The section will conclude with documentation on a different issue related to the character of the loans themselves. In Table 9, loans have been separated along two dimensions: old and new, and fixed capital versus working capital. The division between new entrepreneurs and those with established business operations is exactly equal for the 1979-1982 project period. It is also approximately equal for the year 1982 in which most of the loans were awarded.

There is more to be said concerning the division between fixed capital and working capital. Over time, there has been a substantial shift away from fixed capital, which predominated during 1979-1980. During 1981, the two purposes for which loans were granted were approximately equal. During 1982, however, working capital became the primary reason for making requests for support, consuming 73% of total funding awarded in that year.

Since fixed capital is being expended on plant expansion, new equipment and related expenses, it seems to be more promising as an indicator of expanded production. Requests for working capital are often indicators of stresses manifested elsewhere in the economy. Businesses need working capital when they have cash flow problems. These may result from uneven sales throughout the year, from delays in collection on accounts from their customers, and related hardships and operating problems.

There is a less global explanation, however. The early loans in the program were smaller than those made recently. The experience of DGPE loan officers indicates that clients needed, but were not requesting, sufficient working capital to take advantage of the potential of the equipment being purchased. Both the increase in the average size of loan, and in the proportion allocated to working capital, probably results from the policy change within DGPE itself.

2. Small Scale Enterprise: Characteristics from Applications.

It has been sufficient for many investigators to review the facts presented up to this point before reaching a judgement concerning the loan program. The agency itself has shown little interest in the nature of the SSE's being financed. In early years, an effort was made to classify new loans by industry, commerce, or service activity. However, there was little

concern for the definitions of these concepts, or for observing the boundaries between them.

There is a rich field of inquiry in the relationship between the type of business established, the size of the loan solicited, and the success of the operation supported. Since different communities have different patterns of demand for business activities, location is another dimension of success or failure.

The Department of Small Business office in Panama is far removed from these considerations, both in its spatial location and in its mental set. Where it is quite possible to generate a lively discussion of applications procedures, decentralization of decision-making, or collections policies within DGPE, blank stares greet efforts to focus attention upon the business activities themselves.

(a) Frequency of Types of Business and Industry.

An innovation in the presentation of SSE data can be achieved by the simple expedient of presenting a frequency distribution of businesses and industries converted to a standard classification, as in Table 10. The first impression gleaned from the results is that the retail grocery store (ranked No. 1) is the most sought after enterprise and the one for which loans are most often requested. This impression can be broadened rapidly by noting that the 6200 classification (retail merchandise) to which the grocery stores belong is shared with enterprises ranked 4 and 5 (general stores and retail specialty goods). If ranks 1, 4 and 5 are merged to unite the SSE's classified as 6200, they represent almost one-third (29.1%) of all loans disbursed from 1979 through 1982.

The examination of the SSE's ranked 1 through 10 discloses that they contain more than two-thirds (69%) of all enterprises for which loans were provided. Furthermore, they are all basic food, clothing and shelter enterprises except for numbers 3 and 9. Some welding shops produce primarily metal (garden-type) furniture; but others in this category are engaged in transportation-related activities. The medical and dental services (rank No. 9) are primarily laboratory activities and supply operations.

There are a few observations from the frequency distribution which are at odds with local perceptions. There is a substantial amount of production being financed from the SSE resources provided through DGPE:

Welding shops, etc.,
Butchering, poultry, etc.,
Clothes manufacture
Bakery products
Cement blocks
Leather goods and shoes
Grain mills
Sawmill
Ceramic and clay products

Aggregate = 108 enterprises or 40.8% of total

TABLE 10

SMALL BUSINESS AND INDUSTRY:
FREQUENCY DISTRIBUTION OF LOANS BY TYPE OF ACTIVITY

| Rank | Type of Business/Industry* | N | % |
|---|---|---|---|
| 1 | Groceries retail, supermarkets, food stores (6200) | 44 | 16.6 |
| 2 | Furniture, wood and wicker industries (3312, 3319, 3320) | 21 | 7.9 |
| 3 | Welding shop, blacksmith, autobody repair, metal fixtures (3811, 3812, 3819) | 20 | 7.5 |
| 4 | General store, retail merchandise, clothes (6200) | 17 | 6.4 |
| 5 | Butchery, poultry, fish preparation (3111) | 16 | 6.0 |
| 5 | Specialty goods retail, auto parts, boutique, drug store (6200) | 16 | 6.1 |
| 6 | Clothes manufacture and tailoring (3220) | 14 | 5.3 |
| 7 | Bakery products, candies, coffee, spices (3117, 3121) | 13 | 4.9 |
| 8 | Cement blocks, bricks, nonmetallic materials, tiles (3691, 3699) | 12 | 4.5 |
| 9 | Medical/dental services, clinics, laboratories (9331) | 10 | 3.8 |
| 10 | Leather shop (except shoes), saddler, upholstery (3233, 3211) | 9 | 3.4 |
| 11 | Shoe shop, shoe factory or repair (3240) | 8 | 3.0 |
| 11 | Electrical, auto repair, machine maintenance (9512, 9513) | 8 | 3.0 |
| 12 | Grain mill, rice mill, cereals (3116) | 6 | 2.3 |
| 12 | Restaurant, cafeteria, food service (6310) | 6 | 2.3 |
| 13 | Laundry, car wash (9520) | 5 | 1.9 |
| 13 | Sawmill, lumber yard, timber, firewood (3311) | 5 | 1.9 |
| 13 | Ceramic and clay products, pottery (3610, 3691) | 5 | 1.9 |
| 13 | Beauty parlor, barber shop, florist (9591, 1599) | 5 | 1.9 |
| 14 | Tree farms, nursery, landscaping (1110, 1210, 9200) | 4 | 1.5 |
| 14 | Printing, photography, photocopy (3420, 9592) | 4 | 1.5 |
| 15 | Animal feed preparation (3122) | 2 | .8 |
| 15 | Tannery, leather processing (3231) | 2 | .7 |
| 15 | Other manufacture (3909) | 2 | .7 |
| 15 | Consulting services, accounting (8322) | 2 | .7 |
| 16 | Sand and gravel, mining (2901) | 1 | .4 |
| 16 | Fishing (1301) | 1 | .4 |
| 16 | Dairy products (3112) | 1 | .4 |
| 16 | Chemicals, fertilizer (3512, 3529) | 1 | .4 |
| 16 | Auto parts manufacture (3843) | 1 | .4 |
| 16 | Jewelry shop (3901, 9514) | 1 | .4 |
| 16 | Transportation service (7112) | 1 | .4 |
| 16 | Radio and television station (9413) | 1 | .4 |
| 16 | Other home services and repair (9519) | 1 | .4 |
| | TOTALS | 265 | 100.0 |

* International Uniform Industrial Classification, Series M, No. 4, 2nd. revision. Ministry of Planning and Economic Policy. Panama.

These are not only meaningful enterprises from the standpoint of goods produced, but also in terms of backward linkages to agriculture and potential for employment of skilled laborers and clerical workers.

The apprehension was expressed near the beginning of the URBE project that retail sales and commercial enterprises might deprive productive enterprises of their share of the resource base. The previous SSE program was specifically directed to "industries", excluding business enterprises as such for this reason. The apprehension appears to have been unjustified.

(b) Size of Loan by Type Enterprise, Number of Employees.

Table 11 opposite utilizes the same international classification as Table 10, providing data on mean and median loan values and numbers of employees projected. The first five ranked SSE's from Table 10 have the following median loan values:

| Rank | Business Type | N | Median Value |
|---|---|---|---|
| 1 | Groceries Retail | 44 | $3,617 |
| 2 | Furniture, wood, etc., | 21 | 8,853 |
| 3 | Welding shop | 20 | 6,991 |
| 4 | General Store | 17 | 5,384 |
| 5 | Butcher, poultry | 16 | 2,522 |
| 5 | Specialty goods | 16 | 11,893 |

Furniture, welding and specialty retail goods are well above the median value. Unusually high values are encountered for those enterprises which require equipment and machinery purchases: grain mill, photocopy, feed mill, tannery, and furniture manufacture.

The employment data which appears in Table 11 represent, once again, projected employment drawn from the applications. It has not been verified in the field. The greatest employment expectations were shared by the furniture manufacturers (5 jobs per enterprise) and the welding and metal work operators (4.7 jobs per enterprise). The great disappointment in this regard is the retail grocery and general store area (2 employees per enterprise). This probably reflects a continuing tendency to depend upon the family workforce in this type of business. Many of those visited were husband-wife operations.

(c) Type of Enterprise by Age-Sex of Proprietor.

In Table 12, the industrial classification is used to separate SSE's by type of business, age and sex of loan application or proprietor. There is a strong representation of women, demonstrated by their application for 27.2% of the loans. Women appear often in retail enterprises (groceries, general stores and specialty stores). Elsewhere, they are prominent in clothing manufacture, bakeries and services.

TABLE 11

Range and Mean Values of Loans by Type of Business Activity

| | N | Range Low Value | Range High Value | Total Value | Mean Value | Median Value | No. New Employe |
|---|---|---|---|---|---|---|---|
| Shoe/Leather | 17 | 1,032 | 5,245 | 38,983 | 2,293 | 1,721 | 39 |
| Sale and Meat Prep. | 16 | 1,047 | 14,982 | 73,031 | 4,564 | 2,522 | 31 |
| Grocery | 44 | 1,026 | 29,965 | 243,802 | 5,541 | 3,617 | 86 |
| Clothing Mfg. | 14 | 1,143 | 23,870 | 81,488 | 5,821 | 3,286 | 44 |
| Welding Metal Work | 20 | 1,340 | 17,687 | 162,841 | 8,142 | 6,991 | 94 |
| General Str. | 17 | 1,039 | 22,718 | 157,764 | 9,280 | 5,384 | 36 |
| Block/Tile | 12 | 3,130 | 21,174 | 112,796 | 9,400 | 7,442 | 54 |
| Bakeries | 13 | 2,630 | 34,552 | 128,718 | 9,901 | 7,940 | 44 |
| Special Str. | 16 | 1,506 | 31,528 | 173,221 | 10,826 | 11,983 | 39* |
| Furniture Mfg. | 21 | 1,917 | 49,269 | 266,363 | 12,684 | 8,853 | 126 |
| Medical | 10 | 7,074 | 40,120 | 137,449 | 13,745 | 11,534 | 29 |
| Ceramics | 5 | 1,500 | 6,101 | 20,329 | 4,066 | 5,024 | 13* |
| Other Mfg. | 2 | 1,514 | 7,108 | 8,622 | 4,311 | | 3 |
| Sawmill lumber | 5 | 1,542 | 8,265 | 22,068 | 4,414 | 3,747 | 16 |
| Laundramat car wash | 5 | 1,885 | 6,908 | 23,988 | 4,798 | 6,250 | 16 |
| Florist Beauty Shop | 5 | 2,828 | 12,258 | 31,496 | 6,299 | 6,459 | 13 |
| Accountants | 2 | 6,256 | 7,118 | 13,374 | 6,687 | | 6 |
| Plant Nursery | 4 | 3,035 | 14,522 | 30,292 | 7,573 | 6,368 | 12 |
| Grain Mill | 6 | 2,022 | 13,767 | 50,519 | 8,419 | 9,070 | 19 |
| Tannery | 2 | 10,168 | 10,198 | 20,366 | 10,183 | | 7 |
| Machine/Auto Repair | 8 | 2,001 | 31,894 | 82,859 | 10,357 | 4,265 | 22 |
| Printing Photocopy | 4 | 2,383 | 26,245 | 47,516 | 11,879 | 9,444 | 12* |
| Restaurant | 6 | 2,039 | 38,218 | 73,900 | 12,317 | 7,098 | 26 |
| Feed Mill | 2 | 20,032 | 22,126 | 42,158 | 21,079 | | 10 |
| Fishing | 1 | | | 1,677 | | | 1 |
| Jewelry | 1 | | | 2,066 | | | 1 |
| Chemical Mfg. | 1 | | | 2,600 | | | 2 |
| Service Other Home | 1 | | | 3,261 | | | 4 |
| Transportation | 1 | | | 7,356 | | | 3 |
| Auto Parts Mfg. | 1 | | | 8,311 | | | 1 |
| Dairy products | 1 | | | 9,353 | | | 3 |
| Radio/TV. | 1 | | | 10,198 | | | 3 |
| Sand/Rock | 1 | | | 14,714 | | | 17 |
| Totals | 265 | | | | | | 832 |

*Data lacking from one loan.

TABLE 12

Age and Sex of Loan Recipients by Type of Business Activity

| | Sex | 20-24 | 25-29 | 30-34 | 35-39 | 40-44 | 45-49 | 50-54 | 55-59 | 60-64 | 65+ | No Data | TOTAL |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Grocers | M | 2 | 7 | 5 | 3 | 2 | 2 | 2 | - | - | 1 | - | 24 |
| 44 | F | - | 7 | 3 | 4 | - | 2 | - | 1 | 1 | 1 | 1 | 20 |
| Furniture mfg | M | 1 | 4 | 4 | 6 | 2 | 2 | - | 1 | - | - | - | 20 |
| 21 | F | - | - | - | - | - | 1 | - | - | - | - | - | 1 |
| Welding Metal Work | M | 1 | 3 | 5 | 3 | 3 | - | 2 | - | - | 1 | - | 18 |
| 20 | F | - | - | 2 | - | - | - | - | - | - | - | - | 2 |
| Shoes Repair Leather mfg | M | - | 3 | - | 6 | 4 | 1 | - | 1 | 1 | - | 1 | 17 |
| 17 | F | - | - | - | - | - | - | - | - | - | - | - | 0 |
| General Stores | M | 1 | 2 | 1 | 1 | - | - | - | - | - | 1 | 1 | 7 |
| 17 | F | - | 2 | 3 | - | 3 | 1 | 1 | - | - | - | - | 10 |
| Special Stores | M | 2 | 1 | 2 | 1 | - | 1 | 2 | 1 | - | - | - | 10 |
| 16 | F | - | - | 1 | 2 | 1 | 2 | - | - | - | - | - | 6 |
| Meat Processing | M | 1 | 2 | 2 | 1 | 1 | 3 | 3 | - | 1 | - | - | 14 |
| 16 | F | - | 1 | 1 | - | - | - | - | - | - | - | - | 2 |
| Clothing mfg | M | - | 3 | - | 3 | - | 1 | - | - | 1 | - | - | 8 |
| 14 | F | - | - | 3 | 1 | - | 2 | - | - | - | - | - | 6 |
| Bakeries | M | - | - | - | 1 | 4 | 1 | - | - | - | - | - | 6 |
| 13 | F | - | 1 | - | 2 | 3 | - | 1 | - | - | - | - | 7 |
| Bloque mfg | M | - | 1 | 3 | 2 | 2 | 1 | 2 | - | - | - | - | 11 |
| 12 | F | 1 | - | - | - | - | - | - | - | - | - | - | 1 |
| Medical/ Labs | M | 1 | 5 | 1 | - | - | - | - | - | 1 | - | - | 8 |
| 10 | F | - | 2 | - | - | - | - | - | - | - | - | - | 2 |
| Mfg + Processing | M | - | 4 | 3 | 4 | 1 | 3 | 4 | 2 | 1 | - | - | 22 |
| 22 | F | - | - | - | - | - | - | - | - | - | - | - | 0 |
| Services | M | 2 | 2 | 4 | 4 | 3 | 1 | - | - | - | - | 1 | 17 |
| 29 | F | - | 2 | 1 | 3 | 3 | - | 2 | 1 | - | - | - | 12 |
| Sales | M | 1 | 2 | 3 | 4 | - | 1 | - | - | - | - | - | 11 |
| 14 | F | - | 1 | 1 | 1 | - | - | - | - | - | - | - | 3 |
| TOTALS | | 13 | 55 | 48 | 52 | 32 | 25 | 19 | 7 | 6 | 4 | 4 | 265 |
| Male | M | 12 | 39 | 33 | 39 | 22 | 17 | 15 | 5 | 5 | 3 | 3 | 193 |
| Female | F | 1 | 16 | 15 | 13 | 10 | 8 | 4 | 2 | 1 | 1 | 1 | 72 |

There is a heavy clustering of entrepreneurs in ages between 25 and 39 for both sexes with 25-29 being the model category. In general, grocery and retail business is a young entrepreneurs's activity. Manufacturing and mechanical operations appeal to older businessmen (note the age distribution of those starting furniture, meat processing, leather goods and general manufacturing and processing operations).

(d) Type of Enterprise by Province, Year and Amount of Loan.

In Table 13, A through M, a set of data have been compiled which reflect the spatial and temporal aspects of SSE activity. Since business takes place in a community setting, the context of a loan-sponsored enterprises is a major dimension of its welfare which is, once again, most often neglected.

Grocery Stores (Table 13A). There were 44 grocery stores and supermarkets in the universe of loans issued between 1979 and 1982. It reveals that these are a recent category of loan activity; 33 of the 44 were initiated in 1982. These loans loom especially large for 1982 when projected against the annual totals by province for that year:

| Province | 1982 Total Loans | 1982 Grocery Store Loans |
|---|---|---|
| Herrera | 29 | 9 |
| Los Santos | 21 | 9 |
| Veraguas | 21 | 7 |

There is a size-class distinction between the grocery store loans made in Herrera (primarily Chitre) and the other provinces; five Herrera loans are greater than $10,000. None of the Los Santos or Veraguas loans are greater than $10,000. In the aggregate, the 33 grocery store loans made in 1982 represent 29% of all loans for that year, but their value ($183,013) is only 17% of the annual total ($1,083,168).

Furniture Stores (Table 13B). The eight furniture industries financed during 1982 were worth slightly more than the 33 grocery stores in loan value. Over the years, the investment in this class of enterprise has tended to become much larger. Two of the loans made in Chiriqui during the year are among the largest in the entire portfolio. Over the years, this industry has tended to become concentrated in the two provinces of Chiriqui and Los Santos, although the size of individual loans for furniture manufacture has been much greater in Chiriqui. This is a good example of a localized enterprise. It is very poorly represented in the other provinces.

Welding and Metal Work (Table 13C). Like those before it, welding and metal work also has a very asymmetrical distribution in space and time. Herrera has a plurality of this type of business and new activities are distributed across the life span of the loan program, 1979-1982. The value of

metal work operations in Herrera is much greater than in Chiriqui, its nearest competitor. However, it is worth noting that the two provinces with regional growth centers (David in Chiriqui and Chitre in Herrera) have the majority of these medium-scale industries. Chitre is an auto repair center for the Azuero region.

General Stores, Retail Merchandise (13D). General store loans of recent date are concentrated in Cocle and Herrera. The latter enterprises have the greater capitalization. Like grocery stores, they experienced a growth spurt in 1982. The level of investment per loan in this type of activity has tended to increase over time.

Meat Processing (Table 13E). Butcher shops, poultry preparation and fish dealers are concentrated in Veraguas, giving this province a leadership position in loan applications for the first time. Meat processing has developed faster here than elsewhere because ranching is a regional industry. However, these are very small businesses---with one exception they are almost microenterprises.

Clothing and Tailoring (Table 13F). The clothing and tailoriong advantage in Cocle is greater than that of other provinces, especially in terms of capital invested. Unlike other industries the clothing business is represented by a small number of shops evenly distributed across the western region. There are many department stores selling imported ready-to-wear, however. In most developing countries, the replacement of local tailors and dressmakers by imported textiles (usually from Korea, Taiwan and Hong Kong) makes women's and children's wear for the Panama market, rather than for local consumption. This category has failed to grow rapidly.

Specialty Goods Retail (Table 13G). Although these stores, like those in the preceeding category, are rather evenly spread over the western region, there is a larger concentration of capital in Veraguas than elsewhere. As with other categories of retail activity, it appears to have experienced growth in 1982. The classification is too heterogeneous to attempt to analyze further.

Bakery Products, Coffee and Spices (Table 13H). An unusual feature of the consumer economy in Panama is the local processing of coffee (roasting and grinding, packaging) for market. This does not yet appear to have become a monopoly of large manufacturers. However, the prominent position of Cocle in this category may result from its access to Panama City rather than local markets.

Cement Block and Tile (Table 13I). Because of government stimulation of the housing market through its Home Improvement Loan Program (2,400 loans to be made in URBE Project communities during 1983-1984), concrete block has become a growth industry in 1981-1982, and may expand further in the present year. However, the uneven distribution of these enterprises funded with DGPE loans is already causing problems. Cement block is over-produced in Cocle available in insufficient quantities in Veraguas and Chiriqui according to local reports.

TABLE 13

SMALL BUSINESS AND INDUSTRY
TYPE OF ACTIVITY BY PROVINCE, YEAR AND AMOUNT OF LOAN, 1979-1982

Panel A

Loans to Retail Groceries, Supermarkets, Various Food Stores. Wholesale Distributors by Province and Year of Loan

| Year | N | Chiriqui | Cocle | Herrera | Los Santos | Veraguas | Totals |
|---|---|---|---|---|---|---|---|
| 1979 | 0 | | | | | | 0 |
| 1980 | 5 | | 1,384<br>3,002<br>6,302<br>13,248 | | | 5,091 | |
| Sub-Totals | | | 23,936 | | | 5,091 | 29,027.00 |
| 1981 | 6 | | 3,590<br>4,361 | 1,026<br>8,530<br>11,952 | | 2,003 | |
| Sub-Totals | | | 7,951 | 21,508 | | 2,003 | 31,462.00 |
| 1982 | 33 | 3,450<br>3,855<br>4,627<br>8,128 | 1,267<br>1,596<br>2,688<br>3,137<br>11,000 | 1,048<br>1,260<br>1,318<br>4,886<br>10,707<br>10,033<br>12,069<br>29,965 | 1,082<br>1,607<br>2,148<br>3,214<br>3,885<br>4,200<br>7,522<br>7,695<br>21,489 | 1,063<br>1,586<br>1,656<br>3,307<br>3,441<br>3,644<br>4,740 | |
| Sub-Totals | | 20,060 | 19,688 | 71,286 | 52,842 | 19,437.71 | 183,013.71 |
| TOTALS | | 20,060 | 51,575 | 92,794 | 52,842 | 26,531.71 | 243,802.71 |
| N | 44 | 4 | 11 | 11 | 9 | 9 | |

TABLE 13

Panel C

**Loans for Welding Shops, Blacksmiths, Autobody Repair and Metal Fixtures by Province and Year of Loan**

| Year | N | Chiriqui | Cocle | Herrera | Los Santos | Veraguas | Totals |
|---|---|---|---|---|---|---|---|
| 1979 | 6 | 6,098<br>7,947<br>14,447 | | 3,033<br>3,837<br>14,407 | | | |
| Sub-Totals | | 28,492 | | 21,277 | | | 49,769 |
| 1980 | 5 | 7,669 | 1,340 | | 7,169 | 2,296<br>2,502 | |
| Sub-Totals | | 7,669 | 1,340 | | 7,169 | 4,798 | 20,967 |
| 1981 | 5 | | 5,335 | 15,517<br>17,687 | | 1,547<br>2,443 | |
| Sub-Totals | | | 5,335 | 33,204 | | 3,990 | 42,529 |
| 1982 | 4 | 6,814 | | 10,772<br>21,317 | 10,673 | | |
| Sub-Totals | | 6,814 | | 32,089 | 10,673 | | 49,576 |
| TOTALS | | 42,966 | 6,675 | 86,570 | 17,842 | 8,788 | 162,841 |
| N | 20 | 5 | 2 | 7 | 2 | 4 | |

TABLE 13

Panel D

Loans for General Stores, Retail Merchandise and Clothes by Province and Year of Loan

| Year | N | Chiriqui | Cocle | Herrera | Los Santos | Veraguas | Totals |
|---|---|---|---|---|---|---|---|
| 1979 | 1 | | | | | 14,243 | |
| Sub-Totals | | | | | | 14,243 | 14,243.00 |
| 1980 | 2 | | | 12,855 | | 5,066 | |
| Sub-Totals | | | | 12,855 | | 5,066 | 17,921.00 |
| 1981 | 5 | | 3,538.85 | 2,601 | | 1,039 | |
| | | | | 3,269 | | | |
| | | | | 5,384 | | | |
| Sub-Totals | | | 3,538.85 | 11,254 | | 1,039 | 15,831.85 |
| 1982 | 9 | 9,835 | 4,318 | 3,000 | 10,854 | 11,914 | |
| | | | 5,327 | 19,998 | | | |
| | | | 21,805 | 22,718 | | | |
| Sub-Totals | | 9,835 | 31,450 | 45,716 | 10,854 | 11,914 | 109,769.00 |
| TOTALS | | 9,835 | 34,988.85 | 69,825 | 10,854 | 32,262 | 157,764.85 |
| N | 17 | 1 | 4 | 7 | 1 | 4 | |

TABLE 13

Panel E

Loans for Butchers, Poultry Dealers and Fish Preparation

| Year | N | Chiriqui | Cocle | Herrera | Los Santos | Veraguas | Totals |
|---|---|---|---|---|---|---|---|
| 1979 Sub-Totals | | | | | | | 0 |
| 1980 | 5 | | 6,103 | 1,055 | | 1,521<br>1,923<br>14,982 | |
| Sub-Totals | | | 6,103 | 1,055 | | 18,426 | 25,584 |
| 1981 | 4 | | | 7,000 | 1,047<br>2,595 | 1,468 | |
| Sub-Totals | | | | 7,000 | 3,642 | 1,468 | 12,110 |
| 1982 | 7 | 5,149<br>10,581 | | 11,483 | 1,244<br>3,152 | 1,278<br>2,450 | |
| Sub-Totals | | 15,730 | | 11,483 | 4,396 | 3,728 | 35,337 |
| TOTALS | | 15,730 | 6,103 | 19,538 | 8,038 | 23,622 | 73,031 |
| N | 16 | 2 | 1 | 3 | 4 | 6 | |

TABLE 13

Panel F

**Loans for Clothing Manufacture, Tailoring and Dressmaking by Province and Year of Loan**

| Year | N | Chiriqui | Coclé | Herrera | Los Santos | Veraguas | Totals |
|---|---|---|---|---|---|---|---|
| 1979 | 2 | 2,325 | 2,894 | | | | |
| Sub-Totals | | 2,325 | 2,894 | | | | 5,219 |
| 1980 | 3 | | 1,143 | | | | |
| | | | 3,901 | | | | |
| | | | 23,870 | | | | |
| Sub-Totals | | | 28,914 | | | | 28,914 |
| 1981 | 5 | 1,512 | | | | 4,886 | |
| | | 15,000 | | | | 1,283 | |
| | | | | | | 3,678 | |
| Sub-Totals | | 16,512 | | | | 9,847 | 26,359 |
| 1982 | 4 | | | 8,205 | 2,116 | | |
| | | | | 8,532 | 2,143 | | |
| Sub-Totals | | | | 16,737 | 4,259 | | 20,996 |
| TOTALS | | 18,837 | 31,808 | 16,737 | 4,259 | 9,847 | 81,488 |
| N | 14 | 3 | 4 | 2 | 2 | 3 | |

TABLE 13

Panel G

Loans for Specialty Goods Retail/Wholesale, Autoparts, Boutiques and Drugstores by Province and Year of Loan

| Year | N | Chiriqui | Cocle | Herrera | Los Santos | Veraguas | Totals |
|---|---|---|---|---|---|---|---|
| 1979 | 1 | 1,506 | | | | | |
| Sub-Totals | | 1,506 | | | | | 1,506 |
| 1980 | 1 | 5,066 | | | | | |
| Sub-Totals | | 5,066 | | | | | 5,066 |
| 1981 | 6 | | 6,846 | 11,730 | 14,756 | 3,278 | |
| | | | | | | 12,236 | |
| | | | | | | 14,000 | |
| Sub-Totals | | | 6,846 | 11,730 | 14,756 | 29,514 | 62,846 |
| 1982 | 8 | 14,947 | 2,083 | 4,197 | | 13,360 | |
| | | | 2,603 | 13,894 | | 21,191 | |
| | | | 31,528 | | | | |
| Sub-Totals | | 14,947 | 36,214 | 18,091 | | 34,551 | 103,803 |
| TOTALS | | 21,519 | 43,060 | 29,821 | 14,756 | 64,065 | 173,221 |
| N | 16 | 3 | 4 | 3 | 1 | 5 | |

TABLE 13

Panel H

Loans for Bakery Products, Candies, Coffee and Spices
by Province and Year of Loan

| Year | N | Chiriqui | Cocle | Herrera | Los Santos | Veraguas | Totals |
|---|---|---|---|---|---|---|---|
| 1979 | | | 9,329 | | | | |
| Sub-Totals | | | 9,329 | | | | 9,329 |
| 1980 | | | 2,630 | 4,116 | | 6,011 | |
| Sub-Totals | | | 2,630 | 4,116 | | 6,011 | 12,757 |
| 1981 | 4 | | 3,329 | 8,000 | | 34,552 | |
| | | | 9,572 | | | | |
| Sub-Totals | | | 12,901 | 8,000 | | 34,552 | 55,453 |
| 1982 | 5 | 7,940 | 7,593 | 5,000 | | | |
| | | 9,467 | 21,179 | | | | |
| Sub-Totals | | 17,407 | 28,772 | 5,000 | | | 51,179 |
| TOTALS | | 17,407 | 53,632 | 17,116 | | 40,563 | 128,718 |
| N | 13 | 2 | 6 | 3 | | 2 | |

TABLE 13

Panel I

**Loans for Cement Blocks, Bricks, Nonmetal Materials and Tiles by Province and Year of Loan**

| Year | N | Chiriqui | Cocle | Herrera | Los Santos | Veraguas | Totals |
|---|---|---|---|---|---|---|---|
| 1979 Sub-Totals | | | | | | | 0 |
| 1980 | 2 | | 6,090<br>7,829 | | | | |
| Sub-Totals | | | 13,919 | | | | 13,919.00 |
| 1981 | 6 | 5,150 | 3,120<br>7,482<br>21,174 | | | 4,501.33<br>12,118 | |
| Sub-Totals | | 5,150 | 31,768 | | | 16,619.33 | 53,557.33 |
| 1982 Sub-Totals | 4 | 7,400<br>7,400 | 6,251<br>6,251 | 20,921<br>20,921 | 10,748<br>10,748 | | 45,320.00 |
| TOTALS | | 12,550 | 51,938 | 20,921 | 10,748 | 16,619.33 | 112,796.33 |
| N | 12 | 2 | 6 | 1 | 1 | 2 | |

TABLE 13

Panel J

Loans for Medical and Dental Services, Clinics and Laboratories by Province and Year of Loan

| Year | N | Chiriqui | Cocle | Herrera | Los Santos | Veraguas | Totals |
|---|---|---|---|---|---|---|---|
| 1979 | 1 | | 11,861 | | | | |
| Sub-Totals | | | 11,861 | | | | 11,861.00 |
| 1980 | 5 | 13,564 | 7,074 | 8,960 | | 7,497 | |
| | | | | 14,940 | | | |
| Sub-Totals | | 13,564 | 7,074 | 23,900 | | 7,497 | 52,035.00 |
| 1981 | 1 | | 13,846.48 | | | | |
| Sub-Totals | | | 13,846.48 | | | | 13,846.48 |
| 1982 | 3 | 40,120 | 11,207 | | | 8,380 | |
| Sub-Totals | | 40,120 | 11,207 | | | 8,380 | 59,707.00 |
| TOTALS | | 53,684 | 43,988.48 | 23,900 | | 15,877 | 137,449.48 |
| N | 10 | 2 | 4 | 2 | | 2 | |

TABLE 13

Panel K

Loans for Shoe Factory or Repair· Tannery, Leather Shops, Saddlery and Upholstery by Province and Year of Loan

| Year | N | Chiriqui | Cocle | Herrera | Los Santos | Veraguas | Totals |
|---|---|---|---|---|---|---|---|
| 1979 | 1 | | | | | 1,167 | |
| Sub-Totals | | | | | | 1,167 | 1,167 |
| 1980 | 7 | 1,210<br>2,413 | 1,209 | | | 1,214<br>1,593<br>1,819<br>5,029 | |
| Sub-Totals | | 3,623 | 1,209 | | | 9,655 | 14,487 |
| 1981 | 3 | 3,095 | 1,032<br>2,984 | | | | |
| Sub-Totals | | 3,095 | 4,016 | | | | 7,111 |
| 1982 | 6 | 1,721<br>3,196<br>5,245 | 1,054 | 3,868 | | 1,132 | |
| Sub-Totals | | 10,162 | 1,054 | 3,868 | | 1,132 | 16,218 |
| TOTALS | | 16,882 | 6,279 | 3,868 | | 11,954 | 38,983 |
| N | 17 | 6 | 4 | 1 | | 6 | |

TABLE 13

Panel L

Loans for Residual Category by Province and Year of Loan *

| Year | N | Chiriqui | Cocle | Herrera | Los Santos | Veraguas | Totals |
|---|---|---|---|---|---|---|---|
| 1979 | 7 | 8,311 | | 2,018 | 2,022 | 5,559 | |
| | | 7,356 | | | 10,198 | | |
| | | 3,261 | | | | | |
| Sub-Totals | | 18,928 | | 2,018 | 12,220 | 5,559 | 38,725 |
| 1980 | 19 | 3,035 | 10,189 | 14,714 | 13,473 | 8,265 | |
| | | 12,258 | 3,034 | 3,747 | 10,168 | 2,383 | |
| | | | 2,828 | 5,024 | 14,290 | 2,066 | |
| | | | | 10,193 | 7,118 | 3,384 | |
| | | | | | | 6,459 | |
| | | | | | | 6,367 | |
| Sub-Totals | | 15,293 | 16,051 | 33,683 | 45,049 | 28,924 | 139,000 |
| 1981 | 16 | 5,686 | 13,767 | 14,522 | 22,126 | 1,677.08 | |
| | | | 6,101 | 1,500 | 1,513.95 | 1,542 | |
| | | | 2,603 | 2,039 | | 4,598 | |
| | | | 31,894 | 2,001 | | | |
| | | | 3,438 | 4,265 | | | |
| Sub-Totals | | 5,686 | 57,803 | 24,327 | 23,639.95 | 7,817.08 | 119,273.03 |
| 1982 | 23 | 9,353 | 2,600 | 8,465 | 4,270 | 3,117 | |
| | | 7,951 | 6,513 | 2,955 | 20,032 | 16,410 | |
| | | 5,231 | | 26,245 | | 8,968 | |
| | | 8,438 | | 7,108 | | 38,218 | |
| | | 6,908 | | 6,256 | | 27,978 | |
| | | | | 2,296 | | 6,250.71 | |
| | | | | 2,578 | | 1,885 | |
| Sub-Totals | | 37,881 | 9,113 | 55,903 | 24,302 | 102,826.71 | 230,025.71 |
| TOTALS | | 77,788 | 82,967 | 115,931 | 105,210.95 | 145,126.79 | 527,023.74 |
| N | 65 | 11 | 10 | 17 | 10 | 17 | |

* Categories with fewer than ten (10) loans have been grouped into this table. Refer to Table 10 for a list of the Categories. The only exception was a combined category of shoe manufacture and repair, leather shops, saddlery and upholstery.

TABLE 13

Panel M

Loans made to women proprietors by Province and Year

| Year | N | Chiriqui | Cocle | Herrera | Los Santos | Veraguas | Totals |
|---|---|---|---|---|---|---|---|
| 1979 | 5 | 5,120<br>6,098<br>1,505 | 9,329 | | | 14,243 | |
| Sub-Totals | | 12,723 | 9,329 | | | 14,243 | 36,296.00 |
| 1980 | 13 | 5,066<br>12,258 | 1,143<br>23,870<br>2,630<br>2,828 | 14,940<br>5,024 | | 5,091<br>5,066<br>8,265<br>6,459<br>6,367 | |
| Sub-Totals | | 17,324 | 30,471 | 19,964 | | 31,248.00 | 85,651.00 |
| 1981 | 22 | 15,000<br>5,686 | 3,590<br>4,361<br>3,329<br>9,572<br>13,856.48<br>6,101<br>3,438 | 1,026<br>11,952<br>5,334<br>2,039<br>4,265 | | 2,003<br>1,039<br>4,886<br>3,678<br>3,278<br>12,236<br>34,552<br>4,501.33 | |
| Sub-Totals | | 20,686 | 44,237.48 | 24,566 | | 66,173.33 | 155,762.81 |
| 1982 | 33 | 3,855<br>4,627<br>7,940<br>6,908 | 11,000<br>3,137<br>5,327<br>21,805<br>7,593<br>6,513 | 1,063<br>1,318<br>21,317<br>3,069<br>22,718<br>4,197<br>2,578 | 1,607<br>7,522<br>7,695<br>21,439<br>10,854<br>3,152<br>2,153 | 1,063<br>1,556<br>3,807<br>4,740<br>11,913<br>2,350<br>21,191<br>16,510 | |
| Sub-Totals | | 23,330 | 55,375 | 56,176 | 54,462 | 62,681 | 257,095.00 |
| TOTALS | | 74,064 | 139,412.48 | 100,506 | 54,462 | 172,325.33 | 533,069.81 |
| N | 72 | 11 | 18 | 14 | 7 | 22 | |

Further complications are introduced by the decision of the Ministry of Housing to enter concrete block production in selected regional capitals (Santiago, David). The mix of public and private enterprise in this "classic" SSE area raises a number of policy questions which were addressed our analysis of the Ministry of Housing's Project URBE program.

Medical and Dental Services (Table 13J). This type of enterprise requires larger capitalization and access to a more sophisticated market. Support services are also required. For example, one of the medical laboratories funded with an URBE Project loan, visited in Cocle, sends its difficult specimens to Panama City for analysis. If it were more remote from the metropolis, this would involve increments of both time and cost. The evaluation team suspects that there are unmet needs for this type of service in other URBE communities.

Leather Goods, Shoes and Tannery (Table 13K). It is no surprise that these loan-supported activities are concentrated in the ranching provinces of Chiriqui and Veraguas. A significant number of additions to this category took place in 1982. The size of the loans in this class is small and the businesses visited were of the "shoe shop" variety. There is probably an opportunity for "upscaling" the production of leather goods in the URBE region.

Residual Categories (Table 13L). These diversified enterprises account for 25% of the total. An increase in this category over time usually indicates a tendency toward diversification and specialization, especially when accompanied by growing investments per enterprise. A tendency in that direction can be perceived in Table 13L. Between 1980 and 1982, the average loan investment in this category increased from $6,600 to $7,500. The category experienced a growth spurt in 1982, especially in Veraguas.

Loans to Women Proprietors (Table 13M). As with the previous category, an expanding number of loans to women is evidence of diversification and specialization in the regional economy. It is a development indicator unless confined to traditional informal sector activities (see comments on Table 12 above). Women in business appears to be a growth industry with concentration in Cocle and Veraguas in 1980, 1981 and 1982. The asymmetry of this distribution deserves more study than is possible within the context of the URBE evaluation.

Conclusions. There are clearly defined patterns of regional specialization within the URBE communities in terms of the purposes for which loans have been utilized: (1) furniture making in Chiriqui and Los Santos; (2) metal work in Herrera; (3) meat processing in Veraguas; (4) leather goods in Chiriqui and Veraguas; (5) products related to an urban (Panama) market in Cocle. The clarity of the spatial patterning in the allocation of only 265 loans suggests that a study of markets, raw materials and demand for goods and services is badly needed. The concentration of activities would also facilitate the provision of technical assistance on production processes to particular communities.

The market study could be supplemented with a manpower survey which would investigate both skills available and skills in demand. If specific regional enterprises are going to expand and evolve into more significant and substantial units of production, this type of research and technical support is badly needed.

(e) Repayments and Collections by Type of Enterprise.

In Table 14, the amounts of delinquency encountered in different types of loan-supported enterprises are examined. Seldom if ever is so clear-cut a set of differences presented by this type of distribution. The grocery business and retail enterprises are most frequently "paid up" or even ahead of schedule on their obligations to DGPE. Groceries, meats, restaurant trade, and medical laboratory expenses tend to be cash transactions. The proprietor is compensated at the point of sale. Consequently, the enterprise is able to meet its repayment obligations.

The lengthy records of delinquency are encountered in the categories of welding and autobody shops, building materials producers, furniture and leather manufacturing, and clothing production. All these enterprises have several characteristics in common. They produce on contract with distributors and individual customers. They are making a product which requires preliminary investment in materials, a delay during production which requires capital outlay without any return, and frequently a further delay following production while a distributor or dealer attempts to sell the product and repay the manufacturer.

The evaluation team offers the opinion that it is precisely those enterprises which are most in need of working capital which are most likely to be delinquent for longer periods in making their payments. Unfortunately, this type of business is most likely to have received the largest amount of loan capital from DGPE. It is ironic that the small loans given to family groceries have the best repayment records. The text books tell us that these are the businesses which fail to keep records, prepare accounts, maintain inventories, etc.

The recommendations emerging from this analysis are surprising to the writers. Perhaps they will also provide fresh insights to the reader. The larger scale business activities supported with Project URBE loans through DGPE appear to be most in need of technical support. Business management assistance in accounting for costs, managing finances, contracting with customers and making collections would have an immediate positive impact on the rate of delinquency in DGPE loans.

It is an intriguing thought that the DGPE field personnel might provide assistance to borrowers in making their collections in order to improve performance in making its collections. The thought gains some substance when we reflect that at least some of the customers for products manufactured by loan recipients are other agencies of the GOP. This might include legal advice on taking action against delinquent accounts. Our field

TABLE 14

Payment Record by Type of Business Activity[
Disbursed through February 28, 1983

| | N | Grace Period | Paid Up | Current & Ahead | MOROSOS 30-60 Days | 90-270 Days | 300+ Days |
|---|---|---|---|---|---|---|---|
| Groceries | 44 | 7 | 1 | 17 | 12 | 6 | 1 |
| Furniture mfg. | 21 | 5 | 1 | 3 | 5 | 4 | 3 |
| Welding/Auto Body | 20 | 3 | 3 | 2 | 1 | 5 | 6 |
| Shoe Repair and mfg., leather mfg. | 17 | 1 | 3 | 4 | 3 | 2 | 4 |
| General stores, clothing stores | 17 | 3 | 1 | 3 | 3 | 7 | - |
| Meat preparation and sale | 16 | 1 | 2 | 6 | 6 | 1 | - |
| Specialty stores | 16 | 3 | 1 | 5 | 3 | 3 | 1 |
| Clothing mfg., tailors | 14 | - | 1 | 4 | 2 | 5 | 2 |
| Bakery, coffee, spices | 13 | 2 | 1 | - | 4 | 5 | 1 |
| Block, tile mfg. | 12 | - | - | 3 | 3 | 6 | - |
| Medical/dental/laboratory | 10 | - | 1 | 5 | 4 | - | - |
| Nurseries | 4 | 1 | - | - | 1 | 1 | 1 |
| Sand, quarry | 1 | - | - | - | - | - | 1 |
| Fishing | 1 | - | - | - | 1 | - | - |
| Dairy products | 1 | - | - | - | - | 1 | - |
| Grain processing | 6 | - | 1 | 2 | 2 | 1 | - |
| Animal feed | 2 | - | - | 1 | 1 | - | - |
| Tannery | 2 | - | - | 1 | 1 | - | - |
| Sawmill, lumber, firewood | 5 | - | - | - | 2 | 2 | 1 |
| Photocopy, printing | 4 | - | - | 2 | - | 1 | 1 |
| Ceramics | 5 | - | 2 | - | 1 | 2 | - |
| Chemical mfg. | 1 | - | - | - | 1 | - | - |
| Auto parts mfg. | 1 | - | - | 1 | - | - | - |
| Other mfg. | 2 | 1 | - | - | - | 1 | - |
| Jewelry store | 1 | - | 1 | - | - | - | - |
| Restaurant | 6 | 2 | - | 1 | 1 | 1 | 1 |
| Transportation | 1 | - | - | - | - | - | 1 |
| Consultant/Accounting | 2 | - | - | - | 1 | 1 | - |
| Radio/TV | 1 | - | - | 1 | - | - | - |
| Electrical machine repair | 8 | 1 | 1 | 1 | 1 | 3 | 1 |
| Beauty shop/florist | 5 | - | - | 1 | 1 | 1 | 2 |
| Laundramat/auto wash | 5 | 1 | - | 1 | 3 | - | - |
| Other home services | 1 | - | - | - | 1 | - | - |
| TOTALS | 265 | 31 | 20 | 64 | 64 | 59 | 27 |

visits confirm that this could be used and would be appreciated in a number of cases.

Behind recommendations of this sort looms the spectre of the "uncollectable loan"---the loan made to politically well-placed individuals who consider themselves to be immune from collections procedures. This topic was frequently discussed with (and by) loan officers in the course of our field trip to each of the provinces. However, a few flagrant cases were discussed over and over again by all. What at first seemed to be substantive, later became symbolic.

It is a source of frustration to both entrepreneurs and loan officers that a few individuals obtain special consideration and are outside the law. It would be a mistake to accept the anecdotes as evidence that widespread fraud and corruption exists throughout the system. If such a fundamental problem exists, it escaped our attention.

3. Business and Industry: Details from the Sample Survey.

A number of questions were raised within USAID concerning the status of the SSE credit program which could only be answered by a field investigation. The scale and organization of the enterprises themselves could only be perceived first-hand. The level of satisfaction with the program on the part of the participants could only be assessed by interviews. All these reasons, and others, led to the decision to undertake a sample survey of the entire loan portfolio as of December 31, 1982.

A systematic 20% sample (every fifth case) produced 56 loan recipients, distributed proportionately across all Project URBE communities. Distribution of sample cases by province and amount of loan was as follows:

| | | |
|---|---|---|
| Chiriqui | 13 | $140,266 |
| Cocle | 13 | 87,293 |
| Herrera | 8 | 59,161 |
| Los Santos | 10 | 44,554 |
| Veraguas | 12 | 79,115 |
| TOTALS | 56 | $410,389 |

The sample cases equal one-fifth of loans disbursed between 1979 and 1982. The amount of the loans ($410,389) equals 19.5% of the total amount disbursed: $2,103,482.

The loan recipients included in the sample are identified in Appendix E to this report. Of the 56 businesses selected, three were not in operation; one had failed and two were not yet functioning because equipment ordered had not yet arrived. However, the remainder (53 x 5 = 265) gave us the desired sampling fraction.

The intention of the field study was to see what was behind the files of applications in the central office of DGPE, and beyond the discussions with MICI provincial and regional personnel. One of the problems encountered by the evaluation team throughout the Project URBE assignment was the lack of data within either USAID or counterpart GOP agencies on component performance. There was very little to evaluate because few if any field trips had been made for this purpose.

Among the questions which were raised concerning the program and unanswered when the evaluation began were the following:

Who are the clients being served?

The SSE credit program was intended to recruit new entrepreneurs to the business sector. It was intended to provide a resource to small established business in need of funds for expansion to the level at which they might achieve profitability. It was not intended as a cheap credit resource to be exploited by experienced businessmen who had other credit available. When the evaluation began, the suspicion persisted that the latter group may be taking advantage of the program.

Are jobs being created by the program?

The objective of the SSE program is to expand employment by providing new or expanded business opportunities to employers. At the time our survey was initiated, there had been no employment verification attempted by any of the agencies involved in the project at any level. The suspicion was also encountered among administrators that, if created, new jobs were likely to be at the lowest occupational level because of the small size of the loan requests.

How important are low interest rates to customers?

The notion persists that users of Department of Small Business Credit facilities may be attracted primarily by interest payments at sub-market rates and by a source of funds where minimum effort is made to collect delinquent accounts. Should these suspicions be confirmed, it might be argued that the program is working against itself. It is actually subsidizing and expanding bad business practices. Low interest rates were intended as a concession to the inexperienced businessman or would-be entrepreneur. A bridge was to be built which would use a supervised credit program to link the client to the conventional lending programs of other institutions.

Is technical assistance being received by the client?

As a learning or training experience, it was expected by designers of Project URBE and by USAID administrators that extension of technical assistance to loan recipients would be an important part of the program. However, the Project Paper is less specific about mechanisms for achieving this goal. Technical assistance is to be provided to MICI

personnel, educating them in methods of providing assistance. Training (seminars, classes) is to be given to loan recipients in business management, according to the design. It is not specifically stated that client-oriented technical assistance is to be given by persons specially retained for this purpose during the life of the loan.

What is the condition of the businesses receiving support?

At the time of the evaluation, no attempt had been made to obtain a health report on the viability of projects financed with Project URBE loans. The suspicion was verbalized that, perhaps, the popularity of DGPE funds was related to the precarious status of the enterprise. The Department of Small Business might be providing ambulance service and life support to clients who might have otherwise expired. Ominous implications have been supported by a negative reading of some of the data on delinquent payments presented in the previous chapter.

Is an improved collections procedure required?

The impression is strong among USAID and GOP personnel that a revised collections procedure, preferably one "with teeth in it", is necessary at the earliest possible date. It is often stated that payments are not being made by loan recipients because they realize that nothing can be done to them if they default. There is some substance to this observation. To prosecute a delinquent recipient, the signature of the Vice-Minister of MICI must be obtained. Thus a financial question becomes a political issue.

The data introduced above (see Tables 6-7) were interpreted to demonstrate that 40% of current loan accounts are three or more payments behind, while 60% are either ahead, current, or no more than two months behind on their amortization schedules. Reasons given for late payment by sample members will be considered, together with the experience of provincial loan officers who deal with them.

The observations which are now available from the sample survey provide substantive replies on all these points. Our information will be presented in three parts. First, immediately following is a statistical summary of the major dimensions of the sample data. Second, a photographic essay, illustrated with pictures taken during the field interviews, is appended to this section. It is intended to provide (1) visual acquaintance with the enterprises being supported, and (2) documentation of the skill levels of the jobs being provided through the loan program. Finally, a section will be added to deal specifically with the questions framed above.

(a) A Profile of the Sample Enterprises.

The 53 sample loans in operation represented a mean value of $6,606, somewhat lower than the figure of $7,938 which is the mean for the entire universe of 265 enterprises funded from the program. The mean for the universe is inflated by a small number of larger loans which may not have been proportionately represented in our sample.

The range of sample enterprises for which loans were provided is from $1,200 to $38,000. The duration of time requested, number and amount of payments tends to be proportional to the size of the loan. On the $38,000 loan to finance a large restaurant located in a motel-service station complex in Santiago, payments of $911 are to be made for fifty months. In Sona, the recipient of a $1,200 loan to finance a one-man butcher shop operated from his house will pay $56 for twenty-four months. The size, amount and duration of payments for all sample loans appears in Appendix E.

Table 15 opposite reviews the distribution of loans by province and matches numbers of loans with the number of jobs and amounts provided.

The employment generation data available from Table 15 is positive in its implications; 2.23 jobs per loan have been created. However, this is substantially less that the figure of three employees per enterprise which has been projected in DGPE official reports. There is also substantial variation in the employment generated by province. The differences are set forth below.

| | Average Loan | Investment per Job | Jobs per Loan |
|---|---|---|---|
| Chiriqui | $7,549 | $2,306 | 3.27 |
| Cocle | 7,021 | 3,663 | 1.92 |
| Herrera | 7,395 | 3,114 | 2.38 |
| Los Santos | 4,455 | 2,121 | 2.10 |
| Veraguas | 6,592 | 4,163 | 1.58 |

The illustration above confirms that the larger loans are in the provinces with the growth center cities: David and Chitre, located in Chiriqui and Herrera. It also indicates that the yield of jobs per loan is larger in these two communities. In the poorer provinces (Los Santos, Veraguas) loan amounts are smaller and the job yield is below average.

The investment required per job ($2,967) is well within the limit of $3,500 proposed in the Project Paper, even though inflationary pressures have been at work for five years since the date of the estimate. However, this is not true if the provincial averages are substituted for that of the entire sample. The cost of jobs in Cocle and Veraguas is above the target figure. Notably, these two provinces also have the poorest performance in terms of jobs per loan.

The distribution of SSE's which appear in the sample is provided in Table 16. It confirms that those businesses and industries which are most frequent in the universe are also best represented in the sample: grocery stores, welding shops, especialty goods, furniture manufacture, and clothing (compare with Table 10).

TABLE 15

SMALL SCALE ENTEPRISE SAMPLE SURVEY:

Distribution of Loans, Amounts and Jobs by Province

| Province | No. of Loans | | Loan Amount |
|---|---|---|---|
| Chiriqui | 13 | | $140,266 |
| Coclé | 13 | | 87,293 |
| Herrera | 8 | | 59,161 |
| Los Santos | 10 | | 44,554 |
| Veraguas | 12 | | 79,115 |
| Total | 56 | | $410,389 |
| | | Average | $7,328 |

| | |
|---|---|
| Number of loans in operation | 53 |
| Amount of loans in operation | $350,135 |
| Number of loans not in operation | 3 |
| Number of jobs created with loan | 118 |
| Chiriqui ($[illegible],046 loan) | 36 |
| Coclé ($[illegible],[illegible] loan) | 23 |
| Herrera ($59,161 loan) | 19 |
| Los Santos ($44,554 loan) | 21 |
| Veraguas ($79,115 loan) | 19 |
| Loan investment per job | $2,967 |

TABLE 16

SMALL SCALE ENTERPRISE SAMPLE SURVEY:

Distribution by Type of Economic Activity

| Economic Activity | No. Cases |
|---|---|
| Tree farms, nursery, landscaping services | 2 |
| Fishing | 1 |
| Butchery, poultry, fish preparation | 2 |
| Bakery products, candies, coffee | 1 |
| Grain mill, rice hulling, cereals | 2 |
| Animal feed preparation and processing | 1 |
| Clothes manufacturing, tailoring | 4 |
| Shoe shop, shoe factory and repair | 1 |
| Furniture, wood and wicker industries | 5 |
| Welding, blacksmith, body repair, metal fixtures | 8 |
| Automobile parts manufacture, batteries | 1 |
| Cement blocks, bricks, non-metalic materials | 2 |
| General store | 3 |
| Groceries retail, supermarkets, retail food products | 10 |
| Specialty goods retail, autoparts, boutique, drugstore | 5 |
| Restaurant, cafeteria, other food places | 4 |
| Medical and dental services, clinics, laboratories | 1 |
| Laundrymat, car wash | 1 |
| Consulting services, accounting | 1 |
| Radio and Television | 1 |
| Total | 56 |

Following the presentation of data on employment and on the business activities contained within the sample, it is useful to combine the two in a cross-classification of the employment generating potential of different major types of economic activity. Table 17 opposite demonstrates that there are evident differences in the jobs per loan produced by types of activity; 4 for agriculture; 3.14 for services; 2.32 for manufacturing; and only 1.44 for commerce.

The most jobs for the least cost come from agriculture-related SSE's ($2,055 per job); the least jobs for the greatest cost come from commerce ($3,578 per job). In service occupations, the jobs are the most expensive ($4,183) but the yield per loan is greater than three new employees. There are also substantial living standard benefits to the community from service enterprises.

The rather low yield of workers from commercial investments produces a gloomy forecast within the framework provided by Table 13A, 13D and 13G. These tables disclose that of the 114 new enterprises funded in 1982, 50 were grocery, retail and specialty shops, all of which fall into the commerce category. These loans are unlikely to produce the level of employment generated by other types of SSE's in previous years.

The data in Table 18 compare "expected employment" from applications with "actual employment" observed and documented during the field trips to conduct the sample survey. The overall comparison appears to support the conclusion that the projected number of jobs created is a good predictor of jobs provided; for all sample enterprises 91% of the target was achieved. However, on closer inspection it can be seen that there are substantial differences by category. The commerce group (first three categories in Table 18) fulfilled only three-fourths of its employment target. But the remaining groups (manufacturing and services) employed 100% of their projected totals (all remaining categories in Table 18).

Verification of the number of jobs actually generated, and discovery that the investment per job was within the target figures for Project URBE were pleasant surprises. Another positive note was struck by the employee distribution presented in Table 19. This table confirms that employment being supported by loan-financed enterprises is very heavily weighted in favor of skilled occupations (45% of all employed). Furthermore, all 31 of the apprentices and assistants are learning trades or vocations. This represents an average of two apprentices for every three cases in the sample.

The employment generation capability of the SSE program has been a completely neglected aspect of record-keeping and reporting, both within USAID and GOP offices. The sample survey has proven conclusively that the supervised credit program operated by DGPE is capable of fulfilling its employment targets. Furthermore, the jobs created are in the upper rather than lower skill categories. The consequences for income distribution, demand for goods and services, and contribution to tax collections are all very positive.

TABLE 17

SMALL SCALE ENTERPRISE SAMPLE SURVEY:

Loan Investment per Job by Type of Economic Activity

| Activity* | No. of Loans | Amount | Jobs Created | Loan Investment per job |
|---|---|---|---|---|
| Agriculture | 3 | $24,664 | 12 | $2,055 |
| Manufacturing | 25 | 140,423 | 58 | 2,421 |
| Commerce | 18 | 93,019 | 26 | 3,578 |
| Services | 7 | 92,029 | 22 | 4,183 |
| Total | 53 | 350,135 | 118 | $2,967 |

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

TABLE 18

SMALL SCALE ENTERPRISE SAMPLE SURVEY:

Employment Generated, Projected and Actual, by Type of Economic Activity

| | No. of Loans | Employees projected (pre-loan) | Employees Actual (post-loan) |
|---|---|---|---|
| Food Preparation and Sales (including fishing, bakeries, meat stores, groceries. | 13 | 25 | 19 |
| Cafe/restaurant | 4 | 16 | 12 |
| Stores (general/special) | 9 | 16 | 13 |
| Small manufacturing (furniture, clothing, milling, shoes. | 14 | 44 | 42 |
| Machine, autobody, welding, shops and auto mechanics. | 8 | 16 | 19 |
| Service (car wash, nursery) | 3 | 12 | 15 |
| Laboratory, accountant, radio station | 3 | 8 | 5 |
| | 54* | 137 | 125 |

2 businesses were not yet operable because their equipment/machinery had not been acquired.

TABLE 19

SMALL SCALE ENTERPRISE SAMPLE SURVEY:

Distribution of Occupations

| Skill Type | Regular Employee | Apprentice/ Assistant | Total |
|---|---|---|---|
| Accountant | 5 | | 5 |
| Manager | 7 | | 7 |
| Lab. Technician | 2 | | 2 |
| Bookkeepers/Secretary | 4 | | 4 |
| Radio station employee | 13 | | 13 |
| Technicians/mach. operator | 5 | | 5 |
| Welder/body repair | 13 | 4 | 17 |
| Mechanics | 2 | | 2 |
| Shoe maker | 3 | | 3 |
| Furniture maker | 11 | 6 | 17 |
| Tailor/sewing | 19 | 1 | 20 |
| | 84 | 11 | 95 |
| Painter | 5 | 5 | 10 |
| Cook/baker | 5 | 4 | 9 |
| Meat cutter | 4 | 2 | 6 |
| Shoe repair | 2 | | 2 |
| Tire repair | 2 | | 2 |
| Sales clerk | 42 | 9 | 51 |
| Waiter/Waitress | 3 | | 3 |
| Fishermen | 3 | | 3 |
| | 66 | | 86 |
| Laborer | 34 | | 34 |
| | 34 | 20 | 34 |
| | 184 | 31 | 215 |

Total employment for 56 small businesses: 215

The addition of a substantial increment to the domestic product as a result of the successful operation of an SSE program is a benefit seldom factored into the evaluation equation by those who administer these programs. The addition is represented by goods, services and wages; there is also the factor of raw materials and intermediate goods consumed by producers. The level of manufacturing represented by SSE's in Panama's western region is substantial, but difficult to assign a dollar value.

It is easier with wages. The most frequently quoted wage paid to new employees recruited by loan-supported industries was $180 per month. This means, for example, that the wages paid to an industrial employee of $2,160 per year are almost equal to the cost of generating that job through a small business loan ($2,421).

Data on delinquent accounts are presented in Appendix E., together with as yet unanalyzed statistics on (1) size of payment to be made monthly; (2) number of payments to be made, and (3) status of loan as regards new business or expansion of an existing one. With reference to the question of delinquent payments, one class of SSE is outstanding for its poor record. Of seven SSE's in the sample with more than five payments in arrears, four are welding and metal work operations.

There were 14 cases in the sample (25%) which were delinquent by five or more payments. Of these, six were expansion enterprises and eight were new businesses. All the most seriously delinquent enterprises were new, suggesting that the program is not being victimized by failing proprietors who are looking for a lifeline. However, in the entire sample, only one business had been forced to close because of inability to make payments; this was a restaurant in Penonome which fell into arrears by twenty payments out of a total of thirty owed on a $3,034 loan.

Data were collected from the sample on the source of information leading the applicant to request a loan. Table 20 confirms that personal contacts were most important. More than half the respondents (61%) heard about the program from acquaintances who knew about it, worked for MICI, or had received a loan from the program. The Agency's promotion campaign has apparently had little effect on prospective customers compared with word-of-mouth and personal communication.

The question of access to credit was also introduced into the sample survey, with results reported in table 21. Only one third of the loan recipients believed that they could and would have gotten credit from a bank (36%). Another one-sixth (16%) were attracted by lower interest rates. The responses varied by province. Respondents in Los Santos believed that they had better access to bank credit than elsewhere.

Fourteen of the sample loans were held by women proprietors. A noteworthy feature of these loans was that only two of them were delinquent by five payments or more. The proportion of loans made to women in the sample

TABLE 20

SMALL SCALE ENTERPRISE SAMPLE SURVEY:

Source of Information about URBE Loans

Responses to question concerning how recipient learned about URBE loan program:*

| | | | |
|---|---|---|---|
| (1) | From personal contact with someone who knew about program... | 13 | (24) |
| (2) | From personal contact with someone who knew about program... | 9 | (15%) |
| (3) | Unknown by respondent | 7 | (13%) |
| (4) | From other participant in loan program | 7 | (13%) |
| (5) | From public meeting: | 1 | (2%) |
| (6) | From acquaintance working at MICI | 13 | (24%) |
| (7) | Referred by other government agency | 5 | ( 9%) |
| | | 55 | 100% |

* One case excluded.

TABLE 21

SMALL SCALE ENTEPRISE SAMPLE SURVEY:

Propietors' Ability to Get Loans from Other Sources

Responses to question concerning the borrowers ability to get loans from other sources*

| | | |
|---|---|---|
| Could have had loan from commercial bank | 20 | (36%) |
| Perhaps from the bank but prefer lower interest from HICI | 9 | (16%) |
| Believes cannot get from bank | 20 | (36%) |
| No response | 6 | (10%) |
| | 55 | 100% |

* One case excluded.

was the same as that in the universe: 25%. But where one-fourth of all sample loans were delinquent by five or more payments, this was true of only 14% of loans held by women.

In the universe, as in our sample, loans made to women tended to be in traditionally female categories. They received 45.5% of grocery store loans, 53.8% of bakeries, 42.9% of clothing manufacture, 58.8% of general merchandise store (retail), 37.5% of specialty stores, 60% of the ceramic and tile businesses, and all beauty and flower shops. In all of the foregoing, their proportion of ownership in the category was greater than their representation in the universe.

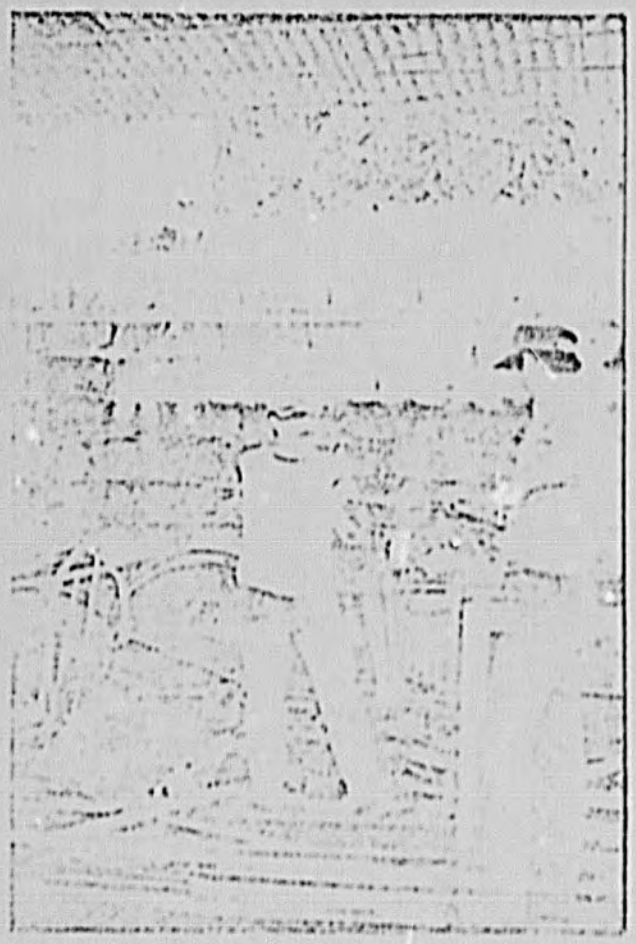
(b) A Photographic Essay on Selected Industries.

The intention of using photographs extensively was to document the physical surroundings of the SSE's being financed, and to record the skill levels of employees supported by them. Both purposes were served with a selection of pictures accompanying this section from the following enterprises:

| Province | Loan No. | Type of Business | Loan Amount | Payments Delinquent |
|---|---|---|---|---|
| Chiriqui | 1 | Metal work | $7,947 | 18 |
| | 2 | Auto parts | 8,311 | 0 |
| | 223 | Auto wash | 6,908 | 1 |
| | 239 | Bakery | 7,940 | 2 |
| Cocle | 99 | Laboratory | 7,074 | 0 |
| | 205 | Cement block | 6,251 | 5 |
| | 108 | Shoe factory | 2,984 | 7 |
| | 68 | Clothing mfg. | 23,870 | 7 |
| | 87 | Grain processing | 13,767 | 2 |
| | 41 | Grocery | 3,002 | 0 |
| | 92 | Tailor shop | 3,901 | 5 |
| Los Santos | 82 | Accounting | 7,118 | 5 |
| | 231 | Clothing mfg. | 2,143 | 0 |
| Veraguas | 308 | Restaurant | 38,218 | 0 |
| | 201 | Refreshment | 16,410 | 0 |
| | 29 | Metal work | 2,503 | 0 |
| | 160 | Metal work | 1,547 | 4 |
| | 185 | Grocery | 3,307 | 1 |
| | 52 | Metal work | 2,296 | 0 |

A number of the business operations in the sample were concerned with food sales and metal work. Some observations on these two classes of SSE are of interest because the former has an extremely good repayment record, while the latter has a poor one.

Grocery and Food Stores. The sample included one-fifth of the 44 grocery stores funded by DGPE. These are very small loans with a sample



Efraín Sang

Calle Tercera, David, Prov. de Chiriqui

B/7947.00 aprobado marzo de 1979

Proyecto ampliación

| | |
|---|---|
| Edificio | 4137.99 |
| Capital de trabajo | 3654.71 |
| Otros | 154.30 |

Empleados 9 (soldadores)

| | |
|---|---|
| Plazo de amortización | 60 meses |
| No. letras pagadas | 26 |
| No. letras morosas | 18 |

Venta de producto por año B/18000.00

Sr. Sang ha promitido a MICI cancelar su cuenta cuando haya cumplido con el contrato para sillas escolares con el Ministario de Educación.

PRESTAMO 2: FABRICA DE BATERIAS

Fulgencio Alcides Miranda

Avenida 3 de Noviembre, David, Chiriquí

B/8311.00 aprobado noviembre de 1978

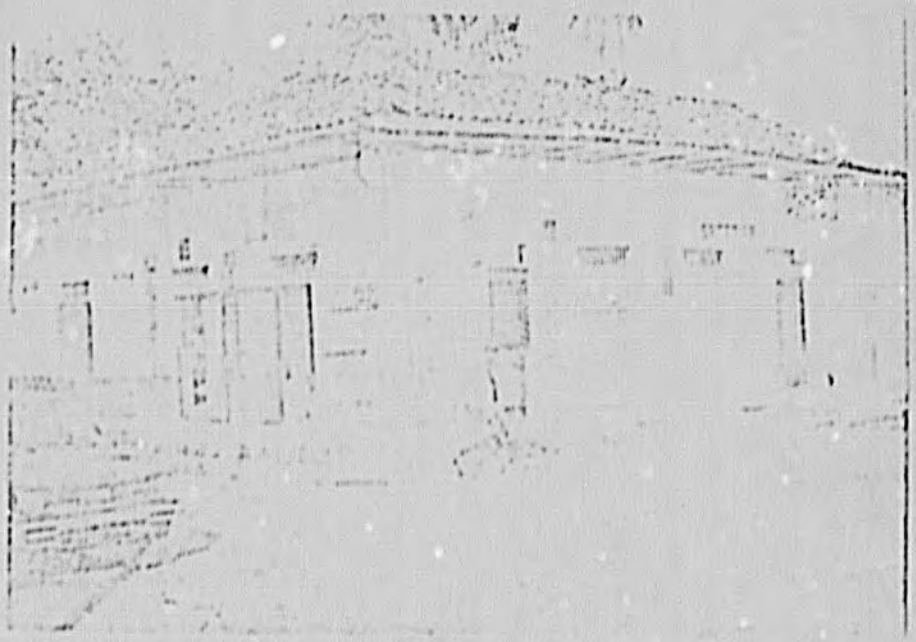
Proyecto ampliación

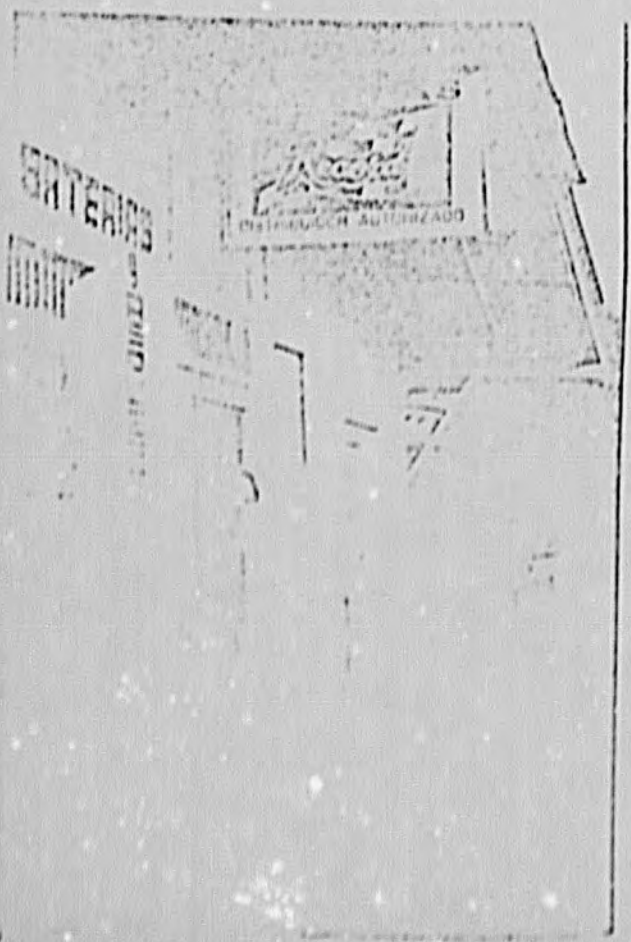
| | |
|---|---|
| Máquinas | 4914.00 |
| capital de trabajo | 3235.64 |
| Cajas de baterias | 161.36 |

Empleados 5

| | |
|---|---|
| Plazo de amortización | 60 meses |
| No. letras pagadas | 44 |
| No. letras morosas | 0 |

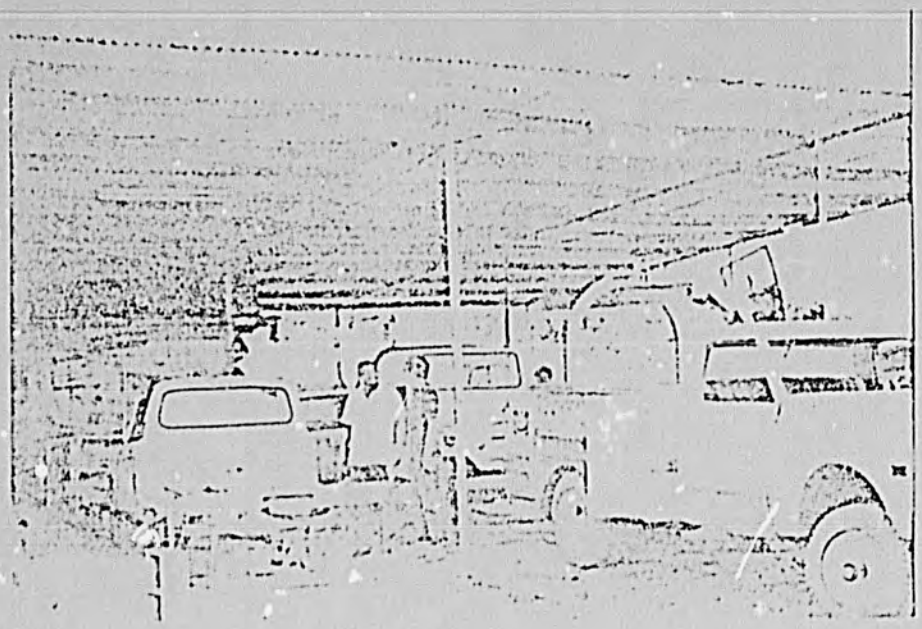
Venta de producto por año B/72000.00
El negocio marcha bien.






Con la ganancia de los baterias Sr. Miranda abrió una librería en el mismo edificio.

# PRESTAMO 29: TALLER DE CHAPISTERIA



Ezequiel Hernandez

Los Algarrobos, Santiago, Veraguas

B/2502 aprobado deciembre de 1980

Proyecto amplicación

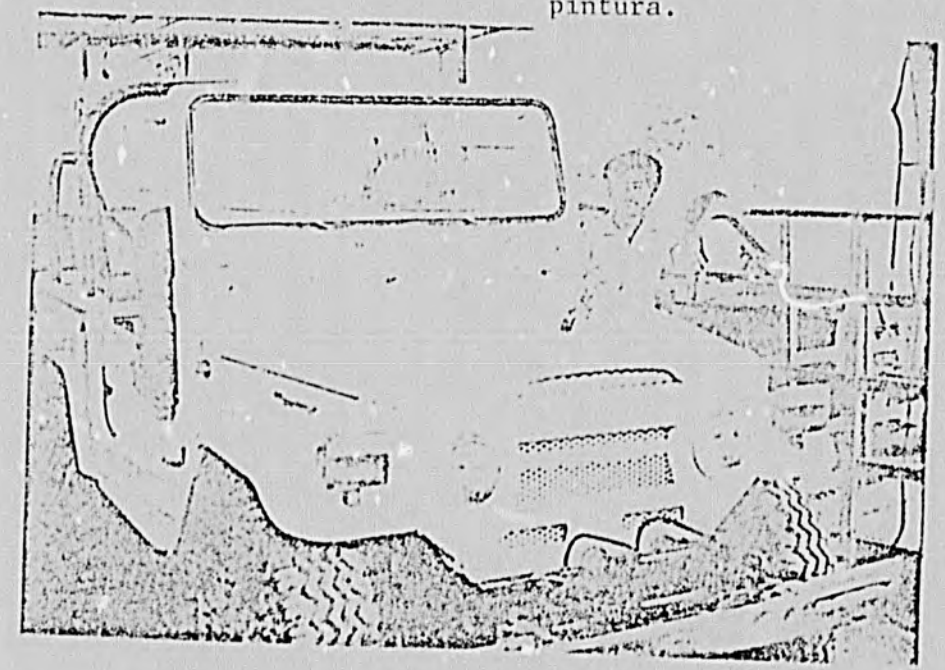
| | |
|---|---|
| Edificio | 1501.64 |
| Capital de trabajo | 311.71 |
| Equipo | 660.45 |
| Otros | 28.20 |

Empleados 2

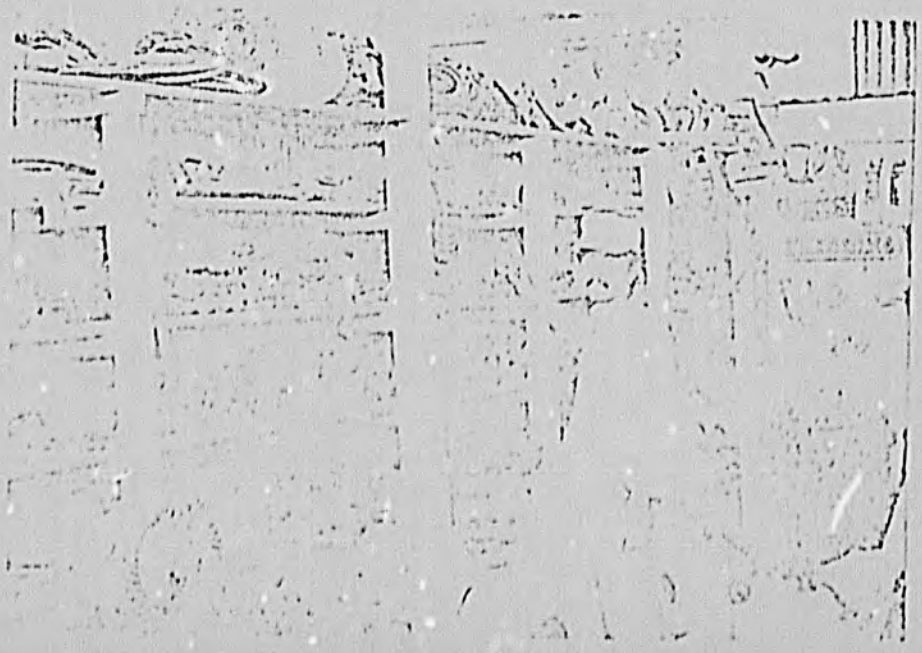
| | |
|---|---|
| Plazo de amortización | 30 meses |
| Letras pagadas (todas) | 30 |
| Letras morosas | 0 |

Venta de producto por año B/9720

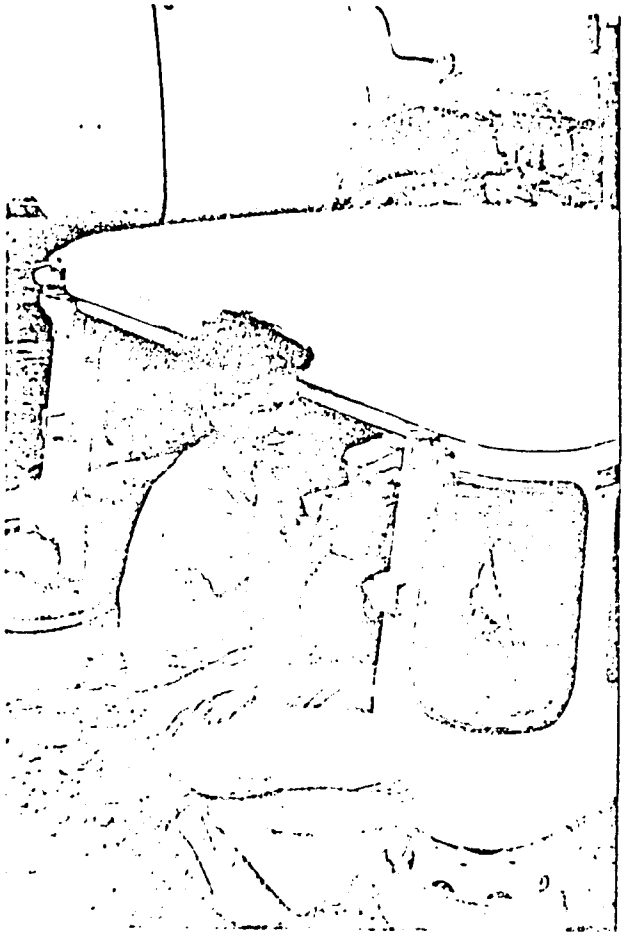
El negocio marcha muy bien. Piensa pedir un nuevo prestamo para la venta de repuestos y tambien piensa tener un cuarto para secado de pintura.



Un vehiculo "Jeep" reconstruido y pintado.

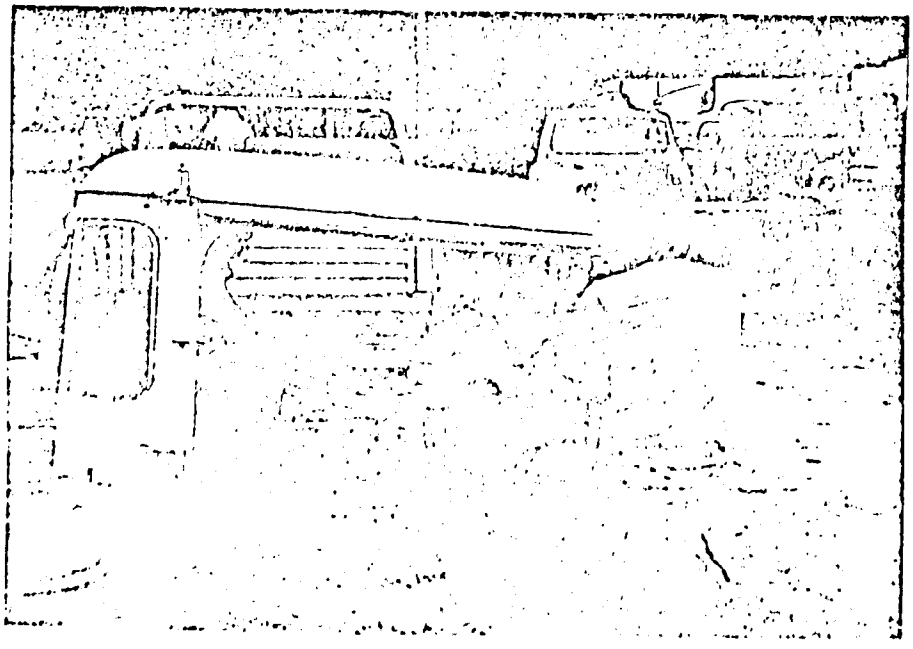


El dueño Hernandez y sus repuestos.



Taller de chapisteria

Ayudantes jovenes laborando y aprendiendo durante sus vacaciones y ganando $3/3 diario.



PRESTAMO 41: ABARROTERIA YAMINTH

Juan E. Rodriguez

Calle San Juan de Dios,S/N, Pocri, Aguadulce, Coclé

B/3002 aprobado febrero de 1980

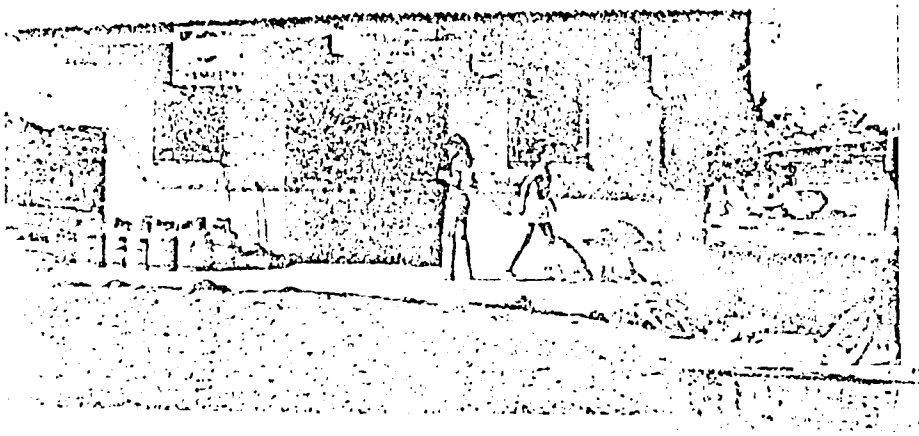
Proyecto amplicación

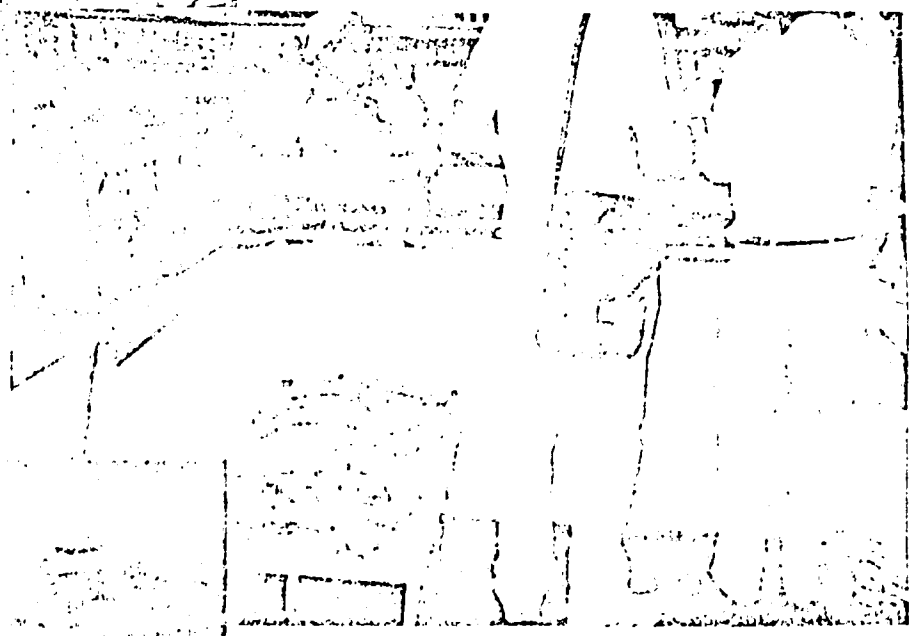
| | |
|---|---|
| Capital de trabajo | 2968.16 |
| Otros | 33.84 |

Empleados 2

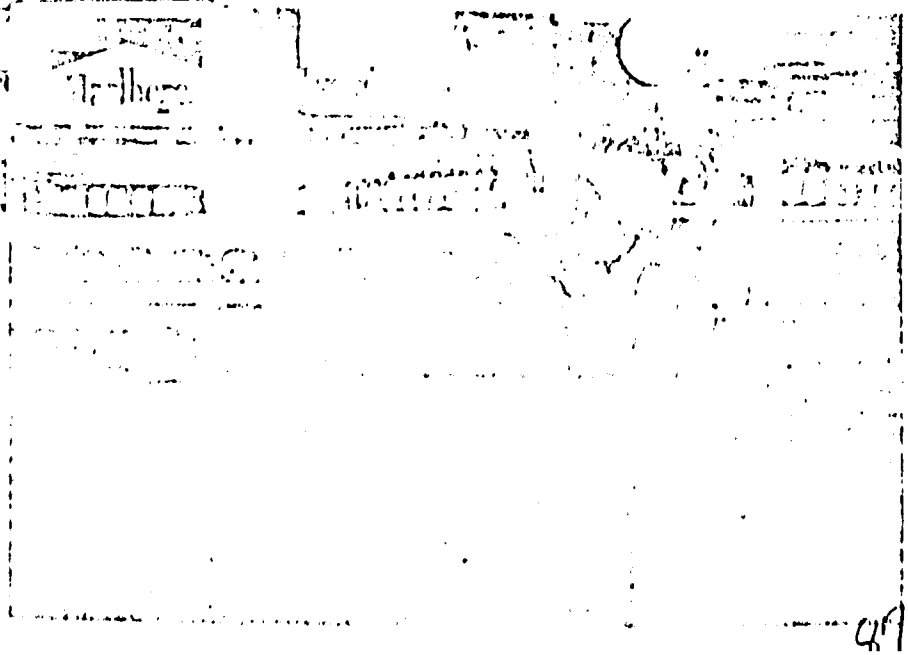
| | |
|---|---|
| Plazo de amortización | 30 meses |
| Letras pagadas (Todas) | 30 |

El negocio marcha muy bien y desea amplicarlo.



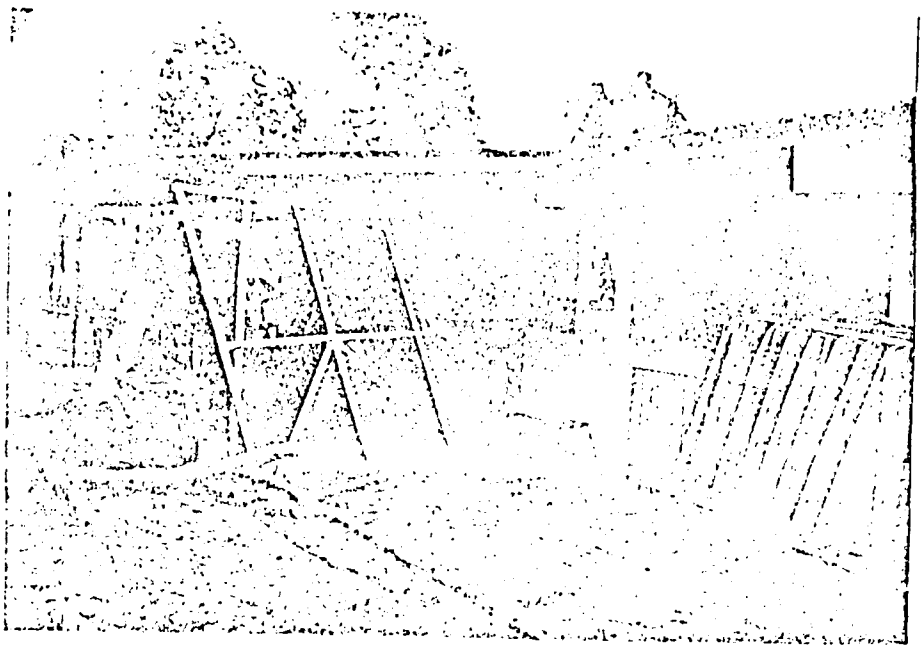


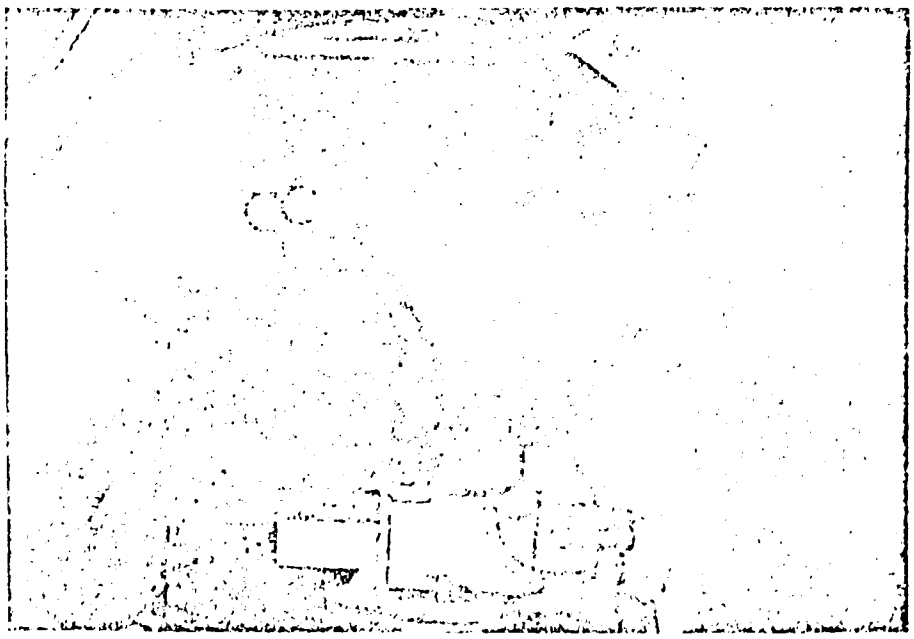
Tiene dos congeladores y su recibo de electricidad es de B/120 al mes. Tiene una ganancia de B/400 diarios aproximadamente.



Su hermana es contadora y ayuda con la contabilidad una vez al mes.

PRESTAMO 52: TALLER POR SOLDADURA





Victor Manuel Suazo

Rio de Jesus, Prov. de Veraguas

B/2296 aprobado mayo de 1980

Proyecto nuevo

| | |
|---|---|
| Maquinas | 1177.00 |
| Capital de trabajo | 994.87 |
| Otros | 124.13 |

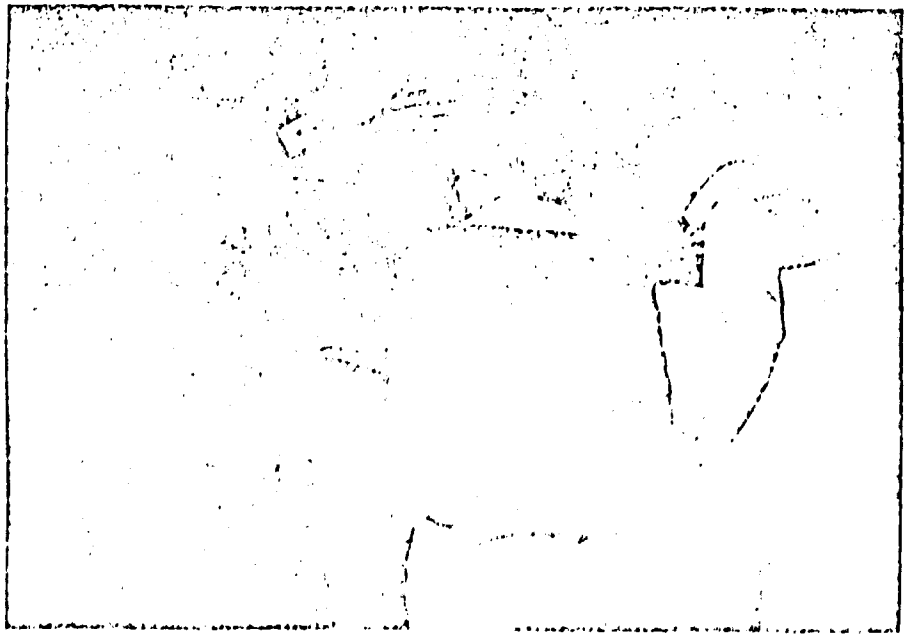
Empleados 1 temporal

| | |
|---|---|
| Plazo de amortización | 30 meses |
| Letras pagadas | Todas-30 |

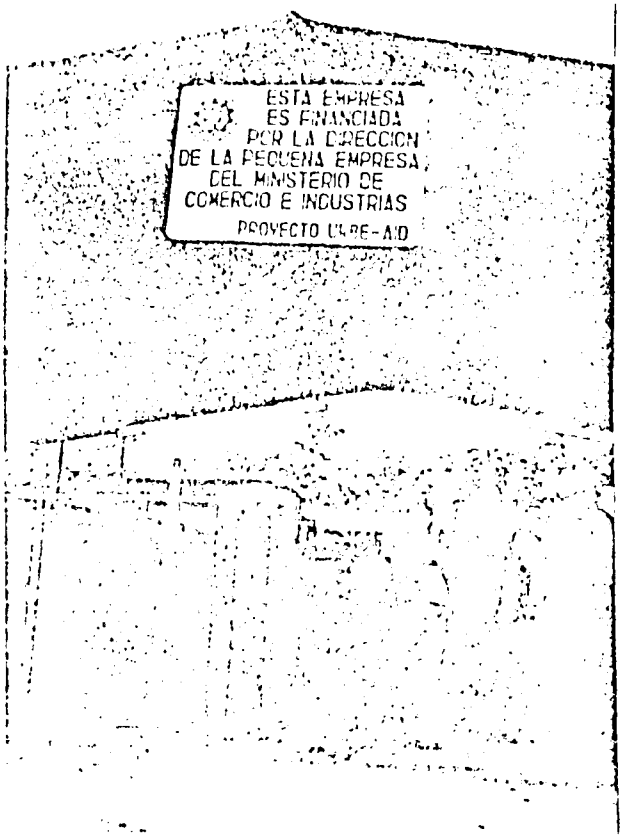
Venta de producto por año B/18540.

El señor Suazo era un maestro de soldadura en la escuela de Trinidad. Se retiró de la escuela para independizarse pero su ingreso de B/212 por mes es poco mejor que su salario anterior. No está muy satisfecho, aunque tiene clientes que vienen de muy lejos para comprar los muebles de hierro que al fábrica.

Este señor ha pagado su préstamo a tiempo y aunque su ingreso actual no está al nivel que esperaba su negocio es relativamente exitoso. Con su experiencia en el negocio de la soldadura y su vocación docente, sería un buen candidato para brindar asesoría técnica a las otras empresas similares en el área con problemas de índoles técnicas y administrativos. Por ej. solo el proyecto N° 160 del Sr. Perez.



PRESTAMO 55: TALLER DE TORNERIA Y HERRERIA MORA




La Galería

Reynaldo Fonseca Mora

Calle Moises Espino, Las Tablas, Los Santos

B/7169 aprobado junio de 1980

Proyecto ampliación

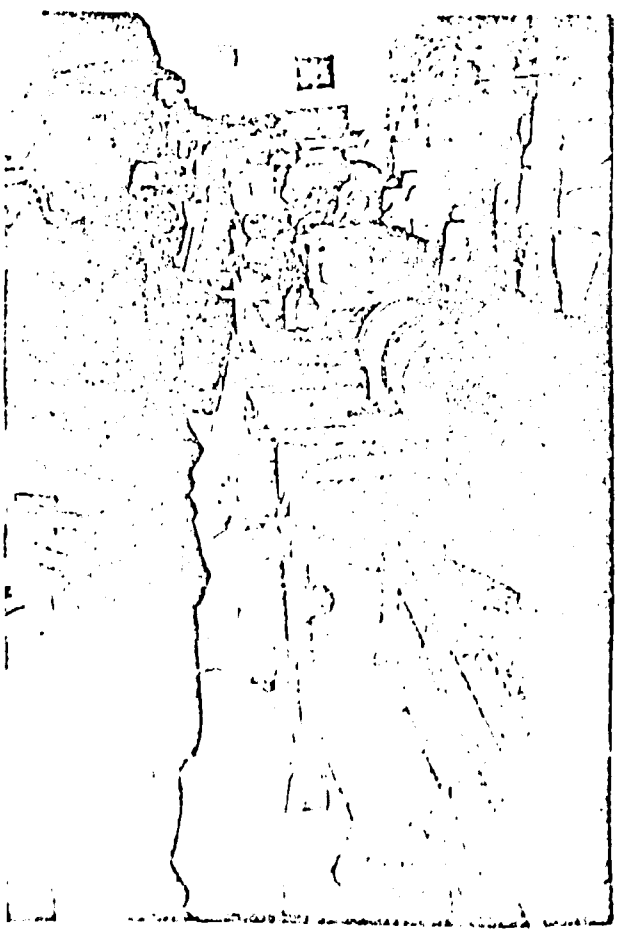
| | |
|---|---|
| Terrenos y mejoras | 600.00 |
| Edificio | 2704.00 |
| Capital de trabajo | 3746.56 |
| Otros | 118.44 |

Empleados 3

| | |
|---|---|
| Plazo de amortización | 48 meses |
| No. letras pagadas | 28 |
| No. letras morosas | 2 |

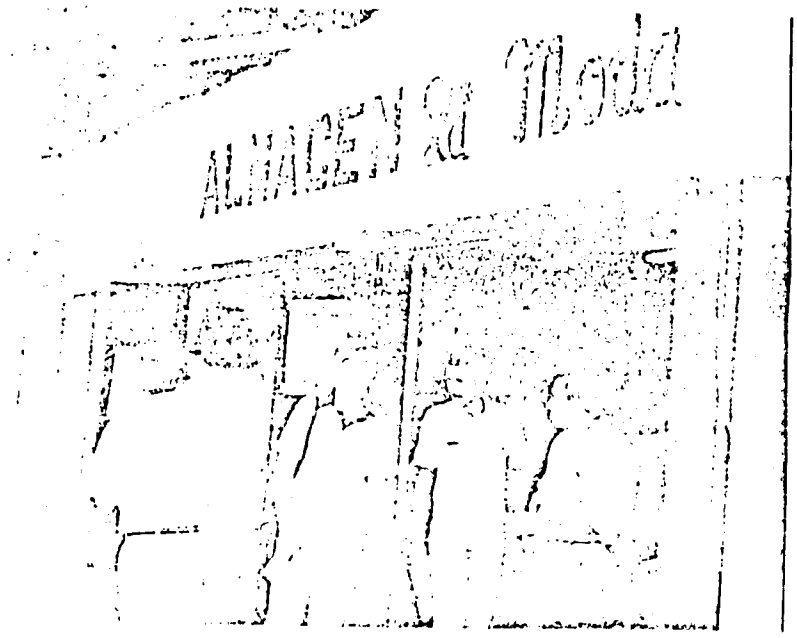
Su negocio marcha bien.

Autos antiguos - Modelo A Ford y un "Jeep" de guerra segunda



Sr. Mora, el dueño

PRESTAMO 68: "CREATIONS DORA" y ALMACEN LA MODA




Dora Avellano de Rudy

Avenida Juan D. Arosemena, Penonomé, Coclé

B/23,870.00 aprobado julio de 1980

Proyecto ampliación

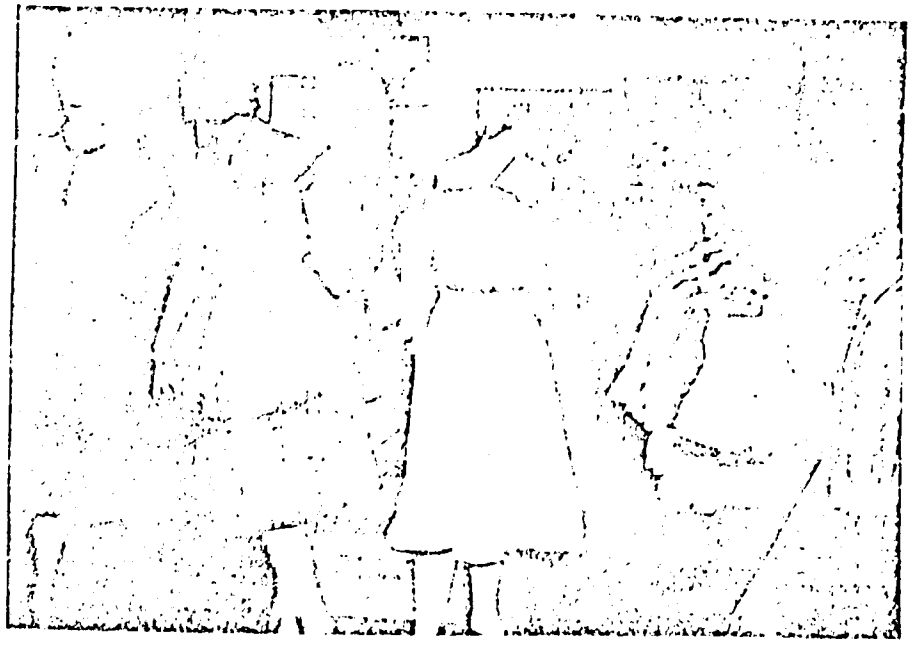
| | |
|---|---|
| Edificación | 1,112.55 |
| Capital de trabajo | 8,500.87 |
| Máquinas | 12,699.27 |
| Otras | 1,557.31 |

Empleados 13 (4 bordadoras, 1 cortadora, 8 costureras)

| | |
|---|---|
| Plazo de amortizacion | 60 meses |
| No. letras pagadas | 19 |
| No. letras morosas | 7 |

Venta de producto por año B/158,304.00

El negocio marcha bien aunque sus clientes, almacenes de la ciudad de Panamá, estan morosos.

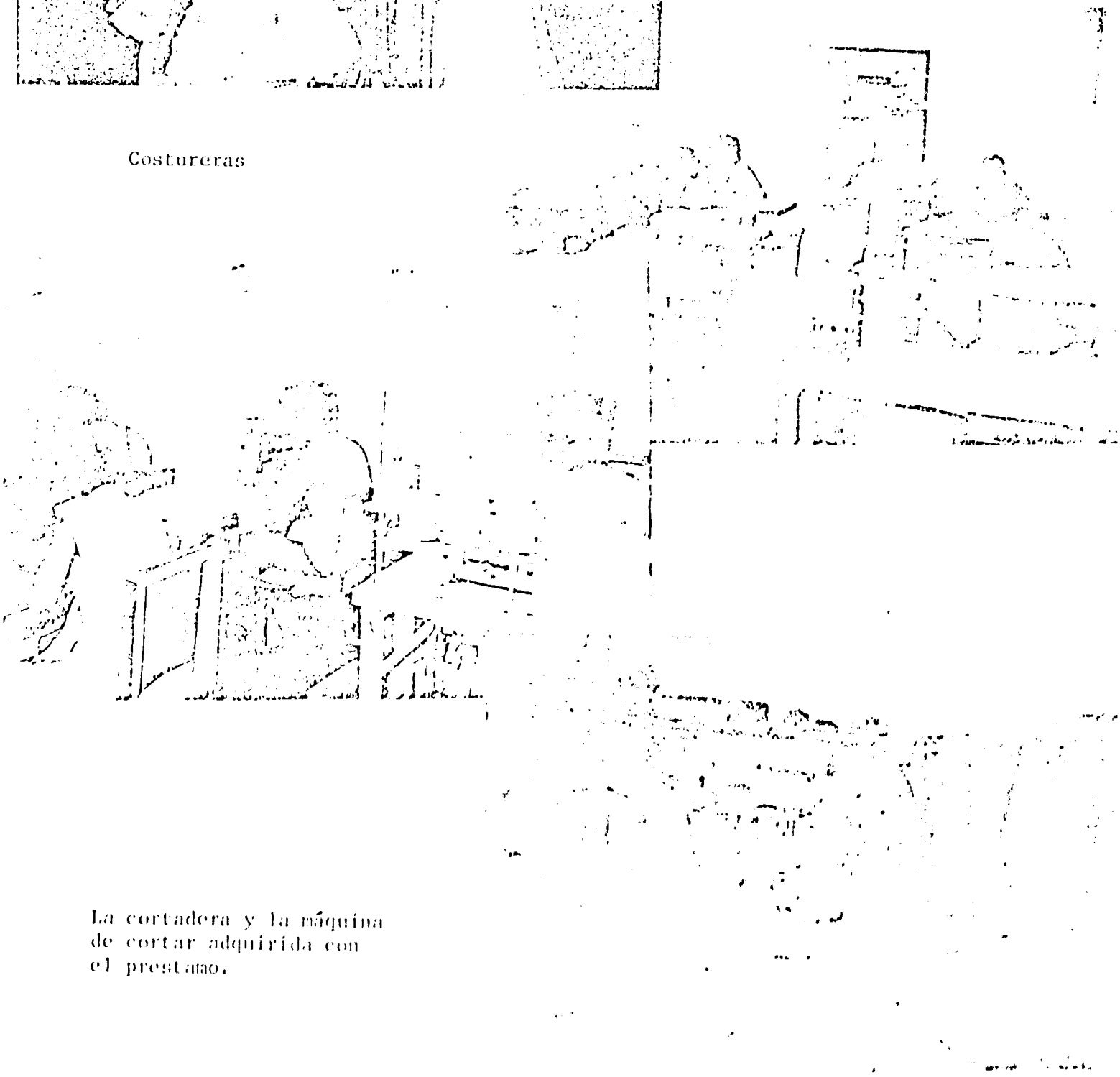


Confecciones de ropa para niñas y mujeres

Una bordadora

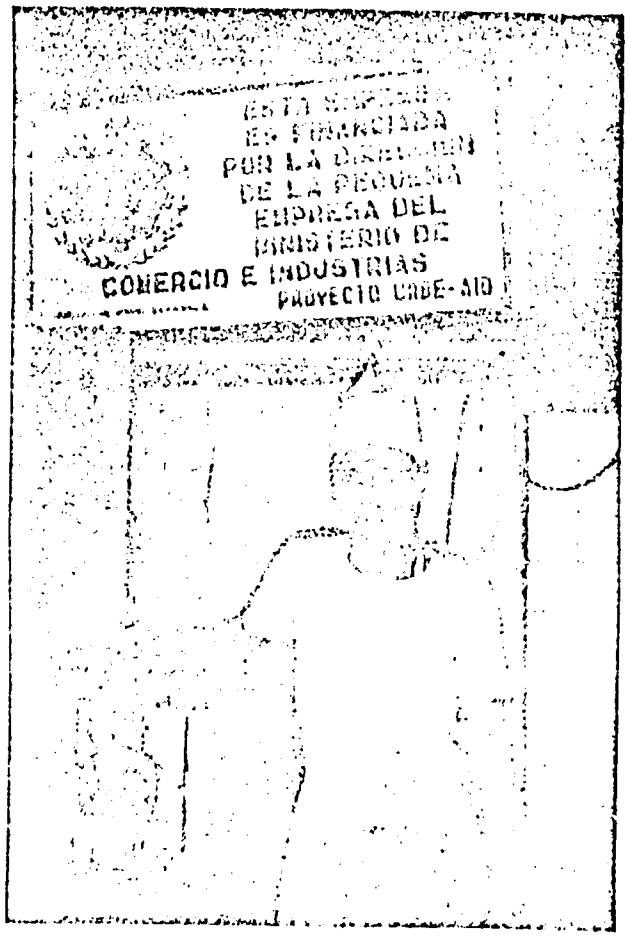
El vestidito celeste cuesta
B/15 al por menor solo y
B/12 al por mayor

Costureras



La cortadera y la máquina de cortar adquirida con el prestamo.

PRESTAMO 81: CARNICERIA




Mario Pardo

Calle 1a, Santiago, Veraguas

B/1521 aprobado septiembre de 1980

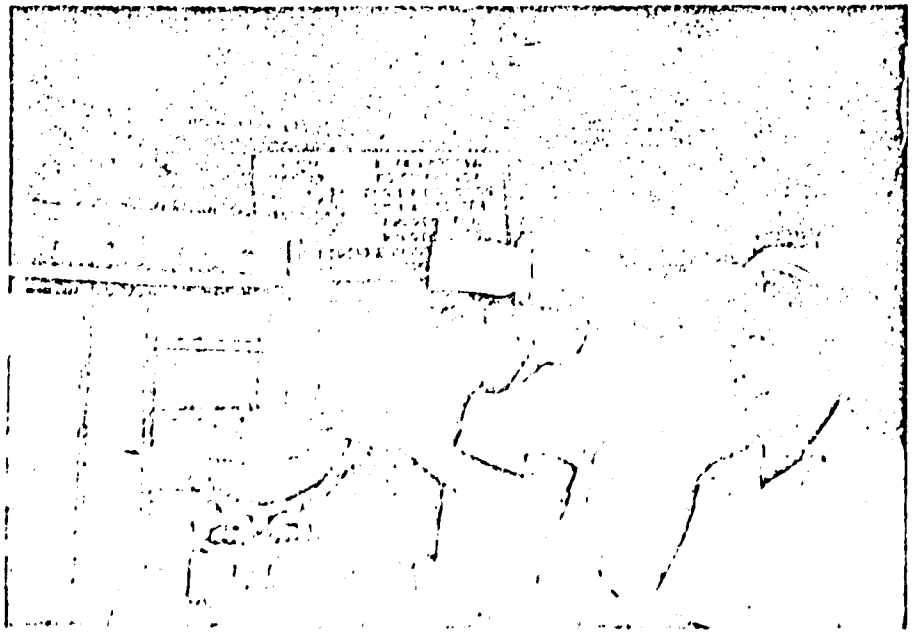
Proyecto nuevo

| | |
|---|---|
| Maquinas | 668.12 |
| Capital de trabajo | 838.40 |
| Otros | 14.48 |

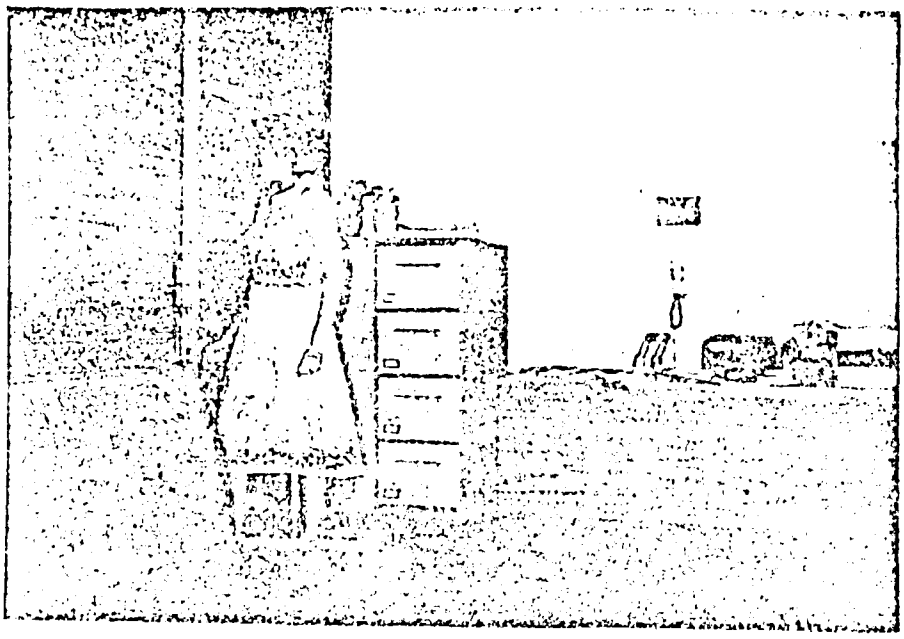
Empleados 1

Plazo de amortización 24 meses
Letras pagadas (todas) 24

El negocio marcha bien.



PRESTAMO 82: CONSULTADORES DE AZUERO



La secretaria

Juan Antonio Herrera

Avenida Central,
Las Tablas, Los Santos

B/7118.00 aprobado mayo de 1980

Proyecto ampliación

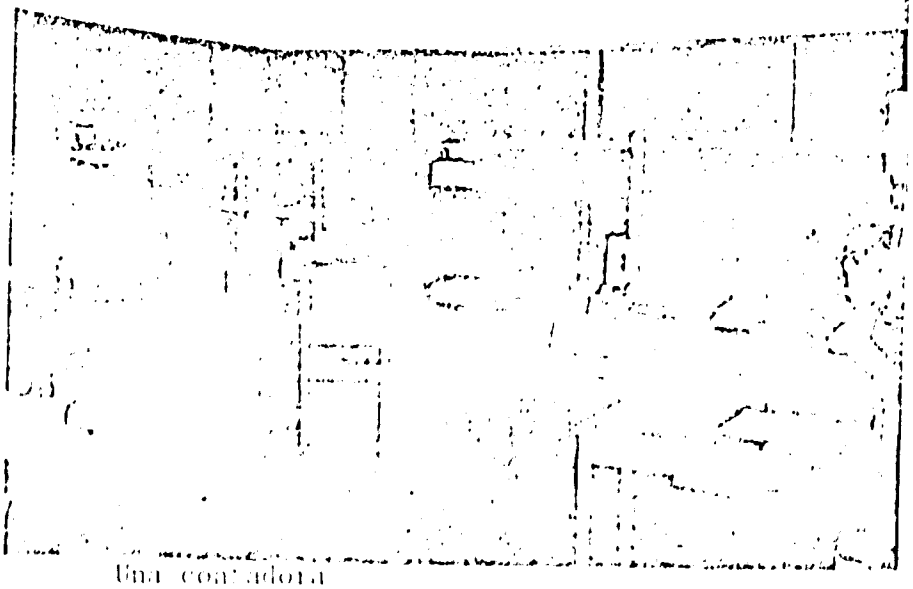
| | |
|---|---|
| Equipo | 3000.00 |
| Capital de trabajo | 4000.00 |
| Otros | 113.00 |

Empleados 6 (5 contadores, 1 secretaria)

| | |
|---|---|
| Plazo de amortización | 48 meses |
| No. letras pagadas | 21 |
| No. letras morosas | 5 |

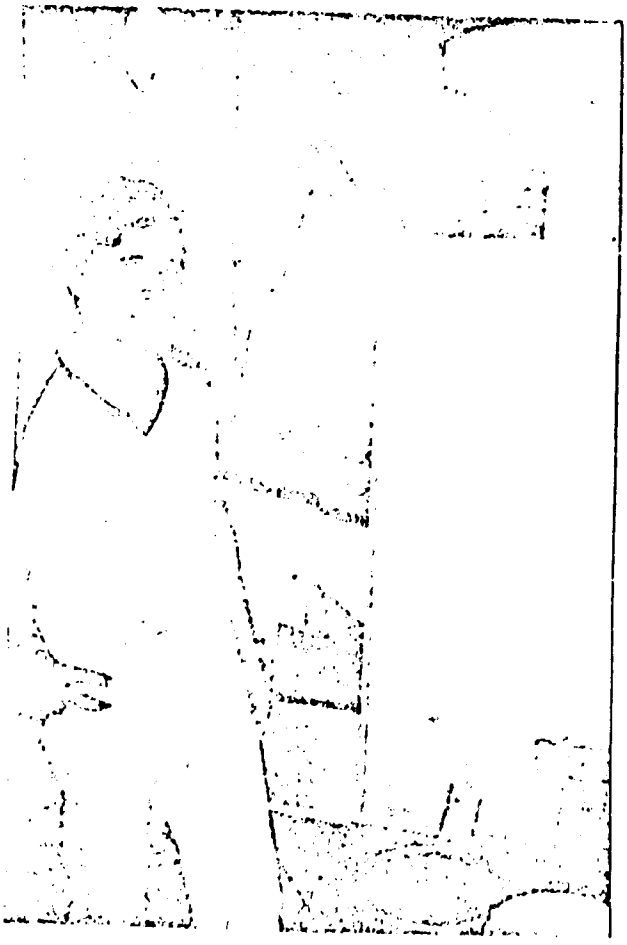
El negocio esta bien. Falta bastante capital de trabajo.

Juan Herrera, el dueño



Una contadora

PRESTAMO 87: MONTAJES AGRO-INDUSTRALES SA (MAISA)



Eladio Guardia, el dueño, con su piladora.

Eladio Guardia

Avenida Justo Arosemena #3860, Penonomé, Coclé

B/13,767.00 aprobado dic. de 1980

Proyecto ampliación

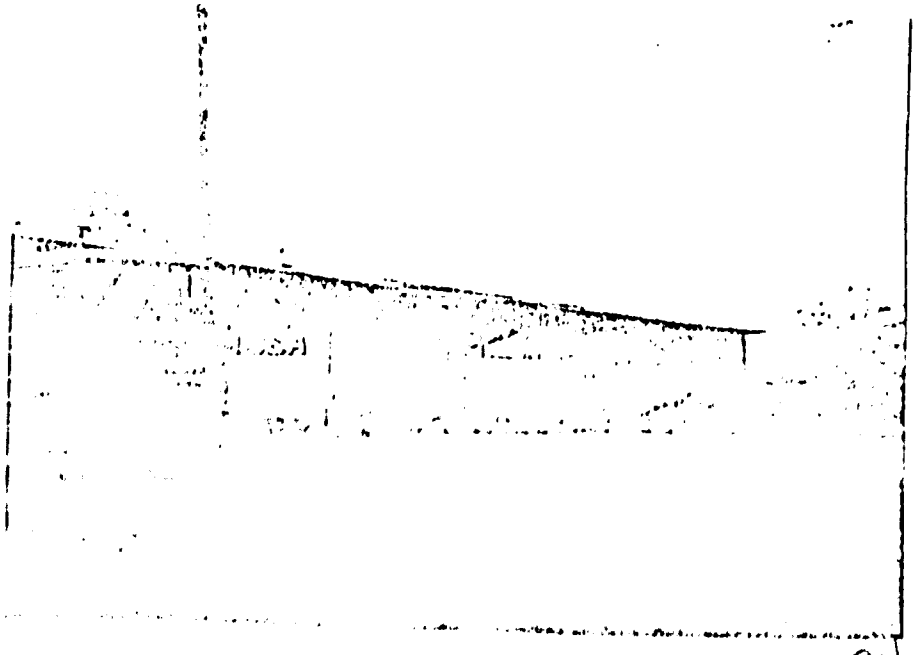
| | |
|---|---|
| Máquinas | 5939.50 |
| Capital de trabajo | 7552.28 |
| Otros | 275.22 |

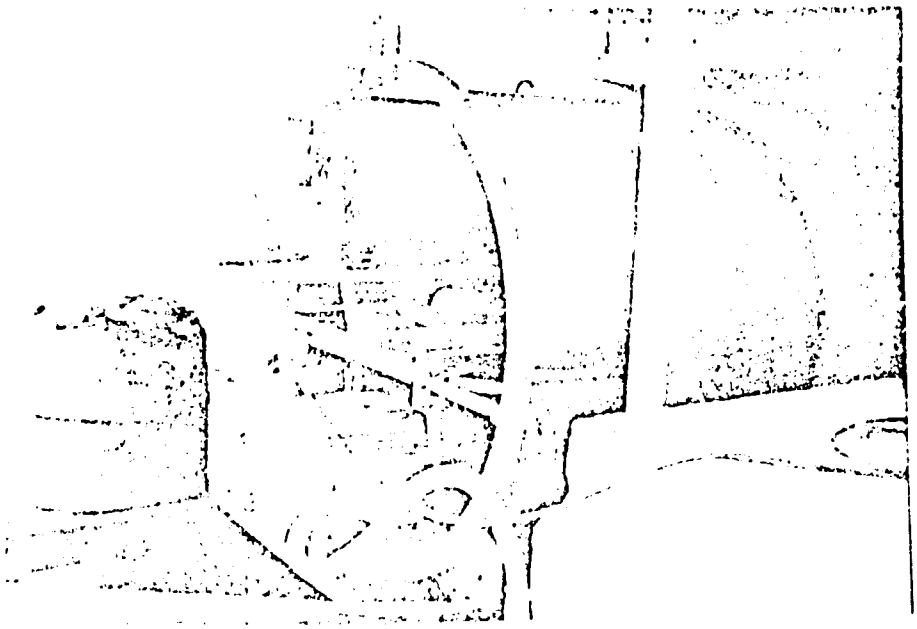
Empleados 5 (2 labores y 3-5 ayudantes)

| | |
|---|---|
| Plazo de amortización | 60 meses |
| No. letras pagadas | 16 |
| No. letras morosas | 2 |

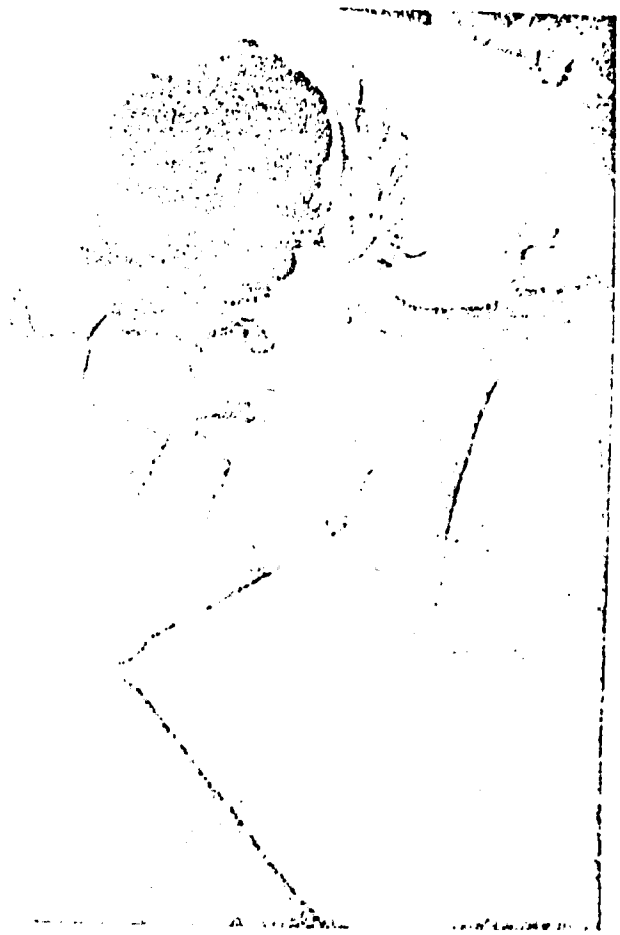
Venta de producto por año B/42,000.00

El negocio marcha de acuerdo con lo programado. Problemas con escages del maíz.





Secadora para granos



Llenando las bolsas con granos

Cosiendo las bolsas para cerrarlos

Camión utilizado por MAISA para el transporte de granos

PRESTAMO 92: SASTRERIA (Y ABARROTERIA)

Adriano Franco

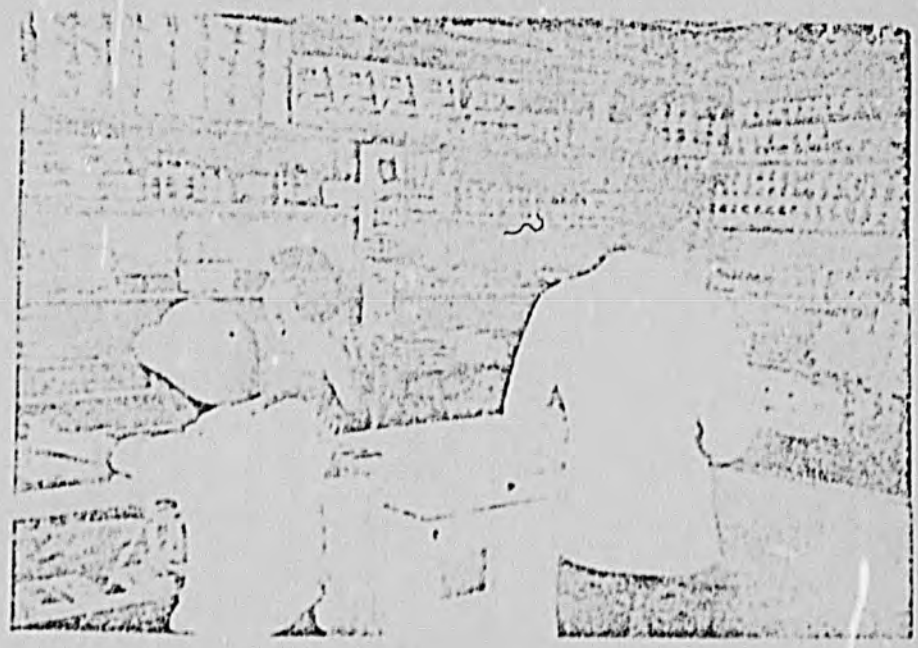
Av. 20 de Mayo S/N, Nata, Coclé

B/3901 aprobado oct. de 1980

Proyecto nueve

| | |
|---|---|
| Edificio | 1894.20 |
| Maquinas | 942.90 |
| Electricidad | 165.90 |
| Capital de trabajo | 840.00 |
| Empleados 1 | |
| Plazo de amortización | 42 meses |
| Letras pagadas | 18 |
| Letras morosas | 5 |

El negocio de sastrería en este local no próspero como esperaba. Este lo relocalizó en otro lugar mas apropiado en un local alquilado y estableció una abarrotería en el edificio. El resultado es que ahora cuenta con dos negocios por el precio de uno y ambos marchan bien.



El señor confecciona 15-18 pantalones por semana. Confección solamente B/7, completo B/13.

La esposa del Sr. Franco preparando paquetes de azúcar en cantidades apropiadas para sus clientes quienes compran en pequeñas cantidades. Como es práctica usual, estas empresas compran sus productos al por mayor en relativamente grandes cantidades y proveen un servicio indispensable para sus clientes.

PRESTAMO 99: LABORATORIO CLINICO

Juan O. Ramos del Rosario

Calle Victoriano Lorenzo S/N
Penonomé, Prov. de. Coclé

B/ 7074 aprobado dic. de 1980

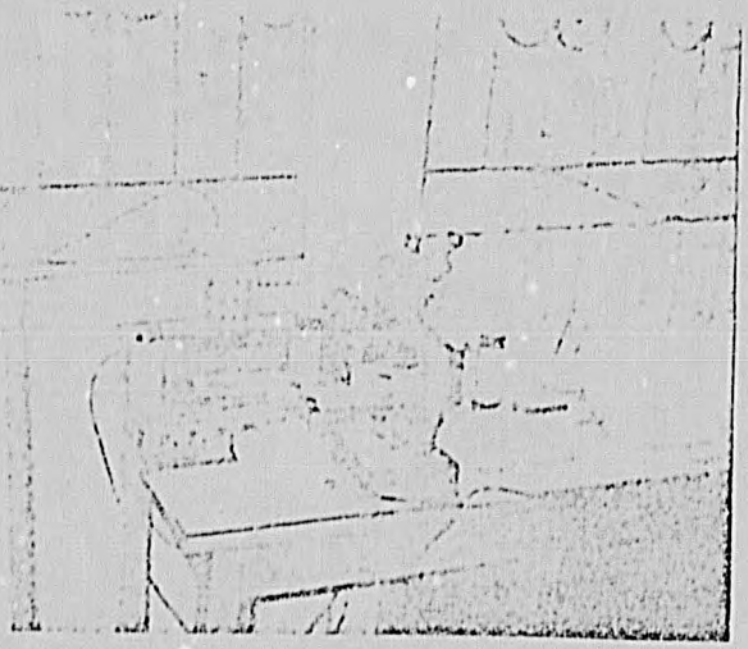
Proyecto Nuevo

| | |
|---|---|
| Equipo | 6288.90 |
| Capital de trabajo | 662.08 |
| Otros | 123.02 |

Empleados 2

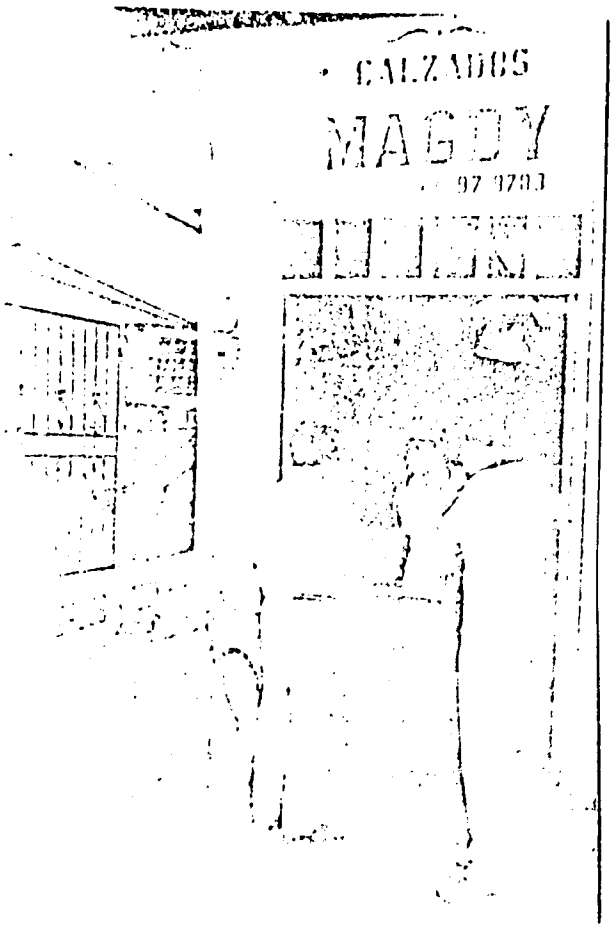
| | |
|---|---|
| Plazo de amortización | 52 meses |
| No. letras pagadas | 25 |
| No. letras morosas: | 0 |

El negocio marcha bien. No hay otros laboratorios en Penonomé



Laboratoristo Ramon y su equipo

PRESTAMO 108: CALZADOS MAGDY




Aurelio Morales

Avenida Juan D. Arosemena, Penonomé, Coclé

B/2984 aprobado diciembre 1980

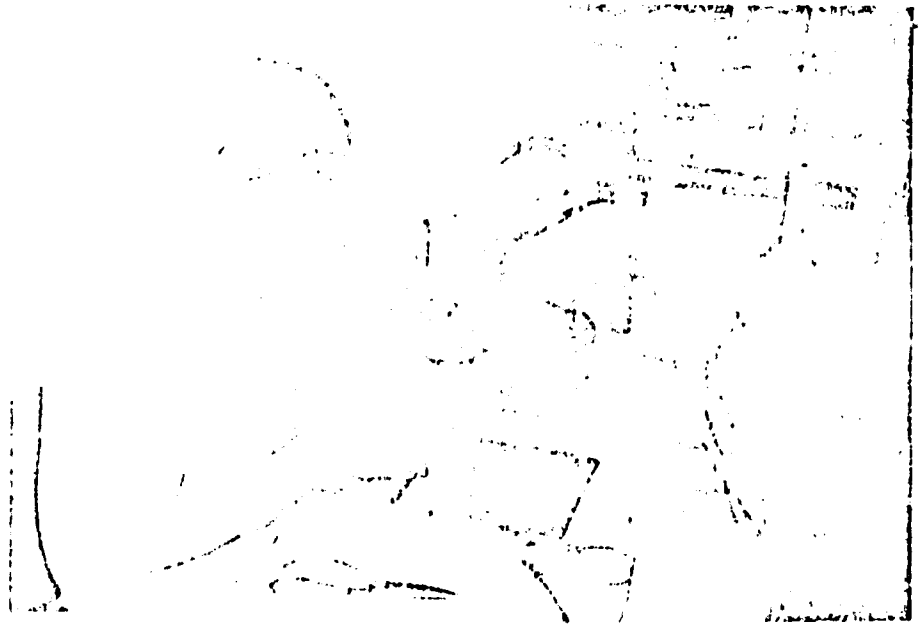
Proyecto nuevo

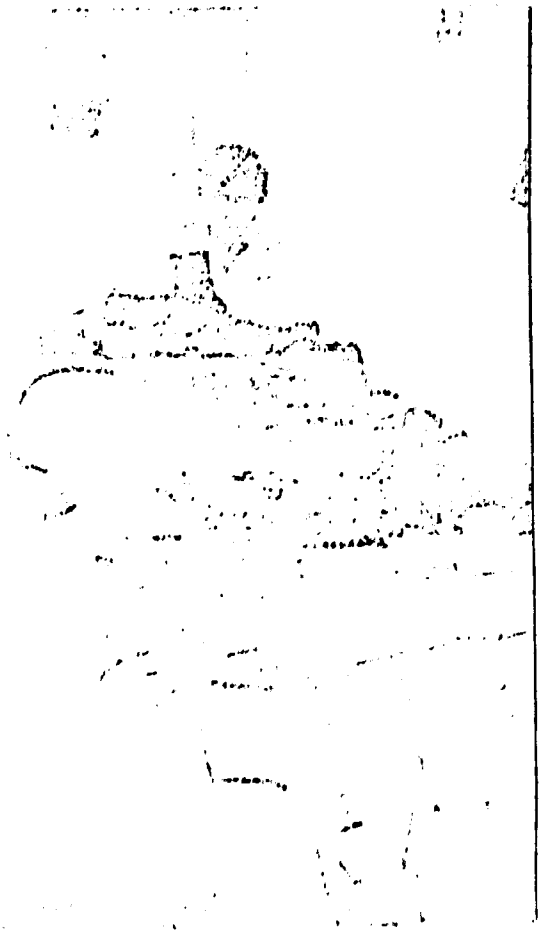
| | |
|---|---|
| Máquinas | 1086.75 |
| Capital de trabajo | 1861.88 |
| Otras | 35.37 |

Empleados 6 (2 cortador/coseros, 1 montador, 2 reparadores, 1 contadora)

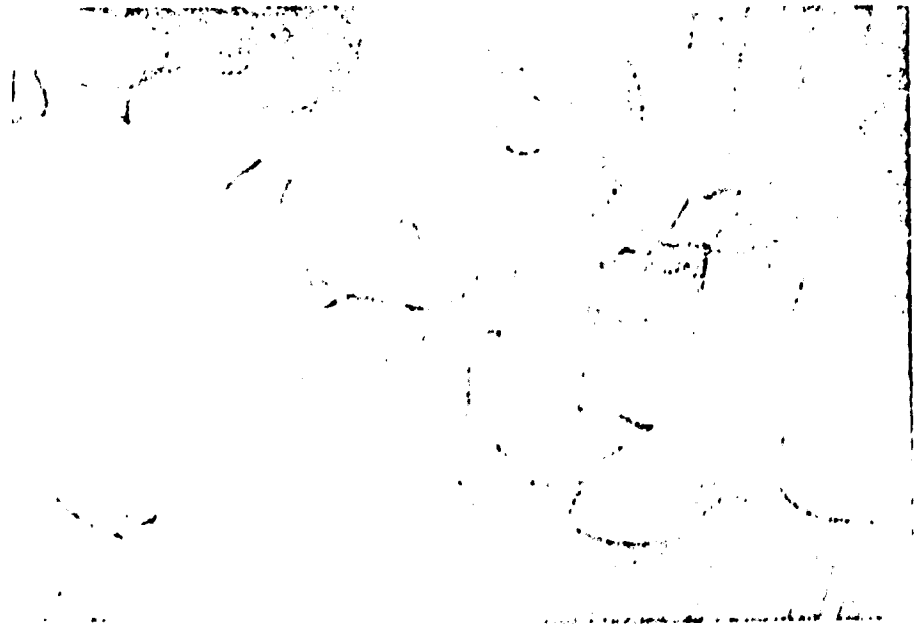
| | |
|---|---|
| Plazo de amortización | 32 meses |
| No. letras pagadas | 12 |
| No. letras morosas | 5 |

Venta de producto por año B/44,940.00





El negocio marcha bien, pero se necesitan más equipos.



PRESTAMO 111: TALLER DE EBANISTERÍA TITO

Estilito Moreno Vergara

Cruce de Sábana Grande, Los Santos

B/8853.00 aprobado febrero de 1981

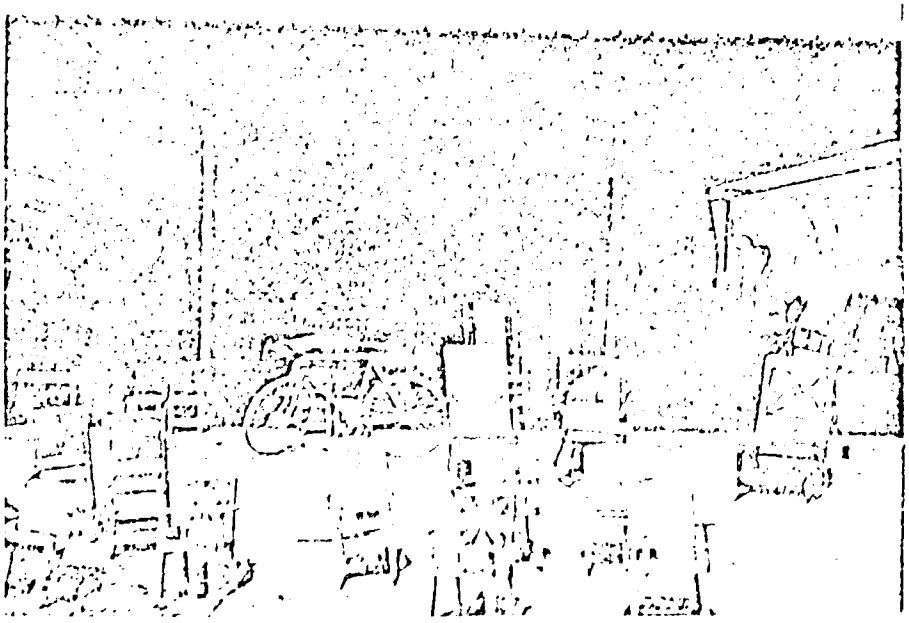
Proyecto nuevo

| | |
|---|---|
| Máquinas | 6192.38 |
| Capital de trabajo | 2307.62 |
| Otras | 353.00 |

Empleados 7

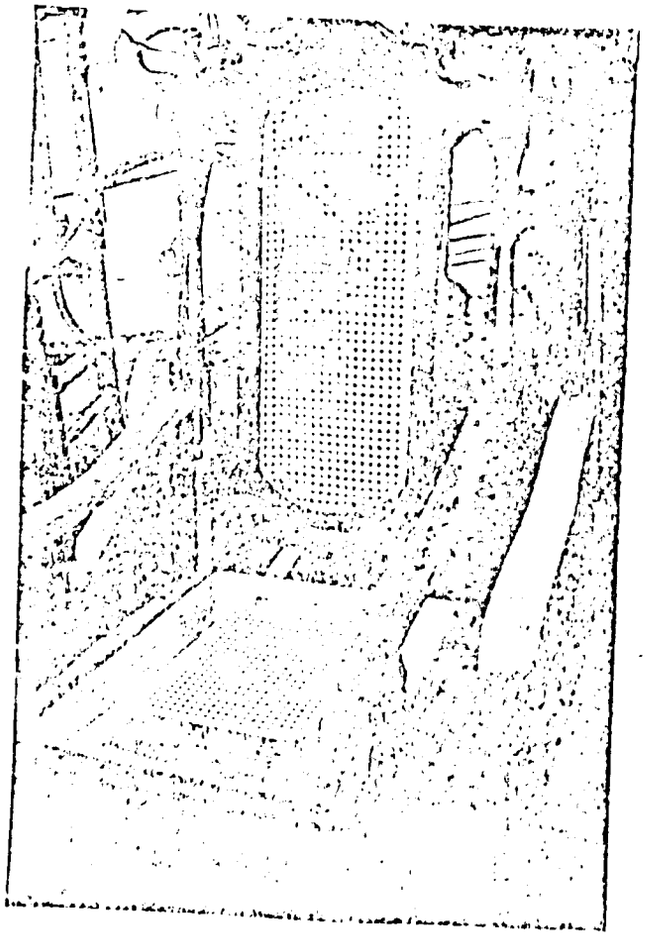
El negocio marcha satisfactoriamente y actualmente estan ampliando la galera.

| | |
|---|---|
| Plazo de amortización | 60 meses |
| No. letras pagadas | 19 |
| No. letras moronas | 1 |



Se venden mecedoras de cuero para nino a B/15 y sillas de cuero para ninos a B/10

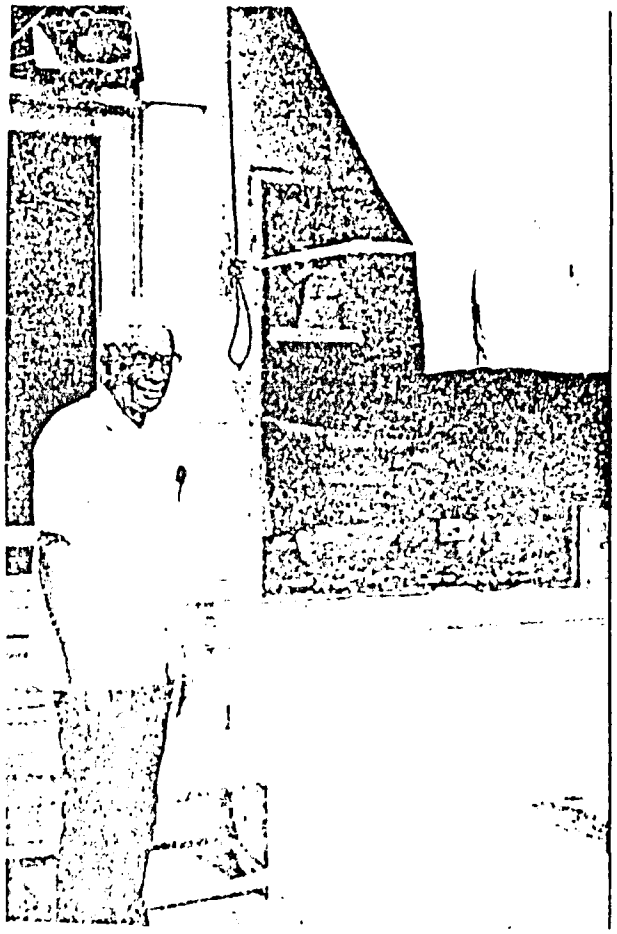
El Dueño Tito Vergara, 29 años de edad



La mecedora de roble y mimbre B/80.00

100

PRESTAMO 112: CASA JARAMILLO



Antonio Jaramillo

Av. Rodolfo Chiari 4703, Aguadulce, Coclé

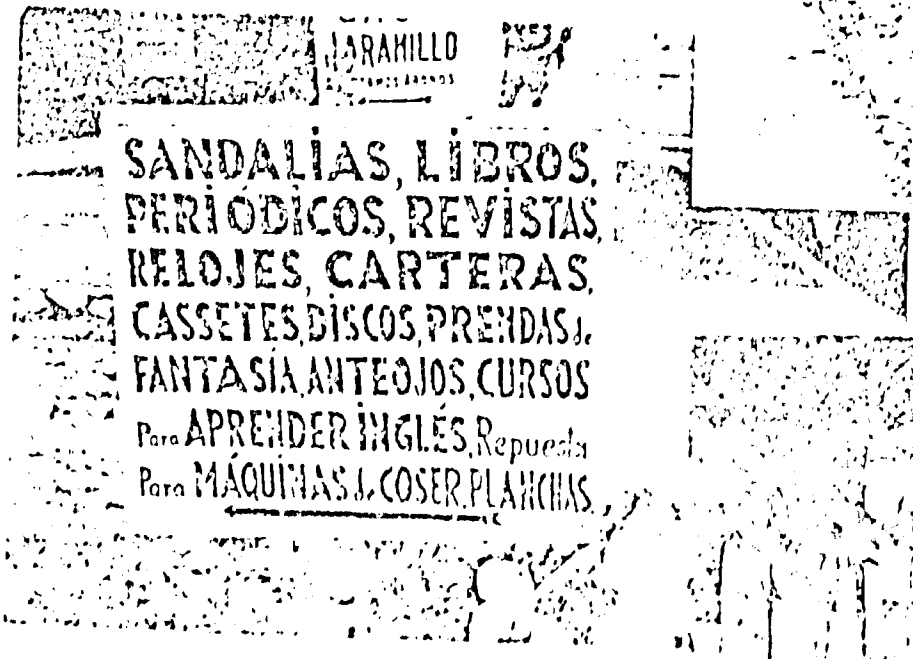
B/3538.85 aprobado enero 1981

Proyecto ampliación

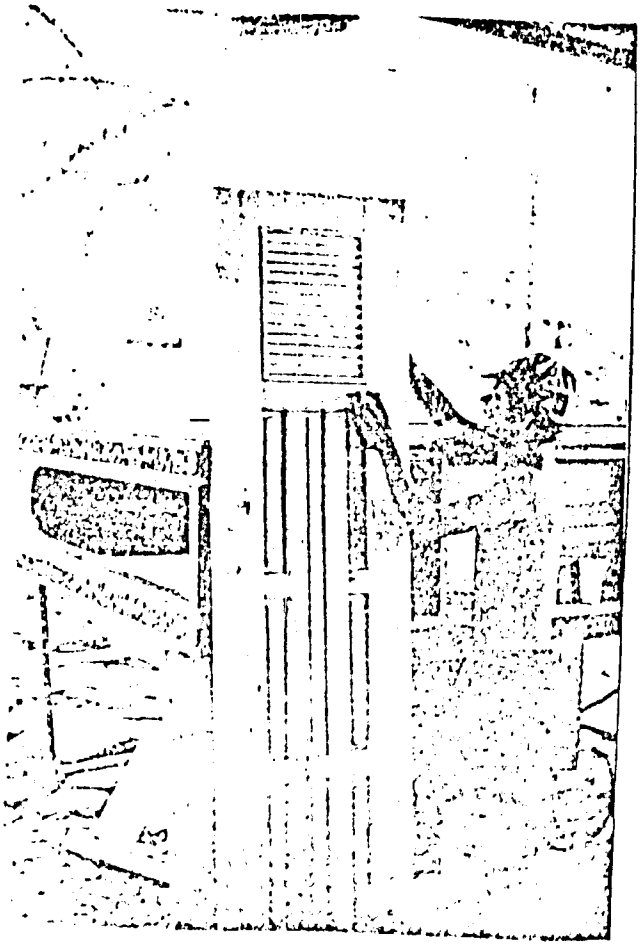
| | |
|---|---|
| Capital de trabajo | 3500 |
| Otros | 38.85 |

| | |
|---|---|
| Empleados | 2 |
| Plazo de amortización | 30 meses |
| Letras pagadas | 20 |
| Letras morosas | 4 |

No marcha de acuerdo a lo planeado; debido a que las ventas han bajado mucho -- la cual se ha visto en la necesidad de colocar nuevas lineas (ventas de joyas, ventas de chancletas).



PRESTAMO 119: TALLER DE EBANISTERIA



Ricardo Cesar Miranda

Concepcion, Distrito de Bugaba

B/3980 aprobado mayo de 1981

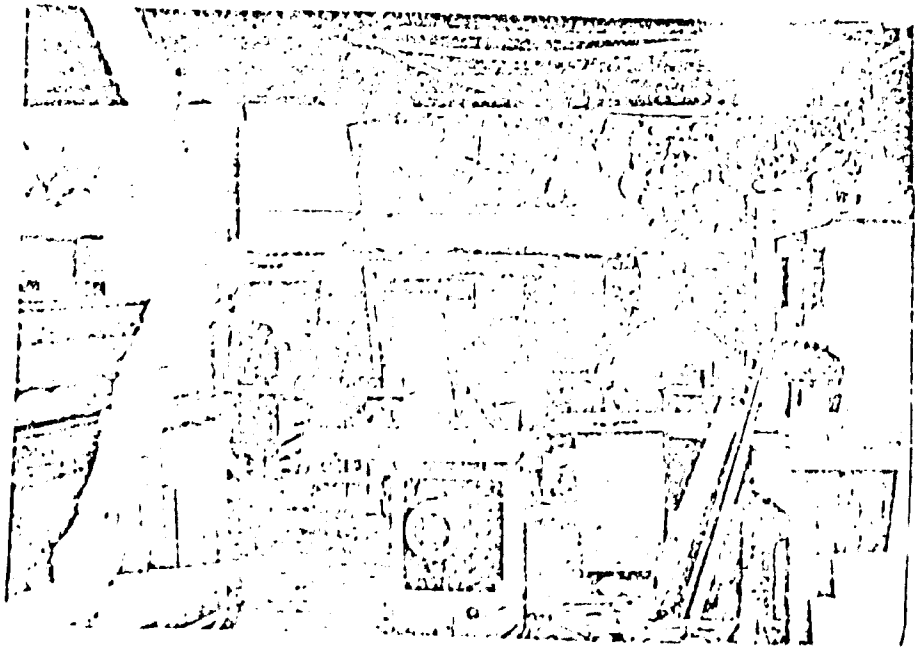
Proyecto amplicación

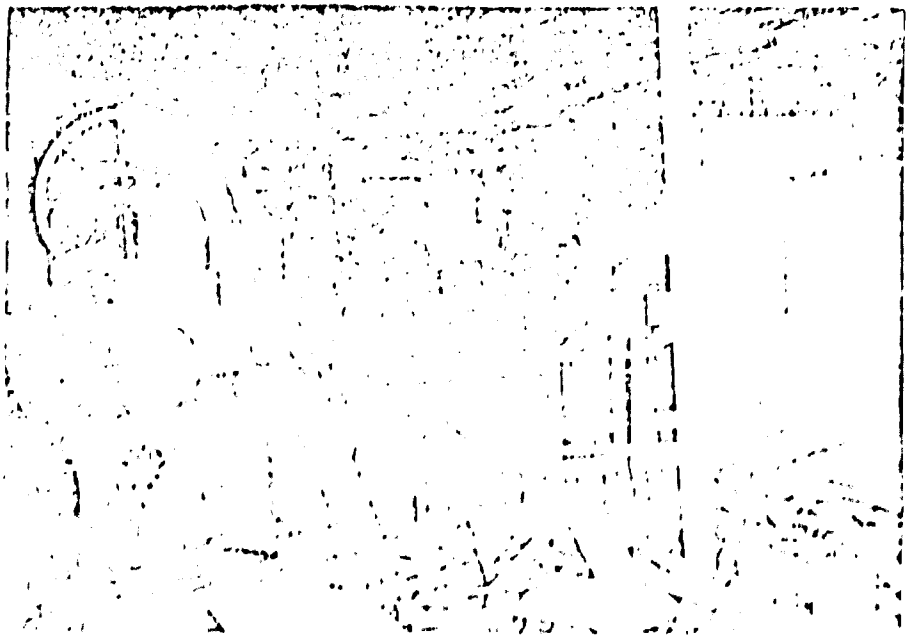
| | |
|---|---|
| Edificio | 671.44 |
| Máquina | 2222.85 |
| Capital de trabajo | 713.39 |
| Otros | 372.32 |

Empleados 2

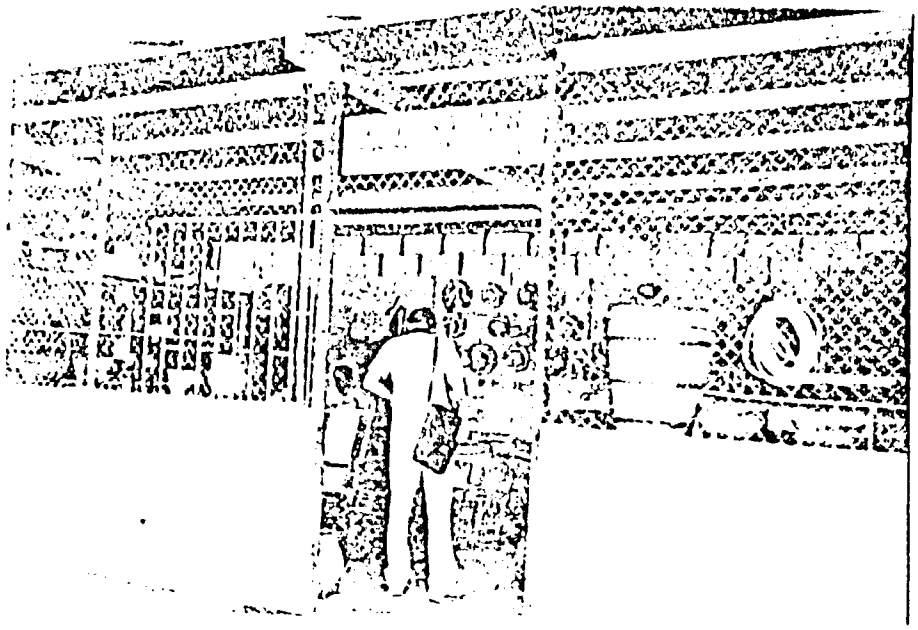
| | |
|---|---|
| Plazo de amortización | 36 meses |
| No. letras pagadas | 14 |
| No. letras morosas | 5 |

Su negocio no marcha bien.





PRESTAMO 134: ARTESANIAS COCLESANAS



Marco A. Mejia

Barriada San José, Penonomé, Prov. de Coclé

B/6848 aprobado julio de 1981

Proyecto ampliación

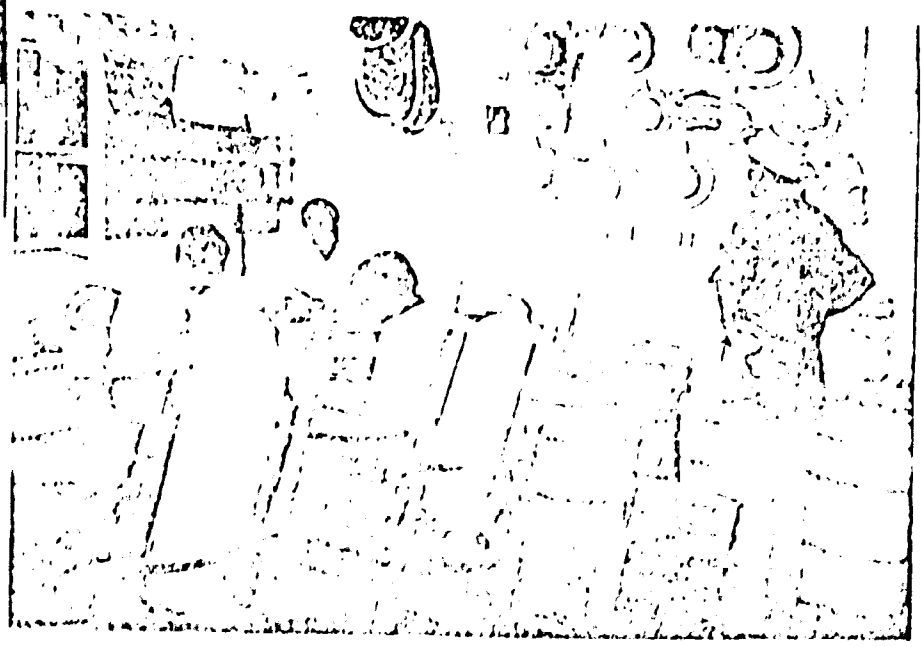
| | |
|---|---|
| Instalaciónes | 1497.23 |
| Capital de trabajo | 5000.45 |
| Otras | 348.32 |

Empleados 2

| | |
|---|---|
| Plazo de amortización | 42 meses |
| Letras pagadas | 15 |
| No. letras morosas | 1 |

Venta de producto por año B/12,000.00

El negocio marcha de acuerdo con sus planes.



PRESTAMO 160: TALLER DE FORJAS Y SOLDADURA

Jose del C. Perez

Las Barreras de Santiago
Prov. de Veraguas

B/1547 aprobado sept. de 1981

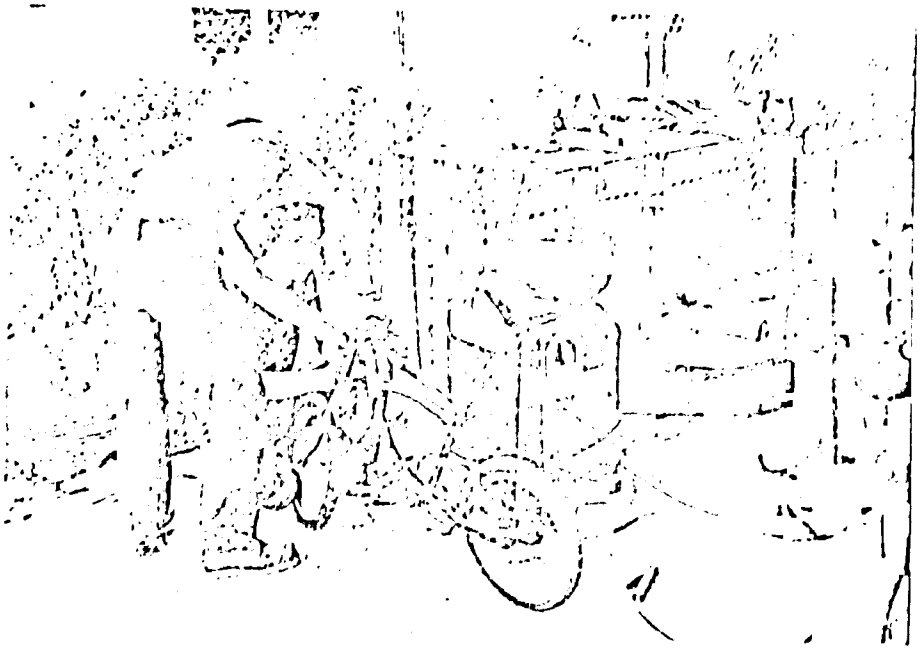
Proyecto amplicación

| | |
|---|---|
| Construcción | 518.95 |
| Máquinas | 614.81 |
| Electricidad | 105.90 |
| Capital de trabajo | 200.91 |
| Otros | 77.64 |

Empleados 0

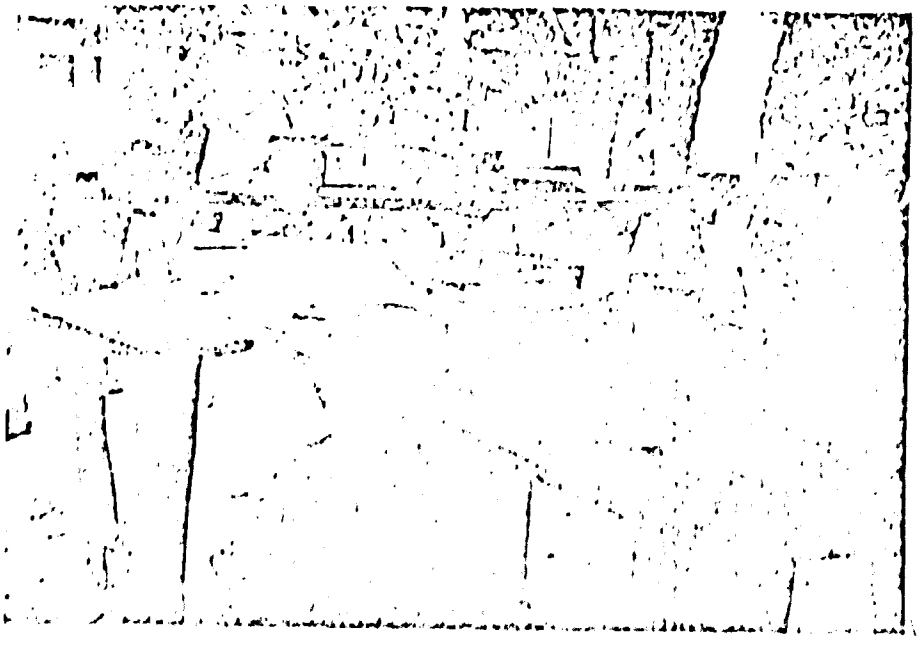
| | |
|---|---|
| Plazo de amortización | 24 meses |
| Letras pagadas | 8 |
| Letras morosas | 4 |

No tiene suficientes contratos de soldadura y no obtiene suficientes ingresos. Requiere asistencia tecnica en la administración del negocio.

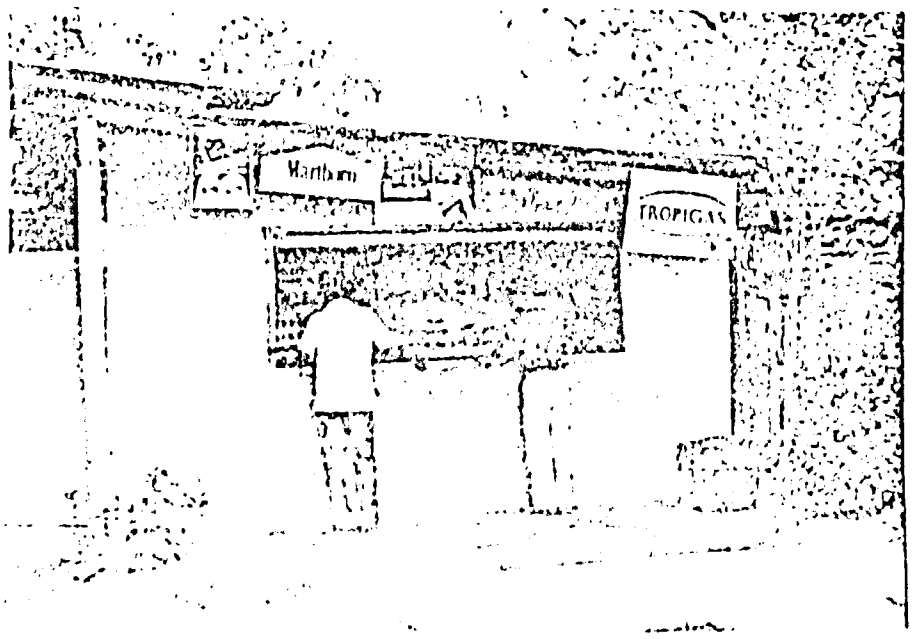


El señor Perez trabaja en la bicicleta del niño.

La cocina de la familia Perez y su hijo. Son pobres



PRESTAMO 185: ABARROTERIA MARICRUZ




La tienda es unextensión de la casa

Alcida Miranda

El Coco, San Jose,
Distrito de Sona, Veraguas

B/3307.00 aprobado sept. de 1981

Proyecto ampliación

| | |
|---|---|
| Construcción | 1150.29 |
| Máquinas | 1500.00 |
| Capital de trabajo | 499.57 |
| Otras | 157.14 |

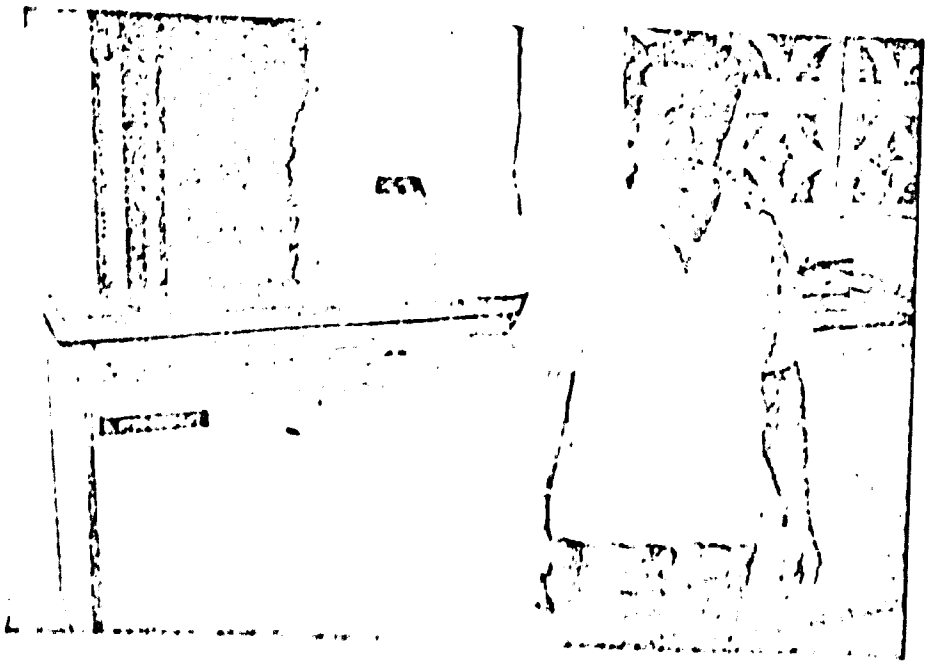
Empleados 2 (el padre y la hija de la prestataria)

| | |
|---|---|
| Plazo de amortización | 26 meses |
| No. letras pagadas | 7 |
| No. letras morosas | 1 |

Venta de producto del dia B/70.00

El negocio no fue muy bien. Falta capital de trabajo para la tienda.

Sr. Miranda, el dueño de la tienda y ~~la~~ el padre de la prestataria. Ella trabaja en una oficina del gobierno en Santiago.



Con el préstamo compraron este congelador

PRESTAMO 190: CAFE URRACA

Donatilo Caballero

Barrio Solano, Concepcion, Chiriqui

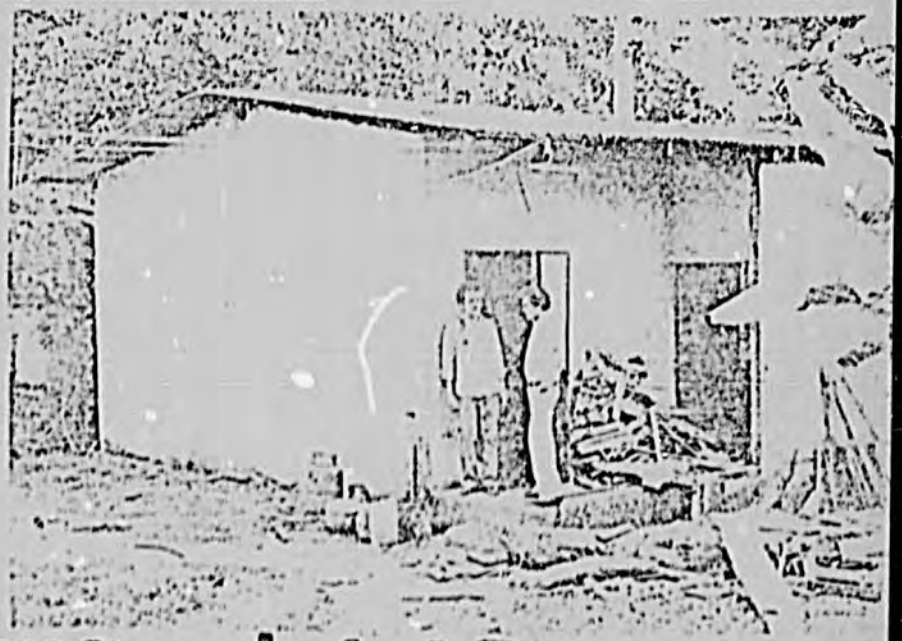
B/9467 aprobado Febrero de 1982

Proyecto amplicación

| | |
|---|---|
| Capital de trabajo | B/8000 |
| Equipo | 950 |
| Otros | 517 |

| | |
|---|---|
| Empleados 3 | |
| Plazo de amortización | 36 meses |
| Letras pagadas | 6 |
| Letras morosas | 2 |

El señor Caballero construyó su propio equipo de partes usadas para beneficiar y secar el cafe. El empacaba el cafe molido en bolsas de papel chocolate muy rústico con su sello y las ventas eran muy bajas. La asistencia técnica del EGPE le sugirío que cambiara y utilizar bolsas plásticas transparente con motivos impresos en rojo e inmediatamente las ventas aumentaron.



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PRESTAMO 205: FABRICA DE BLOQUES Y TIÑAS DE LAVAR

Felipe Perez

Pueblo Nuevo
Penonomé, Prov. de Coclé

B/6251.00 aprobado dic. de 1981

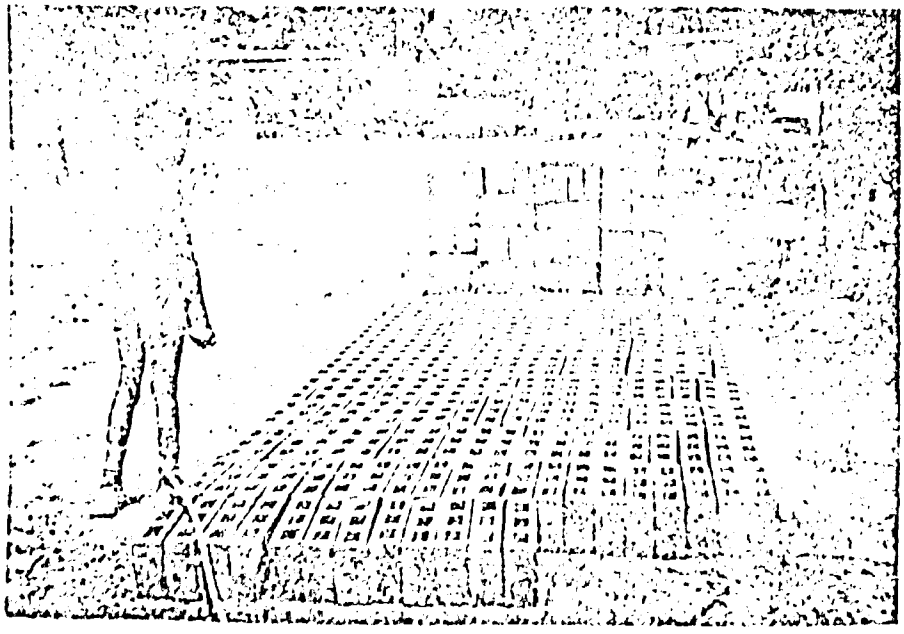
Proyecto nuevo

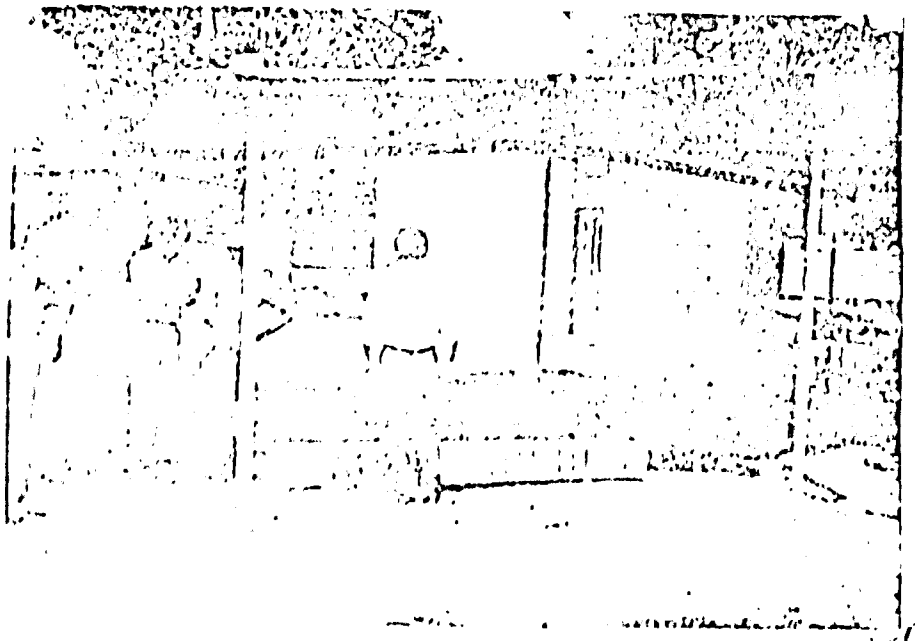
| | |
|---|---|
| Construcción | 3070.00 |
| Equipo | 1531.80 |
| Capital de trabajo | 1000.00 |
| Otros materiales | 300.00 |
| Otros | 349.20 |

Empleados 3

| | |
|---|---|
| Plazo de amortización | 51 meses |
| No. letras pagadas | 4 |
| No. letras morosas | 5 |

El negocio marcha relativamente bien. Pero el Sr. Perez ha realizad muchos gastos personales relacionado con la salud de su esposa.





La galera (B/3070)

PRESTAMO 206: KIOSKO LA PARADA

Raimundo Ibarra

Via Sonadora
Penonomé, Prov. de Coclé

B/1596 aprobado dic. de 1981

Proyecto nuevo

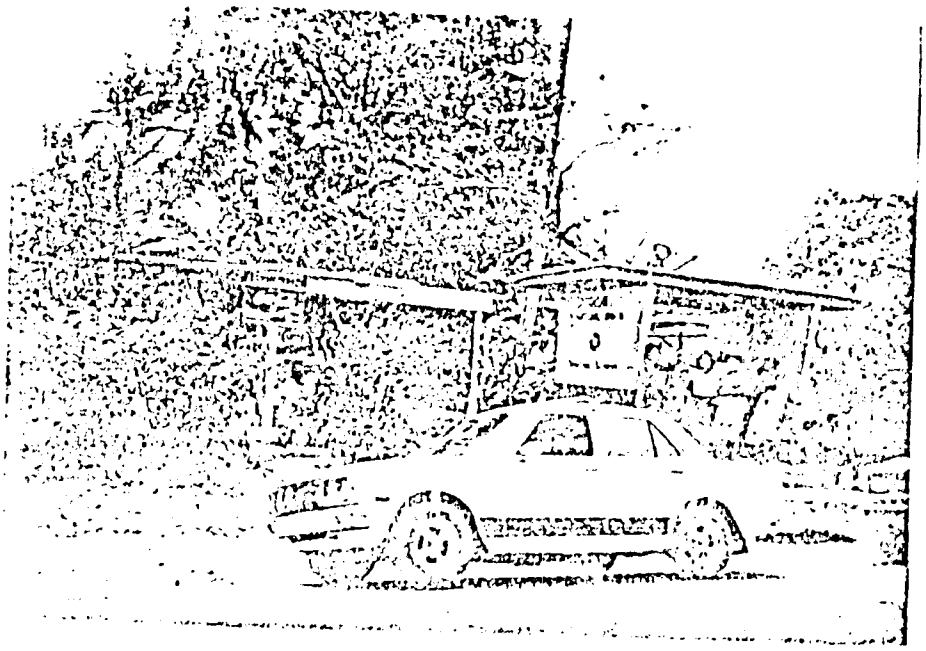
| | |
|---|---|
| Construcción | 533.20 |
| Capital de trabajo | 1000.00 |
| Otras | 62.80 |

Empleados 1

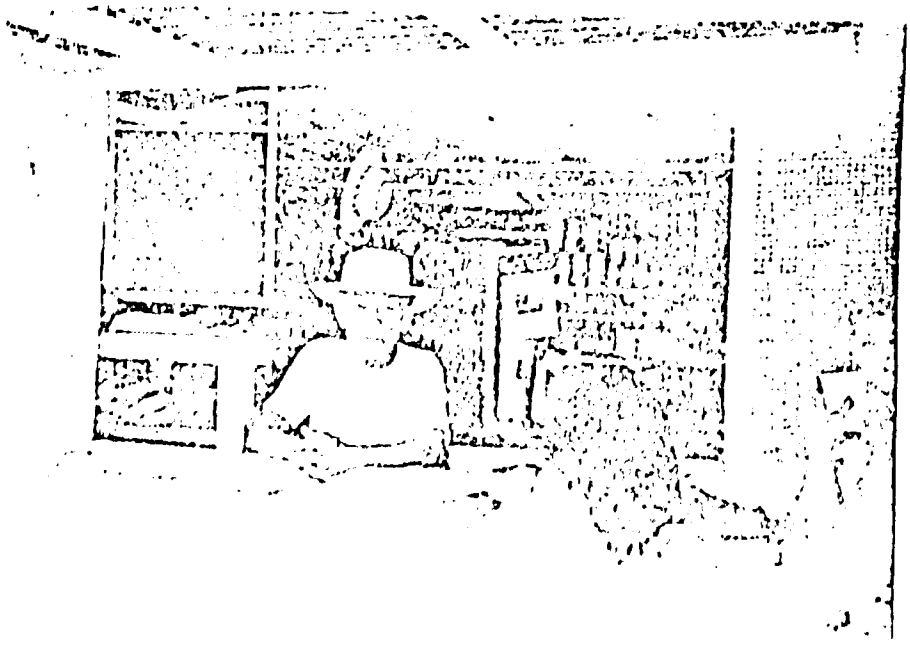
| | |
|---|---|
| Plazo de amortización | 42 meses |
| No. letras pagadas | 8 |
| No. letras morosas | 0 |

Venta de producto
por año B/1800.00

El negocio marcha de acu lo a lo planeado y no se le han presentado problemas.



¡Kiosko la Parada cerca de la parada!
¡Esto es buen negocio!



Sr. Ibarra, 65 años de edad

PRESTAMO 223: AUTO BAÑO CABALLERO

Isidra Sanchez de Caceres

Calle A Sur y Avenida 1 Este
David, Chiriqui

B/6908.00 aprobado feb. de 1982

Proyecto ampliación

| | |
|---|---|
| Equipo | 6507.90 |
| Otros | 390.10 |

Empleados 13

| | |
|---|---|
| Plazo de amortización | 34 meses |
| No. letras pagadas | 6 |
| No. letras morosas | 1 |

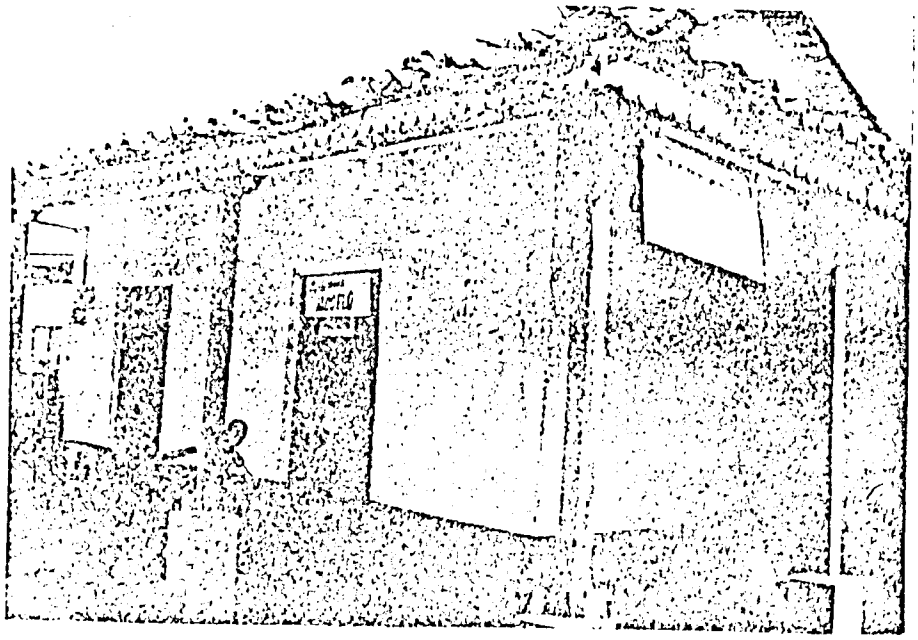
Venta de producto
por año B/70380.00

El negocio marcha bien.

Primero, la señora tenía un pequeño auto baño. Con el préstamo amplío el negocio añadiendo la reparación de llantas y. . .

. . .con la ganacia ha construído una refresquería para los choferes y estudiantes de la escuela localizada en frente de su negocio.

PRESTAMO 231: SASTRERIA MODELO



Hercilia McP. de Ortiz

Calle Moisés de Espino
Las Tablas, Los Santos

B/2143 aprobado marzo de 1982

Proyecto ampliación

| | |
|---|---|
| Capital de trabajo | 2000.00 |
| Otras | 143.00 |

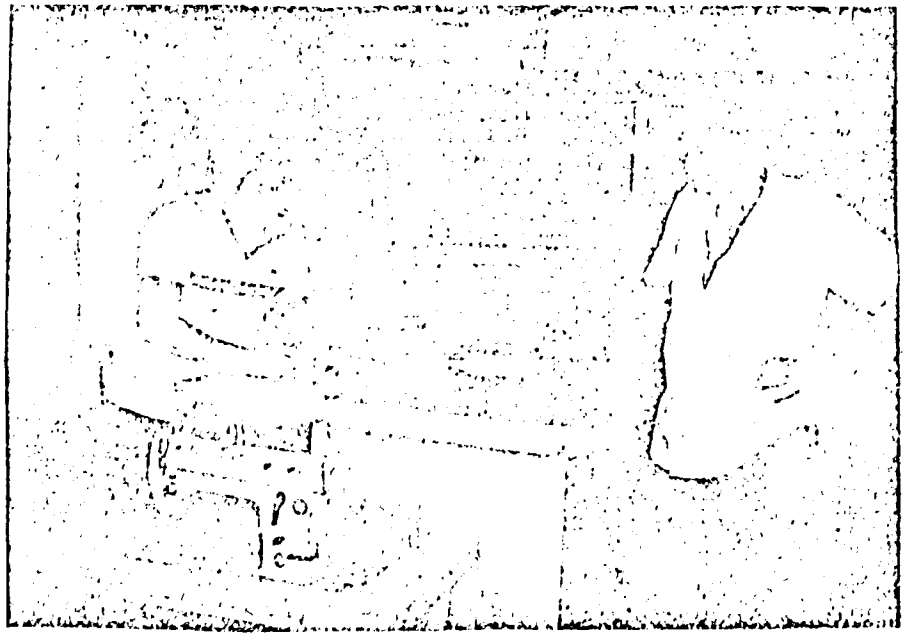
Empleados 1 ayudante sastre

| | |
|---|---|
| Plazo de amortización | 30 meses |
| No. letras pagadas | 6 |
| No. letras morosas | 0 |

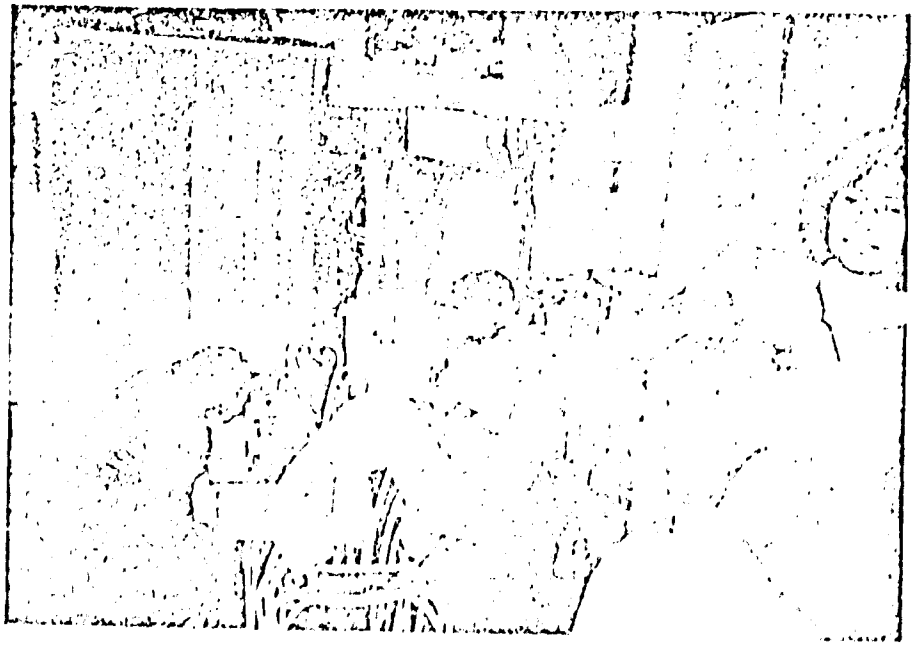
Venta de producto por año B/21600 00

El negocio aumentaba B/150 por semana

Esta edificio tiene el salón de belleza (puerta izquierda) y la sastrería (puerta derecha). La prestataria junto con su esposo viven atrás del mismo edificio.

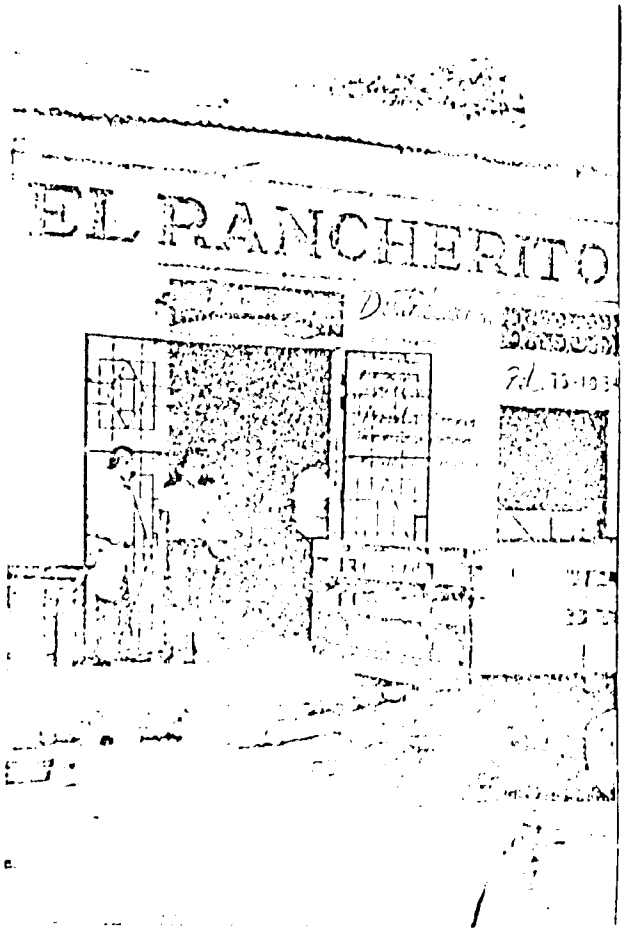


Sr. Ortiz, el dueño de la sastreria



Sra. Hercilia de Ortiz, la dueña del salón de belleza y la prestataria por su esposo.

PRESTAMO 232: EL RANCHERITO




Alexis Guerra, el dueño.
Su negocio marcha bien.

Alexis T. Guerra

Avenida 3ª, Casa #5577, frente al mercado
David, Chiriqui

B/14947.00 aprobado agosto de 1981

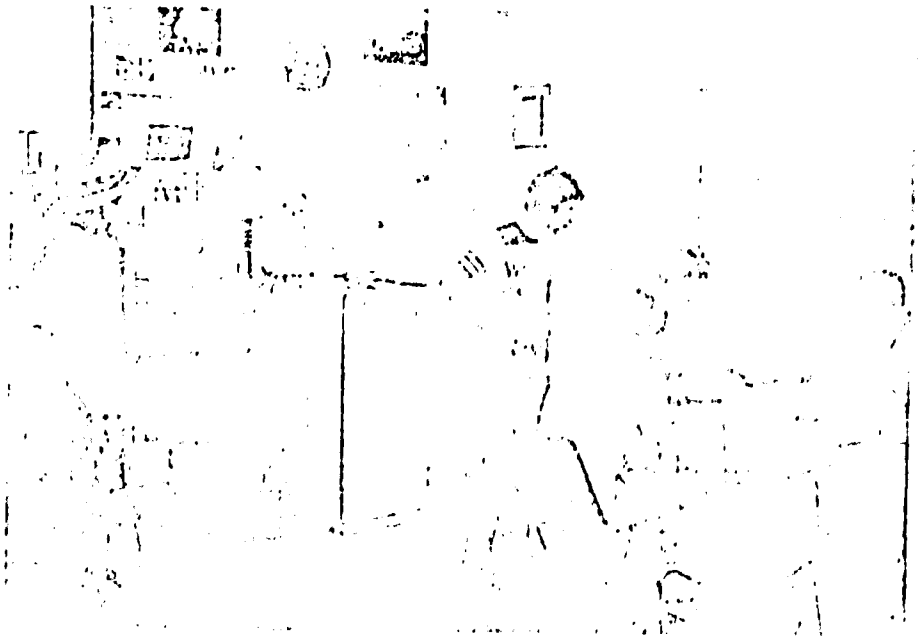
Proyecto nuevo

| | |
|---|---|
| Máquina | 214.20 |
| Capital de trabajo | 12034.76 |
| Mobillarios | 735.00 |
| Construcción | 1225.00 |
| Otros | 738.04 |

Empleados 4

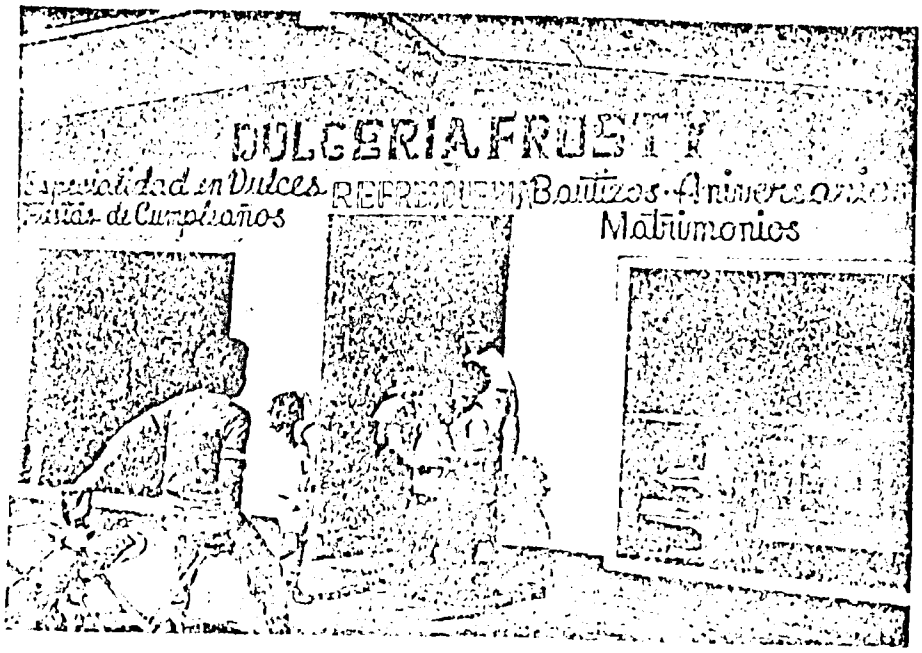
| | |
|---|---|
| Plazo de amortización | 36 meses |
| No. letras pagadas | 2 |
| No. letras morosas | 0 |

Venta de productos por año B/138,780.00



Los distribuidores y ayudantes

PRESTAMO 239: DULCERIA FROSTY




Aurante Diaz

Calle Central #35-01
Volcán, Chiriquí

B/7940 aprobado abril de 1982

Proyecto ampliación

| | |
|---|---|
| Máquinas | 5899.00 |
| Capital de trabajo | 1619.02 |
| Otros | 421.98 |

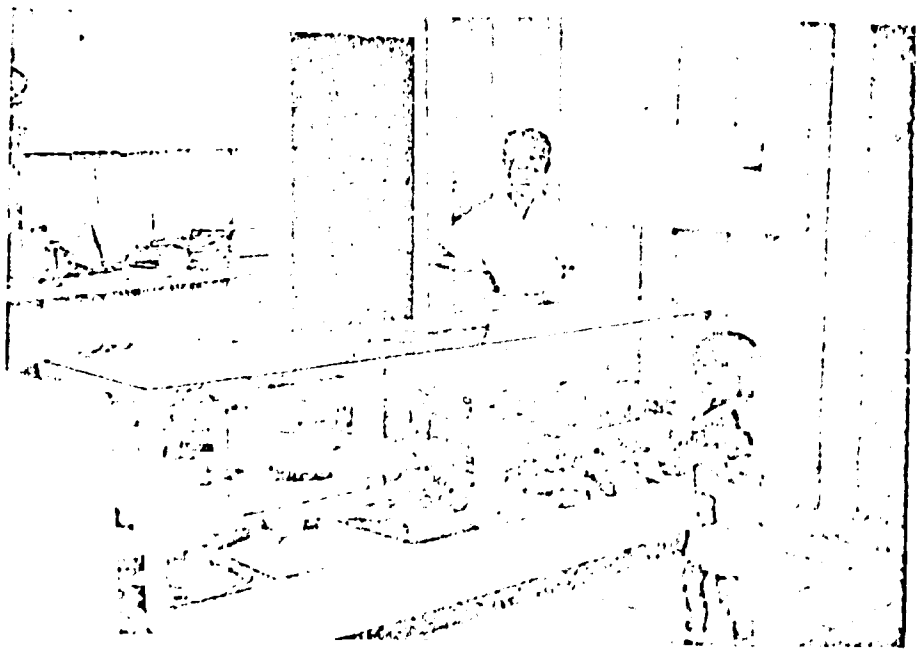
Empleados 3

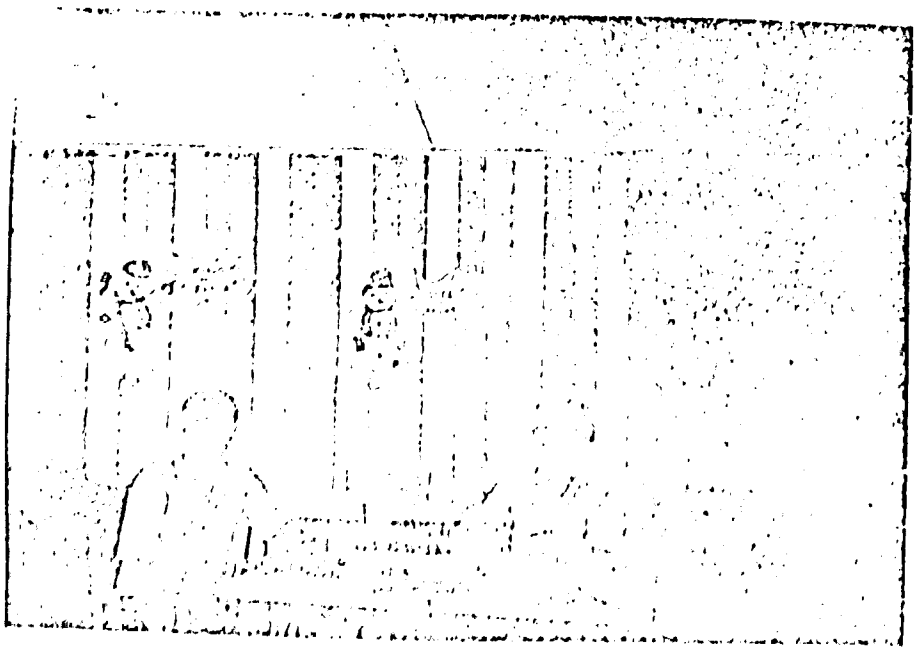
| | |
|---|---|
| Plazo de amortización | 35 meses |
| No. letras pagadas | 2 |
| No. letras morosas | 2 |

Venta de producto por año B/69408.0

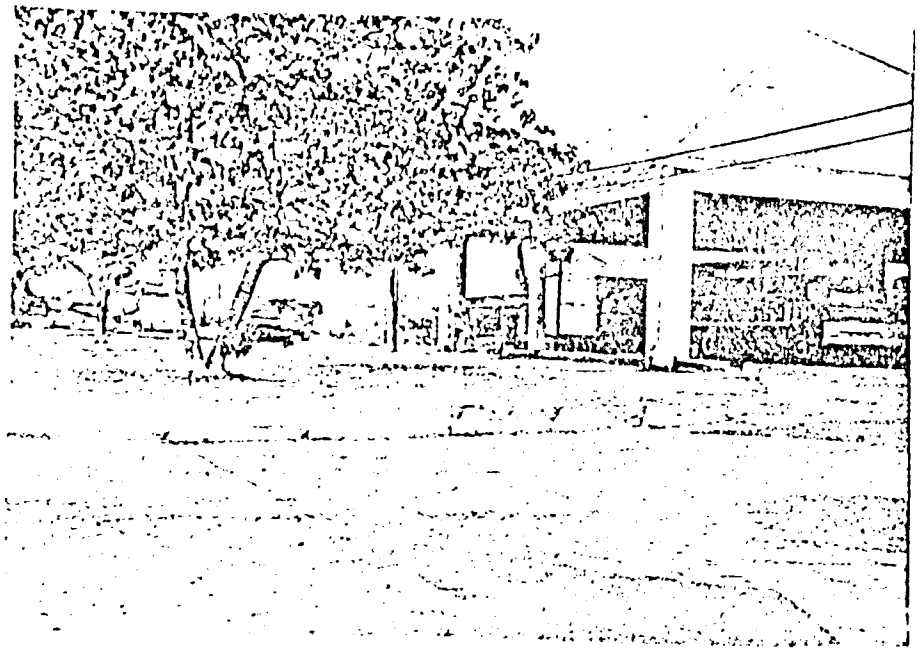
El negocio marcha como se planeo.

La dueña Díaz y sus clientes





PRESTAMO 308: RESTAURANTE SANSON



Estación Texaco Sansón, Motel Sansón y Restaurante Sansón

Enrique Sanson Chi
Santiago, Veraguas

Paseo 26 de Noviembre
via Interamericana

B/38218.00 aprobado oct. de 1882

Proyecto ampliación

| | |
|---|---|
| Máquinas | 36000.00 |
| Otras | 2218.00 |

Empleados 6 (3 meseros, 2 cocineros y 1 ayudante)

| | |
|---|---|
| Plazo de amortizacion | 50 meses |
| No. letras pagadas | 1 |
| No. letras morosas | 0 |

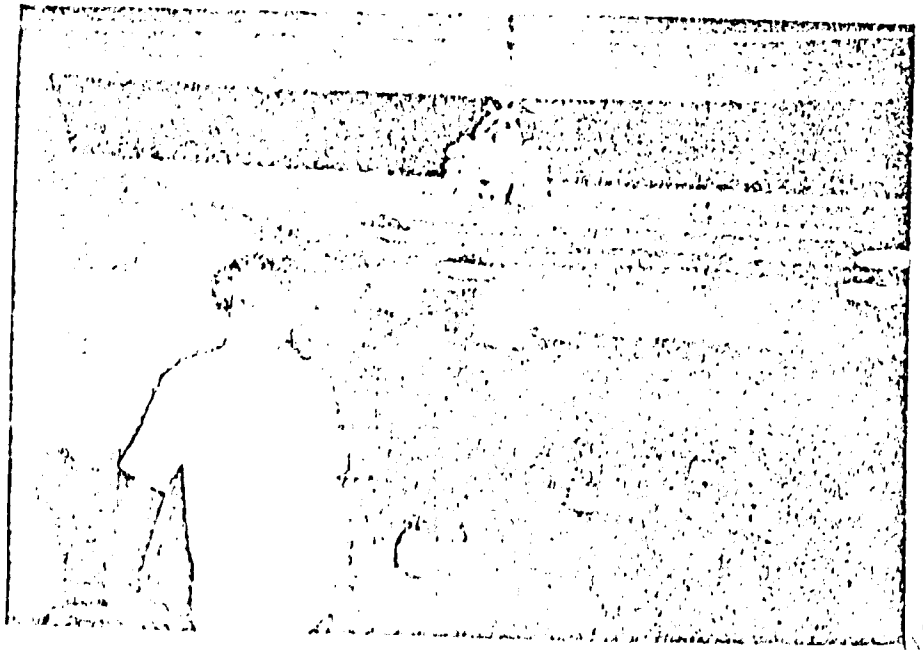
Venta de producto por año B/234000.00

El Negocio marcha bien.

Cuando el señor Sanson haya pagado este prestamo, el proyecta renovar los habitaciónes en su motel.

Los cocineros

El dueño Sansón



mean of $3,264. The loans in this size class are for working capital and are given to neighborhood "Ma and Pa" enterprises. In this category there were only two loans larger than $1,300. One was for a supermarket ($29,965) and the other for a wholesale distributor ($21,489).

The repayment record of recipients is good with only one of the sample loans more than two months behind in payments. This borrower claims that her stock was stolen, and consequently she is five months in arrears. This proprietor, incidentally, had obtained two small loans. The first loan (1981) of $2,039 was for a building (not from MICI); the second loan for working capital (1,048) was from DGPE.

The majority of these stores are additions to residences. They are stocked with staple foods and household items frequently sold in smaller units than are available from supermarkets. The owner buys in bulk and repackages goods in plastic containers weighing a few ounces. Plate 92 (see photo) shows the wife of the owner of Franco's Store in Natá repackaging sugar.

Plate 92 illustrates a frequently encountered but previously unreported pattern of success financed with SSE credit. The owner obtained his loan of $3,901 for a tailor shop to be operated in his house. The business did not thrive and the owner decided that the location was poor. He then rented a shop for his tailoring equipment near the center of town and converted his original building to a grocery store. Thus, as in many other cases, two businesses have been spun off from a single loan. The owner believes he will be able to cover his outstanding payments within the next several months.

The most frequent addition to grocery stores, made with borrowed money, has been a freezer chest for meat, and ice cream, and a cooler for soft drinks and beer. Loans were used to purchase equipment and to upgrade electrical systems. The loan in Plate 185 (to Alcida Miranda, [illegible]a) paid for the expansion of the room at the side of her house and the pur[illegible]ase of the freezer shown. This tiny store does approximately $70 worth of business per day now. Alcida's father, who runs the store, feels he could do more business with additional working capital to expand his stock.

Mr. Rodriguez owns the store in Plate 41 in Aguadulce. Like the previous operator, he complained of the high price of electricity, claiming his bill was $120 per month. He had to refinance his loan but made his last payment in February (he had obtained $3,002, payable over 30 months). He claims $400 worth of business daily. He is considering another loan to expand his store so that he can add to his stock.

Loans to these small groceries do not generate much employment. The customary number employed is two, the owner and spouse. Many older people can continue to make a living with a small store where a larger business would not be practical. Plate 206 described Mr. Ibarra, 65, the oldest loan recipient in the program. He operates a "kiosko" adjacent to a

bus stop on the main intersection in Penonome. Like many successful entrepreneurs in our sample, he has learned the advantages of location and traffic.

Welding and Metal Work. This category subsumes businesses ranging from a small shed, a tank of oxygen and an acetalyn torch, as in Plate 160 (Santiago, Veraguas), to large scale enterprises employing mechanics, autobody repair men, and painters (see Plate 29, also Santiago, Veraguas). It also includes some shops which specialize in wrought iron work (Plate 1, from David). One shop manufactures aluminum window frames.

Our sample contained 35% of the welding shops. They revealed a distressing credit situation. Two of the businesses have paid off loans received in 1980. The others are badly in arrears. The best of these is four months behind, and the worst are lagging by a year-and-one-half.

Five of the loans had large sums budgeted for construction of metal roofed sheds, necessary to deflect both sun and rain. All these loans include big ticket equipment and machinery items. Only one of the seven has over $1,000 in working capital which may account for their shaky financial position.

The recipient of one of the paid up loans is a welding instructor at the Trinidad trade school. His new shop in Rio de Jesus has not been as successful as he had hoped, although he does excellent ornamental iron work. His monthly income of only $212 is the same as when he was a teacher. He has only hired one part-time assistant instead of the three he had planned for. His shop and equipment appear in Plate 52.

The other paid up loan (Plate 29) for expansion has been quite successful. Here an auto body repair shop has been expanded to include an auto parts business and paint shop. Although he only projected adding one laborer in his application, he has hired two fulltime welders and four to five part time helpers working during school vacations.

There are some colorful stories to be heard (sometimes over and over again) about proprietors in this category. Loan number 1 in the DGPE series went to a metal work shop operator in David (Plate 1). Because of his level of delinquency (18 payments) he is known as "Moroso Numero Uno". Yet, he is quite proud of his enterprise and not the least reluctant to discuss any aspect of it. He produces metal furniture to order and, at the moment, holds an order for several thousand metal desks and chairs from the Ministry of Education.

According to local legend in Chiriqui, this is a political loan. The proprietor of this business has powerful connections in high places. They were influential both in securing the loan, and in providing him with a steady stream of government contracts for his products. He displays with pride a number of achievement certificates, design awards, and other evidence of professional recognition by business groups in the community.

A furniture and wood working shop on the edge of David (Plate 119) was used as another illustration of the immunity of political loans. This topic is discussed more frequently in Chiriqui than in any other province by MICI officials, beginning with the provincial director. Since his province has the worst collection record and the most delinquency problems in the entire program, there is probably substance to the claim.

Furniture Manufacture. Five furniture manufacturers were included in the sample survey, representing 24% of the loan recipients in this category. The smallest ($1,917) and the largest ($49,269) furniture loans were both in the sample.

Four of the loans were for expansion. Two of the smaller loans were primarily for working capital and the third was for machines. The largest loan ($49,269) was first rejected by COFINA when $200,000 was requested. The applicant did not have sufficient security. This is the only new loan in the sample in this category. It includes land purchase, machinery, construction and working capital. The business received a setback due to a five-month delay in receipt of machinery. It is located in La Acequia, Chiriqui.

The smallest loan has already been paid off and the largest loan is still in the grace period which ends in July. The $5,075 loan is five payments in arrears and the other two loans are both two months behind in their payments.

The furniture manufacture business is labor intensive. The businesses in this sample category added more workers than they included in their original projections. There is a wide range of success and failure in the furniture business if loan repayment is the criterion. This may be a reflection of the administrative policies of the owners rather than problems with the market. There were only minor complaints concerning access to labor and the size of electric bills. Most reported business was good. Several are planning to expand.

Two furniture enterprises were visited which fell outside the sample, but were typical of those just discussed. In Plate 119 Mr. Miranda of Concepcion, Chiriqui used $3,980 for equipment, building and working capital. He is five payments delinquent because he used much of his working capital for other purposes. However, his business (carved doors and panels) is thriving.

Tito Vergara (Plate 111) borrowed $8,853 to expand his furniture manufacturing in Cruce de Sabana Grande, Los Santos. He is now expanding again with the profits from this thriving enterprise. He has seven woodworkers employed fulltime together with himself. On the day we visited him all were busy despite the Pope's arrival in Panama and the closure of most other shops.

(c) A Perspective on the Credit Program from the Field.

With the statistical review and photographic essay data as a platform, this section will return to a review of the questions raised at the

beginning of this section. Each will be answered with data from the field trips which provide a fresh dimension to previous discussions of the loan program.

Characteristics of Clients Served. The apprehension that previously successful businessmen may be exploiting the program is unjustified. Both the size of the loans, the proportion of new entrepreneurs, and the lower-to-middle class origins of the proprietors preclude errors in identity. The clients of this program are closer to microscale operators than to Chamber of Commerce members.

In only two cases did the evaluation team encounter proprietors who gave evidence of membership in the "businessmens' clubs" of their communities. One of these was, as noted above, the "Moroso Numero Uno" from David. The second is the operator of a successful gas station, motel, and restaurant complex in Santiago. He also affirmed that he had received a loan through political influence. Since the sample covers only one-fifth of the cases, there are others, to be sure.

But the overall impression of the background and income level of the proprietors is clear from the photographs. These are persons of little or limited education who are using the program as a stepping stone to escape from poorly paid wage labor--frequently in a menial capacity---in previous occupations. The mechanic becomes proprietor of his own shop. The son who was the unpaid storekeeper for his father becomes owner-operator of a store of his own. One of our most successful storekeepers had previously worked four years as a laundryman. Others moved up from shoe repair, seamstress, baker's helper and similar employment.

There is substantial evidence of an effort to achieve upward mobility among the proprietors in this group, and especially among the younger ones. But the starting point for this mobility is a working-class occupation quite similar to that of persons whom the proprietor now employs. The surest sign of the humble origins of the recipients of DGPE loans is that when one enters the shop or workplace, the owner is not immediately recognizable. He looks no different from his workmen.

Employment Generation. One of the most satisfying insights gained from the Project URBE experience was the recognition that these proprietors, so close to laborers and workmen themselves, could make jobs for others in substantial quantities. Furthermore, the jobs created are no more menial in skill level or compensation than those from which the owner operators emerged. Much more work needs to be done on both questions introduced up to this point, however.

An inquiry into the characteristics of employers, including level of education and previous occupational history should be obtained as part of the applications procedure. The same items should be secured on husbands and wives since each sometimes obtains loans for the other. This information should be related to size of loan, type of business and success of the operation. Data for these purposes are not presently available but could be obtained from an inexpensive field study.

In parallel with this inquiry, there is a matching need for examination of occupations, skill levels, permanence and seasonality in employment in relation to the major types of business and industry described in this chapter. Wage policy and patterns of compensation also deserve documentation. It remains to be seen how many of the jobs created under the DGPE program are paying a living wage.

Interest Rates. Access to credit is more important than what it costs. This does not mean that clients of DGPE are willing or able to pay market rates. As a client population they could not be jumped from 8.5% to 18.5% or a rate in that vicinity. A reasonable increase to 12% would be acceptable if a package of incentives were included. Among these could be (1) speedy and in most cases favorable decisions on loan applications within the three-month period which is the goal (but not the practice) within DGPE; (2) unlimited access to one-on-one technical assistance.

The evaluation team is sensitive to concerns about making the credit program self-financing and is aware of distaste for subsidized credit among both administrators and experts in this field. Neither of these considerations seems to be a material issue here. No reasonable increase in interest rates will make much of a dent in DGPE's liquidity problem; nor is this the golden key to financial independence. But, a movement upward in interest rates charged to customers would serve the purpose of moving them closer, by gradual stages to the unsubsidized credit market of the private sector.

An increase in interest rates, favored by many within MICI (not necessarily for reasons advanced here), might be used as leverage to persuade DGPE to take steps necessary in shortening the applications process. At the same time it would serve to educate customers for DGPE credit and close the gap between this program and, for example, that sponsored within MICI by the World Bank for customers primarily in Panama City.

Any changes of this sort should be taken with care, however. It is doubtful whether administrators are aware of the minimal level of sophistication represented by the majority of proprietors. They will view any change with suspicion and care must be taken to persuade them that they can receive advantages under higher interest charges that are not now available to them.

Condition of Business Supported. Visiting the proprietors in this program is an exhilirating experience. They have high morale and display those characteristics of motivation, industriousness and ambition that translate into a high proportion of business successes. The failure rate in this program is unbelievably low: one business in fifty-six. Certainly, if more rigorous collection procedures were introduced, the failure rate would be higher. But it would be difficult to force it above 25% by anything short of fanatical pursuit of persons missing one to three payments. By developed country standards, this success rate is something to cheer about.

There is more substantial evidence than impressions. A number of loan recipients have re-invested profits in second enterprises before their

118

first loan has been repaid. They are not making second loans for this purpose, although a forward-looking program management within DGPE could use its resources wisely by advancing additional credit to these customers.

Without seeking specific information from every sample enterprise on this point, we noted that more than one-tenth of the sample members have already sponsored spin-off businesses. Those who have been fortunate in this regard have been favored by their choice of location:

1. A successful veterinary supply dealer in David located his shop across from the public market. He has added a second line of agricultural chemicals and hired three students from a local agricultural college, majoring in agronomy, to care for that portion of the business.

2. A women entrepreneur who located her car wash business across from the public high school has sponsored a second refreshment business on a corner of her lot to take advantage of the after school and noon time traffic.

3. On another corner across from a public school, a building was rented to start an auto battery manufacturing business. The proprietor has expanded to rent additional space to operate a "libreria" dealing in school supplies.

4. The owner of a beauty shop on a busy corner in Las Tablas has taken out a DGPE loan to establish her husband in a tailor shop next door. Both are flourishing.

5. In Natá, there is a sequel to No. 4 above involving a grocery and tailoring enterprise.

There is abundant evidence in the sample businesses visited that success can come rapidly and with it, the chance for an enterprise to evolve.

Unfortunately, there is no concern with the identification and encouragement of those entrepreneurs who have demonstrated definite growth capacity. The best judgement made of them is a negative one: "They are on time with their payments". This is further evidence of the "bill collector" mentality which hampers recognition of the growth potential already manifested in the program.

In a developed country, private sector growth takes place by a rather lethal process of competitive selection among small businesses. The average life expectancy of a small business in the U.S. is five years. Most of those who receive business credit will be eliminated. But the minority who succeed will expand. The key element in the management of a business program is that nothing stands still or remains the same. No one in the Western world would entertain the expectation that all recipients of business credit will survive.

The implicit philosophy in the DGPE program, on the contrary, is that "everyone ought to make it". Evidence of this is prompt payment. A mature policy within DGPE would assume that the businesses supported are every day moving toward growth or failure. If a large number have not yet failed, it is because (1) they are less than two years old, and (2) collections policies have been lenient.

The basic deficiency within DGPE is that they have thus far refused to confront the inevitability of success and failure among loan recipients. A plan is needed under which high profitability is recognized and rewarded with assistance toward greater growth (both additional credit and technical assistance). On the other hand, a second plan is needed which will recognize impending disaster and ease the inevitable losers out of the game. This might be done by offering to settle their debts in exchange for title to negotiable assets.

It would be a great improvement over present policy if DGPE were to set for itself a five-to-ten year goal of creating a core of strong commercial ventures throughout the region, based on a selected group of experienced proprietors who have acquired exceptional business management skills. The core group would be composed of the survivors of "first-round" small loans of the type presently being distributed.

It would be the responsibility of the program management and local loan officers to make an early identification of new entrepreneurs who are displaying exceptional business ability. They should be given all possible credit and technical assistance to "up-scale" their activities. Over a decade these proprietors will be the major contributors to solving unemployment problems in their communities.

Failure rates can be reduced and collection levels improved over the present rate, which both DGPE and USAID consider to be unacceptable. The key to this is both better monitoring and substantive technical assistance. At present, proprietors who participate in the Department of Small Business loan program are getting little more than they would from a finance company that suddenly decided to lower its interest rates.

As with the employment generation issue, the key problem in making an assessment of the condition of the businesses being supported is that no information is being collected. Observers often raise the objection that demands for more information are continuous from consultants and evaluators, while little use is being made of information at hand.

This case is not subject to that criticism. There is no information on the progress of individual businesses transmitted to Panama except for their payment records. There is no information transmitted about employment whatsoever. This is doubly unfortunate because the cost of information is cheap where provincial field offices are already in place.

Provision of Technical Assistance. Each member of the sample interviewed was asked if he had received technical assistance and would like to have more. The results were not converted to a table because they were too

thought technical assistance meant the monthly visit from the loan officer making collections; they did not want the frequency of these visits increased. Other thought that technical assistance meant the classroom lectures which they had been offered by MICI. They wanted no more of this because it was not suited to individual needs.

It was not clear to the members of our sample that business consultation could be made available to them from DGPE. When specifically queried, many respondent admitted to having accounting problems and related problems with cash and credit management. The best guide to the need for technical assistance among loan recipients tended to be our own first-hand observations. A few of these are offered below:

1. The level of record-keeping among the loan recipients is deficient, often non-existent. There are exceptions where cash books, receipt books and ledgers are maintained in perfect order.

There was no evidence that business proprietors, in most cases, were keeping records which would be adequate for them to anticipate end-of-month cash requirements for inventory replacement, loan repayment, payroll, taxes, operating costs (rent, utilities, transportation, telephone). No information could be obtained on handling of accounts receivable; but the number of protests about outstanding bills which could not be collected identify this as a problem area. It seems unlikely that they were able, in most cases, to anticipate end of month revenues either.

Trapped in this position of ignorance, it is entirely probable that most businessmen in the sample were unable to anticipate the level of cash which must be set aside on a daily basis to balance the books at the end of the month. It seems certain that in many cases, there are no books to balance. When queried specifically, some of the proprietors claimed to have an acountant. When pressed for further information, however, the accounting services obtained were infrequent, often provided by an out-of-town professional on a monthly basis, and seemed to consist of estimates made for tax purposes rather than for management.

Clearly, a great void exists in the area of business management skills. The need is not met by "training" of the sort by "seminarios-taller". What is requested is one-on-one coaching in basic business practices within the specific context of the SSE being operated. Client-oriented technical assistance in this area would greatly reduce the delinquency in loan repayments. More important, from the evaluation team's position, it would increase profitability and move a larger proportion of loan recipients into the high growth (or survival) category.

2. The production processes employed by manufacturers, and the design and utilization of floor space and display areas by retailers (together with their choices of

merchandise) give further evidence of both need for and lack of technical assistance with manufacturing and marketing.

Entrepreneurship contains a high component of innovation and it is a necessary characteristic of success. But there is a great deal of reinventing the wheel going on out there in the name of innovation. A large proportion of the production sponsored by the program is concentrated in a few areas: furniture-making, metal work, clothing, cement block-making. Technical input from experts in these fields on equipment, accessories, supplies, design, maintenance, etc., are all badly needed. Thus far, none has been provided.

In the area of commerce, where a plurality of business operations are to be found, no assistance has been provided with merchandise purchase or display. It is evident that help is needed in establishing prices, reaching consumers with promotional activities, identifying potential markets, etc. A striking example of the importance of minimal guidance in this area was encountered in Concepcion. A coffee producer who received a DGPE loan was trying to market his product and failing miserably. He had been packaging it in brown paper bags stamped with his trade name.

He went to a commercial art service in David and bought a colorful design containing an emblem which can be reproduced on a plastic bag. He is now selling his total output at a satisfactory profit. Assistance with marketing is badly needed at a number of other points within the DGPE network of loan recipients.

3. There are serious safety and sanitation problems evident throughout the entire inventory of sample survey enterprises. Technical assistance is needed immediately in this area to protect both the loan recipients and the general public.

The most superficial examination of work places and production activities discloses a maze of unshielded electrical cables, cutting and grinding power tools without safety devices, puddles of stagnant water near electrical outlets, chemical mixtures being prepared by workers without masks, corrosive acids being poured by workers without protective clothing, etc.

At the same time, food is being prepared and processed for sale under conditions that invite contamination. Environmental sanitation could be greatly improved in many business sites. The problem most frequently encountered was one of the simplest to solve: no provision had been made for drainage and parts of work places were continuously covered with stagnant water.

Technical assistance in the area of safety and sanitary engineering is a third urgent requirement. It may not promote higher rates of monthly loan repayment, or increase profitability. But it will eliminate existing hazards and, perhaps, have a demonstration effect on other business

operations in the area. Neither USAID nor GOP should permit these conditions to exist under their sponsorship.

Collections Procedures. Provincial loan officers visit each account to request payment every month if necessary. Since this is the case, a collections procedure involving substantial manpower and transport costs already is in place. A discount for prepayment might be offered to give the benefit to the customer and save MICI the expense. The loan officer's time saved in this fashion could be applied to (1) recruitment of new applicants; (2) speeding the processing of applications, and (3) providing technical assistance in some of the areas indicated above.

There are three classes of non-payment evident from the sample survey. First, there are the losers. A certain number of accounts are in trouble:

1. A small welding shop operator in Santiago is unable, as a one-man business to meet his competition successfully. He is four payments delinquent. He is constructing a car repair facility and will try to make it as a mechanic.

2. A second auto repair venture in Cerro Punta is fifteen payments delinquent. The proprietor states that his main business was repair of vegetable trucks moving produce to the Panama market. Because of price controls the vegetable producers are in serious trouble, production has dropped and his volume has dried up.

3. A nursery operator in Herrera is five payments delinquent. He depends on a famer in Gabuya for his stock. The drought has almost wiped him out. The evening we visited the farm, employees were watering tree seedlings with buckets to try to save them.

4. A cement block producer in Penonome is five payments delinquent. His one-man business is unable to sell its product in a market which, according to MICI personnel, is saturated with cement block producers.

No amount of hounding from bill collectors will extract payment from the businesses in this condition. The first two cases above should probably be advised to quit business and go to work for someone else. The proprietors appear to be competent tradesmen who are in over their heads. The latter two cases could use technical assistance in preserving their investment and in marketing their products. There seems to be no permanent reason why they cannot be restored to profitability.

Second, there are enterprises unable to make collections. These are businesses which seem to be having cash flow problems resulting from delinquency among their customers:

1. The business consulting firm managed by an accountant in Las Tablas is five payments delinquent. He blames himself for failing to request sufficient working capital. He has been in operation since 1977, borrowed $8,000 to finance his expansion and has substantial new management contracts which will cover his obligations when he can collect from them. He appreciates the irony of his position and will undoubtedly pay up shortly.

2. The clothing manufacturer in Penonome with a $23,870 loan is seven payments delinquent. She produces on consignment for dealers in Panama who have been late in making their payments. She is also an established business and MICI personnel have confidence in her ability to pay.

3. There is also a shoe manufacturer in Penonome who is making work boots and sports shoes under a contract with the Ministry of Education.; He is seven payments delinquent and unable to collect from the government. MICI is sympathetic to his case.

These are enterprises with cash flow problems. Local DGPE personnel agree that all are good risks and any attempt to close them would be out of the question. However, there is little reason to believe that a more effective collections procedure would have much impact. Perhaps refinancing together with assessment of late payment fees would be a more effective solution.

Third and finally, there are the deadbeats. Any loan portfolio will have its share of purposive delinquents:

1. In David, there is the case of "Moroso Numero Uno", who is delinquent by 18 payments.

2. Also in David, there is the manufacturer of <u>puertas talladas</u> who is five payments delinquent.

In both cases, and in others which probably failed to come to our attention, political immunity is claimed. More effective collection might be attempted. Whether it is worth while in this small number of cases is doubtful. Whether it is possible is another question. In any case, members of this category do not seem to be a substantial proportion of either the sample or the universe.

B. <u>Institution Building Achieved: Toward a Credit Facility</u>

The purpose for including an intermediate credit facility in Project URBE can be recapitulated as follows: (1) employment must be generated within the URBE region; (2) this requires the establishment of new enterprises through provision of credit; (3) since neither the time frame of five years nor the sum available ($3.4 million) is sufficient to meet the needs of the region, the facility must be made self-supporting under circumstances which

will facilitate its rapid expansion; (4) part of the mission of Project URBE is to conduct research and experiments sufficient to accomplish this ultimate goal: self-support with rapid expansion.

The project design for institution building (see pp. 3-5 above) recognized the need for the following: (1) promotion and advertising to recruit a large volume of applicants; (2) utilize technical assistance to upgrade the quality of its staff with special reference to meeting the needs of the large client population to be recruited; (3) provide courses in business management to borrowers; (4) conduct a study of alternative methods for increasing the availability of long term capital by multiplying the relending potential from reflows from the loan portfolio.

The project design suggests the prospect that the goal of a credit facility characterized by self-support and rapid growth might be achieved if certain unspecified conditions were met. These will be briefly considered in the following paragraphs.

The Institutional Base. The Ministry of Commerce and Industry was not considered as a permanent home for the credit facility. The question has been raised repeatedly by USAID officials as to whether a lending operation of the sort now functioning as the Dirección General de la Pequeña Empresa can escape from political manipulation and influence. The political and financial considerations implicit in its operation will surely conflict at a number of points. Two have been referred to in the previous discussion: (1) use of political influence to obtain loans and escape payments; (2) inability to prosecute delinquent accounts without suffering political fallout.

The suggestion proposed in the Project Paper concerning the conduct of research on alternative structures for the administration of intermediate credit to SSE's has not been implemented. Nonetheless, a number of schemes have been proposed for modifying the structure of the present loan program. The two principal contenders will be summarized in the balance of this chapter.

Rapid Initial Growth. The goal of self-support within a non-government or semi-governmental institution was perceived as being based, first of all, on reflows from outstanding loans. To maximize these, a study of interest rates was proposed with the intent of determining the point at which self-support should become possible. This research has not yet been commissioned.

However, a second issue is implied here. Idle money earns no interest, generates no profits and pays no operating costs. To achieve independence from reflows, it apparently would have been necessary to push as much of the loan fund into circulation during the early years of the project as possible. Plans for achieving this capacity will be reviewed and compared with accomplishments below.

Multiplying Impact. It was perceived by the project designers that reflows alone would be insufficient for the promotion of self support. Their suggestions for multiplying impact included (1) a credit guaranty system

operating through private banks; (2) a discount line for loans from private banks; and (c) transfer of the program to Banco Nacional de Panama.

Reduced to lowest terms, the project design consists of two components: (1) there is a technical assistance and training component intended to upgrade the quality of services provided by MICI to its clients, and to indoctrinate the loan recipients with sound business practices, (2) there is a research and development component, focused on the central office of DGPE, and intended to insure its advancement toward self-support and rapid growth.

In the balance of this chapter each of these components will be considered with sufficient breath and depth to comprehend the range of issues which preoccupies the USAID administrators and GOP personnel responsible for the outcome of the lending program. It should not escape the reader's attention that each of these components faces in a different direction: the technical assistance component proposed on the project design is external and outward in its emphasis on meeting the needs of the borrowers. The research and development component, conversely, is internally oriented toward the needs of the institution itself, assuming that it is to survive and continue.

(1) The Technical Assistance and Training Component.

What was intended in terms of technical assistance was spelled out in the Project Paper (BAS-002: 67):

> "...technical assistance will be provided to upgrade the quality of the current staff and any additional staff in order to handle the larger size loans planned under the project. Approximately 19 months of technical assistance is programmed under the project in the following fields: loan application appraisal, loan preparation, program promotion, financial management for small businesses and small business management. A mix of external and in-country training will upgrade staff capabilities in small business opportunities, marketing, financing, promotion, loan portfolio management and banking and loan administration."

In the three years which elapsed (1979-1982) since the project was funded, technical assistance received through 1982 and contracted for in 1983 includes the following:

| Consultant | Specialty | Amount Expended |
|---|---|---|
| Eduardo Castaño | Financial Management | $67,200 |
| Young and Young | Accounting System | 46,000 |
| Small Business Seminars | Training Loan Recipients | 31,324 |
| TOTAL | | $144,524 |

The original project budget provided $133,000 for technical assistance to the institution, especially for meeting the needs of loan recipients, and an additional $19,000 for training seminars. The total programmed is $152,000.

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One-half of the amount budgeted for technical assistance has gone to consultant Castaño, a personal advisor to the Director of the Department of Small Business. His specialty consists of policy issues of relevance to the long term management of the institution: analysis of the DGPE's financial position, advice on management of capital assets, credit policy and the like. Two-thirds of the balance ($46,000) has been committed to Young and Young, Inc., to design an accounting system which will permit DGPE (at last) to keep track of the items in its loan portfolio, register payments efficiently, and chart the flow of cash through the institution. However, this project is scheduled for 1983 and will continue beyond the completion date for Project URBE unless it is extended beyond May 31, 1983.

Training funds have been spent on annual workshops involving the participation of both provincial loan officers and loan recipients on a volunteer basis. A primary instructional role in these exercises is assumed by the central office staff of DGPE. The amount expended already exceeds the amount programmed.

It is inappropriate to merely leap to the conclusion that money intended to provide benefits to the customers of DGPE has been diverted to the use of the central staff. Although this is what has happened. To convert the observation to a judgement is to fail to recognize that consultant Castaño's contribution has played a major role in permitting the organization to reach its present level of success.

If the funds had been used as intended, the net result might have been much worse. The commencement of volume lending by DGPE took place shortly after he arrived in mid-1981. In 1982, with his contribution, the volume of lending practically doubled its 1981 rate (see Table 2). Without his participation, the 1981 loans numbered approximately the same total as 1980. Since expansion of the loan portfolio is a critical factor in DGPE's survival, the role played by Castaño should be recognized and appreciated.

What is now apparent is that DGPE was a much weaker institution in 1979 than the Project Paper of 1978 anticipated. There were ministerial-level replacements and lower level personnel turnover as in other ministries. The excessive dependence on consultants in both the Planning and Commerce Ministries to assume functions and execute assignments which are staff responsibilities has been the subject of frequent comments in the continuing informal assessment of problems in project management. Yet, if consultants had failed to fill the vacuum, would <u>anything</u> have been accomplished?

Let us conclude that funds intended for client-oriented technical assistance have been pre-empted for higher priority needs within the Ministry. As the evaluation team members have gained a closer view of the contribution made by Eduardo Castaño our opinion has shifted from criticism to appreciation. The judgement that he is an outsider filling an inside position at the highest level in the organization is probably justified. His performance in that role can only be acclaimed.

The potential contribution of Young and Young to the day-to-day operation of the office at DGPE is likewise long overdue. Not only is there

need for an accounting system, there is even greater need for a basic understanding by management-level staff of why an accounting system is needed and what it can be used for. Simple experiments conducted by USAID personnel in recent months have demonstrated that DGPE, at present, is incapable of analyzing its cash reserves, projecting its cash flow, and identifying the point during the coming year at which its loan fund will be depleted.

If technical assistance has been purchased by DGPE for the purpose of strengthening its core administration, why are such weaknesses a persistent feature of its performance? The answer is that neither Castaño nor the Young and Young personnel have spent their time on present problems. During 1983 they have been assigned to the development of the bank plan.

DGPE's directorate sees its survival as dependent upon gaining independence from the Ministry of Commerce and gaining access to a large volume of new lending capital. Both these objectives can be obtained by successful design and effective lobbying for the bank plan. Neither can be achieved by merely improving the administration, level of collections, and number of applications in the present Project URBE, USAID-sponsored loan program.

And where does that leave the client population for whom much of the 19 months of technical assistance was intended (multiplied by $7,000 per month to equal $133,000)? Little if any training has been provided to MICI loan officers in meeting their needs as originally planned. The provincial MICI director in Chiriqui noted that, despite repeated requests, consultant Castaño had spent a total of one-half day in his office. He had addressed his request for Castaño because, of course, there was not anyone else.

The training seminars would also be easy to criticize. The proprietors who attended them were appreciative. But their uniform comment was that more individualized attention was needed. They hoped for visits from experts in small business management, accounting, credit etc., at their own establishments. They did not think that further classroom instruction of the sort provided would be useful.

(2) The Research and Development Component

What was intended in terms of research and development was spelled out in the lengthy quotation from the Project Paper (BAS-002: 32-33) which appears on pp. 3-4 above. What was recommended was (1) a change in the institutional base; (2) rapid expansion of the program; (3) search for ways to multiply the impact of reflows. In all three cases, the intent was to promote self-support with rapid growth and thus reach the ultimate goal: employment promotion in the URBE region.

The studies needed to resolve these issues were supposed to be paid for from the same budget ($133,000) identified above. It has already been established that the funds were used for core support to the DGPE central office. Yet, all three issues remain and will be briefly addressed in the remainder of this chapter.

(a) Alternatives for the Institutional Base of DGPE.

Where the Project Paper envisioned a study of institutional alternatives to dependence on government-regulated interest rates as the source of reflows to the Ministry of Commerce, subsequent planning has been devoted to replacement of the Ministry itself as the sponsor of the SSE credit program. Within DGPE, this impetus has sprung from the conviction that ties to the Ministry impede the processing of loans and complicate administrative procedures to the point of paralysis. Within USAID, dissatisfaction with the MICI relationship originates in the conviction that credit operations are best managed by private sector banks.

While both DGPE and USAID favor alternatives to the present MICI-related credit program, they are moving in opposite directions toward a solution. The proposal originating within DGPE is for a government-sponsored Bank for the Promotion of Small Business (Banco de Fomento para la Pequeña Empresa). A summary of it, prepared by USAID in March, 1983, appears opposite as Figure 5. A law for the purpose of creating the BFPE has already been drawn up and submitted for consideration by the congress. The essence of the DGPE proposal is that its lending activities of the past four years should be expanded and institutionalized within a large, permanent, government-financed institution.

The USAID response, on the contrary, is that the government should get out of the lending operation entirely. The loan administration presently handled by DGPE should be merged into one or more private banking firms. Mechanisms (credit guaranties, discount line) should be instituted to draw private capital into the support of SSE's. The role of government will be reduced to coordination and promotion. A summary of the USAID proposal, designated The Small Scale Enterprise Resource Center, appears opposite as Figure 6.

A sense of urgency has been assumed by the issue since the formal life expectancy of the Project URBE loan program terminates on May 31, 1983. It was projected that the entire $3.4 million made available for distribution by DGPE would be loaned by the that date. While it has not, projections made by both institutions (DGPE and USAID) now confirm that funds presently available for lending purposes will dry up by October, 1983. In other words, even if the URBE Project deadline is set aside, the liquidity problem within DGPE remains.

The DGPE bank plan (BFPE) addresses this issue by proposing that new capitalization be obtained through excise taxes. The USAID plan is not specific, but discussion concerning it implies that new USAID, World Bank and Inter-American Development Bank resources would all be available to provide for a private sector-based SSE credit facility. Meanwhile, the USAID administrators appear to favor a short-term supplement to DGPE's revolving fund from remaining URBE Project resources which will be unexpended by May 31, 1983. The supplement could range upwards from $1 million, and would provide DGPE with resources during 1983, which is envisioned as a transitional year.

Figure 5

SUMMARY OF BANK (BFPE) DOCUMENT

BANCO DE FOMENTO PARA LA PEQUEÑA EMPRESA

1. DGEP WILL BE TRANSFORMED TO BFPE.

2. BFPE will exclusively formulate Policy, and implement activities.

3. BFPE will have retail outlets throughout the country.

4. Functions of BFPE - issue bonds and other financial instruments
   - administer project funds.
   - Negotiate and contract funds.
   - Guaranty and Market 3rd Party Debt.

5. BFPE Resources
   CAPITAL
   - Authorized Capital of $20,000,000
   - Initial Capital of $3,000,000
   - Bonds for $2,000,000
   SPECIAL INCOME (externally generated)
   - Taxes Cigarrets 5c
   - Beer 2c
   Soda Pop 1c

6. Organization - Standard bank layout.

7. Board Members - Minister MICI
   - National Director of Ind.
   - General Manager of BFPE
   - Min MIPPE.
   - Representative of Banking Association.

8. Credit Committee - Vice Min-MICI.
   - General Manager of BFPE.
   - Finance Manager of BFPE.
   - National Director of Ind.
   - National Director of Commerce.

ANNEX

9. Initial Budget
   Present Operating Expenses 1983 = $820,391 1984 = $1,229,931
   observations
   - Do not calculate financial cost of capital
   - Do not estimate income from operation
   - Conclusion. No financial analysis is presented.

Figure 6

SMALL SCALE ENTERPRISE RESOURCE CENTER
CONCEPT PAPER

1. **Goal:** To marshall public and private resources to increase employment opportunities through the development of Small Scale Enterprises (SSE's).

2. **Purpose:** Establish a Small Scale Enterprises Resource Center (The Center) to effectively utilize existing private and public sector assets already in place and develop new mechanisms to increase resource and service to SSE's.

3. **Output:** A self sustaining;
   - 3-1) Credit Guaranty Mechanism
   - 3-2) Discount Mechanism

   A partially subsidized;
   - 3-3) Training and Technical Assistance
   - 3-4) Investor Service Mechanism

4. **Organization:** The Center will be the central GOP instrument to support SSE development. It will be managed by a Board of Directors representing the Public and Private Sectors (with participation from the commercial banks and SSE Organizations). They will play the role of promoters, coordinators and provide service and TA to SSE's.

5. **Functions:** The Center will perform the following four major functions;

5-1) Credit Guaranty Mechanism (CGM):
The CGM will reduce the risk for the public and private banks thereby increasing opportunities to stimulate profitable and productive investment by SSE's. The guaranty will apply to those projects found elegible by The Center and feasible by the banks. This will assure the utilization of existing resources (presently untapped in the private sector) and will work within the present banking system without disrupting normal credit operations.

The urgency of the problem originates in part from lack of planning. But it is also a consequence of the inadequacy of reflows from outstanding loans to maintain the present operation. DGPE is forced to reorganize and upscale its capitalization plan because it cannot survive on its present income from the $3.4 million in initial USAID funding.

It was documented above that the amount of repayments scheduled for collection during the last two months of 1982 averaged $41,651 (actual collections were short of this figure by 27%). Disbursements during the first two months of 1983 averaged $121,320 --three times the amount of scheduled collections.

(b) The Issue of Rapid Initial Growth.

A credit program which is intended to survive on the basis of a revolving fund must make money on its money. To do this, it must place its capital as rapidly as possible. Of the $3.4 million available to DGPE from the URBE Project budget, $2,103,482, only 62% was disbursed at the end of 1982. Another 15% ($512,984) was committed but not disbursed --trapped somewhere in the machinery between approval by the credit committee and final release to the applicant.

The amount scheduled for disbursement in the Project Paper (Appendix II-D-1) are compared below with the annual totals for the first four years:

| | Projected Loan Volume | Actual Loan Volume | % Goal Attained |
|---|---|---|---|
| 1979 | 435,000 | 146,939 | 33.5 |
| 1980 | 810,000 | 388,710 | 48.0 |
| 1981 | 665,000 | 484,664 | 72.9 |
| 1982 | 760,000 | 1,083,168 | 141.2 |
| 1983 | 730,000 | - | - |

In 1982, the fourth year of the program, actual disbursements exceeded the projected loan volume in the project paper for the first time. For the first three years of the program DGPE's performance in disbursement was less than three-fourths of that projected.

It follows that returns from collections must have also been much less than those scheduled. The Project Paper projects that in the sixth year of the credit program --the first year without Project URBE loan fund support, it should have $770,000 available for relending. The sources of those funds are not specifically identified, but in the sixth year it is projected that $714,000 will be collected from payments and another $770,000 will be earned in reinvestment income.

From combined revenues of $1,484,000 in its sixth year, the Project Paper projects that DGPE will be able to loan $770,000. This figure provides for disbursements of less than $65,000 per month. The 1983 disbursements form the actual program performance will probably be twice that

amount ($121,000 per month or more). It is evident that there is a gradual and increasing imbalance between the volume of loans in the program and the revenues which are required from all sources (repayments and reinvestments) to support it.

To put it in simplest terms, disbursements are now in excess of those projected in the project design; revenues on the other hand are much less. One explanation for this is that the designers intended that the SSE credit program should have sources of income other than reflows at projected low interest rates.

(c) Multiplying the Impact of the Revolving Fund.

One difficulty with the project's present financial status is that the lending operation failed to place loans fast enough for maximum recovery of principal and interest. One-third of the original capital remains to be released in 1983. In anticipation of this, the project designers envisioned the need for supplementary sources of revenue.

They foresaw the prospect of three additional sources of revenue: (1) raising interest rates; (2) a credit guaranty mechanism, and (3) a discount mechanism. Both of these latter two prospects are contained in the USAID alternative to the present DGPE structure presented in Figure 6. While both types of transaction are conventional, they imply that management of lending operations will be transferred to private banks which will both process applications and make collections.

Since the applications process and collection levels are both issues provoking much criticism of DGPE, the USAID strategy may be quite effective. By reorganizing the present credit facility and transferring its lending functions to private banks it can solve operational problems and increase the lending capital available. The politics of this decision remain obscure at present, however.

One final observation is within the scope of our task, although many of the points raised in the present section are sufficiently far in the future to make predictions precarious. A substantial volume of research was called for to provide a basis for decisions between alternatives such as those presented in Figures 5 and 6. None of it has yet been performed. It follows that a choice between these options may be made on other than empirical grounds.

It is conventional with the GOP to favor government-sponsored credit for development financing. It is equally conventional with USAID at the moment to seek private sector alternatives for the same purpose. Project URBE still contains funding sufficient for a more scientific examination of these options to take place. The original inclusion of research on this subject is still a valid requirement for enlightened decision making.

C. Linkages Accomplished: The Divergence Ahead

In the introductory section (pp. 5-5A) it was noted that the linkages expected between the small business credit program and other parts of the URBE Project had failed to materialize. The evaluation team entertained the hope that another form of linkage might have developed through the years of operation of the DGPE program: a growing interdependence between the administrators of the project and the loan recipients.

On the contrary, one of the most disquieting features of the present credit program is the failure of the administrators on all sides to perceive a relationship between the fate of the small businesses being financed and the fate of the credit program itself. The only admitted link between them from management's side continued to be the monthly repayment. From the businessman's pespective, he visualizes himself as being completely on his own once the loan is received.

The argument advanced throughout this analysis is that expansion of the credit program is essential to both scaling up its volume of lending to the point where it attains self-sufficiency, and to the related objective of making an impact on unemployment and income distribution in the target area of western Panama. This expansion can best take place by a program management which monitors its clients, detects opportunities for providing them with support, and thus accelerates the economic growth of the best entrepreneurs.

But to do this, it will be necessary to engage in much more than a simple credit operation. Market research and manpower studies will be needed. First hand data on the actual business operations of loan clients must be gathered. Technical assistance requirements must be assessed and provided for. An information system capable of digesting and acting on this information must be established within DGPE or its offspring agency, in whatever form it may take.

To try to reverse the trend toward separatism, and link the administration and clients of the Department of Small Business in a common enterprise once again, the evaluation team recently prepared a series of memos which actually state the conclusions to this analysis. Instead of preparing a redundant section of conclusions which will only restate the original points less forcefully, the reader is directed to the originals which are contained in USAID's Project URBE evaluation file.

## V. CONCLUSIONS: Redesigning Relations Between Clients and Administrators in a Small Scale Enterprise Program

The thrust of the argument developed throughout these pages is that human factors in the SSE program administered by MICI have been neglected in favor of financial considerations. If the financial administration achieved as a result were a convincing achievement, the priorities established would be more acceptable.

The credit program and its administrative requirements have obscured the needs of the client population in most decisions made by both USAID and GOP representatives. Nonetheless, the credit program stands on crumbling ground at this point, with serious questions raised concerning its survival.

The proposed solution involves two basic measures which the evaluation team has set forth in a series of memos concerning the reprogramming of Project URBE: (1) a transfer of capital is required so that DGPE can weather its present liquidity crisis; (2) substantial investments in research, technical assistance destined for loan recipients, information gathering and processing must be made.

These points are detailed and argued to the best of our ability in the following documents:

1. Hackenberg, Robert A.
   Appropriate Technical Assistance for DGPE. March 25, 1983.

   This memorandum recognizes the need for increased profitability of small businesses, the need for DGPE to rapidly expand its volume of clients, and the need to improve administrative efficiency within DGPE. It proposes a comprehensive technical assistance and research package for these related purposes. It is attached as Appendix F to this report.

2. Hackenberg, Robert A.
   Providing Technical Assistance to DGPE Loan Recipients. March 26, 1983.

   This implementation memo suggests operations for providing user-oriented technical assistance.

3. Hackenberg, Robert A.
   Action Plan for DGPE Technical Assistance. March 27, 1983.

   Proposes a set of priorities for implementation of recommendations in two previous memoranda.

Appendix A

# MINISTERIO DE COMERCIO E INDUSTRIAS

DIRECCION GENERAL DE LA PEQUEÑA EMPRESA

# Un paso para dinamizar el Desarrollo Industrial, Comercial y de Servicio en Panamá

DEPARTAMENTO DE FOMENTO Y PLANEAMIENTO

# DIRECCION GENERAL DE LA PEQUEÑA EMPRESA

Es la entidad creada dentro de la Organización interna del Ministerio de Comercio e Industrias, mediante decreto Ejecutivo No. 43 del 10 de mayo de 1979, con la función general de:

> "Fomento en base a la Asistencia Financiera y Técnica, la creación, desarrollo y proceso de Pequeñas Empresas Industriales, Comerciales y de Servicios".

## OBJETIVOS GENERALES:

Lograr aumento en el volumen de empleo.
Fortalecer la base económica.
Aumentar la utilización de insumos nacionales.
Estimular la sustitución de importaciones.

Promover las exportaciones.

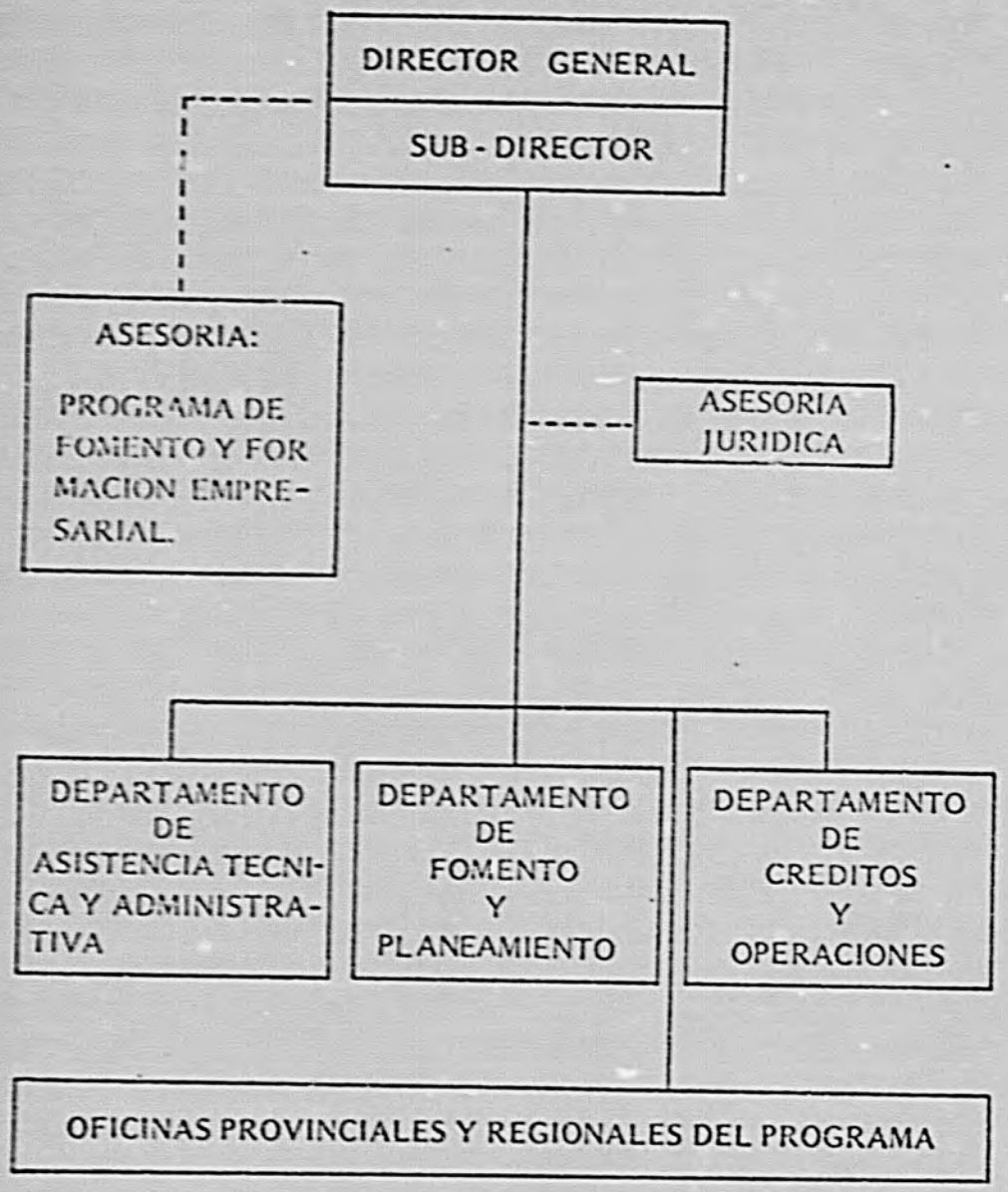
## FUNCIONES DE LA DIRECCION:

Ejecutar las directrices generales para el funcionamiento de sus Programas con sus aspectos administrativos, financieros y económicos de acuerdo con la Política Gubernamental.

Aprobar el Plan de Inversiones de los Programas de acuerdo a la política de desarrollo económico del gobierno y del Ministerio de Comercio e Industrias.

Mantenerse en contacto con entidades privadas o gubernamentales relacionadas con la actividad de Pequeña Empresa.

## ORGANIGRAMA DE LA DIRECCION






## POLITICAS GENERALES

En el ejercicio de su objetivo, la Dirección como ente financiero de fomento sigue las siguientes políticas:

1. Marco de Referencia:

   La Dirección lleva a cabo sus actividades dentro del marco de los planes y las políticas Económicas y Sociales del Gobierno Panameño.

2. Sectores Beneficiados:

   Los servicios de la Dirección están preferencialmente dirigidos a las pequeñas industrias manufacturera, fábril y artesanal, así como a Pequeñas Empresas comerciales y de servicios. Así mismo, cubrimos todos aquellos sectores o programas de carácter pequeño industrial que determine el Gobierno Nacional como sujeto de su atención.

3. Orientación de la Asistencia:

   La Dirección concentra sus esfuerzos en beneficios de las empresas nuevas o existentes, cuyos activos fijos excluyendo terreno y edificios no excedan B/.50,000.00.

4. Naturaleza de las Empresas:

   Los proyectos asistidos por la Dirección pueden ser desarrollados por personas naturales o jurídicas.

5. Descentralización del Crédito:

   La Dirección procura irrigar recursos de crédito hacia todas las zonas del país de la siguiente manera:

## I. PROYECTO URBE - PEQUEÑOS NEGOCIOS

Fortalecer los Polos de Desarrollo a través de la creación y ampliación de pequeña industrias, comercios y servicios básicos.

### ACTIVIDADES BASICAS:

1. Promoción de Proyectos.
2. Financiamiento de Pequeñas Empresas.
3. Asistencia Técnica tendiente a mejorar el funcionamiento de Pequeñas Empresas.

## II. PROGRAMA DE FOMENTO A LA INDUSTRIA PEQUEÑA (MICI - COFINA/ BANCO MUNDIAL)

Este Programa financiará y prestará asistencia técnica a pequeñas empresas industriales y de servicios relacionadas con la industria, en toda la República con énfasis en las provincias de Panamá y Colón.



A continuación presentamos la información general y requisitos básicos de los Programas de Crédito.

### PROYECTO URBE - PEQUEÑOS NEGOCIOS.

Información General:
Interés: 8.5/ sobre saldo anual
Período de Gracia: De acuerdo a necesidades del Proyecto.
Plazo de Amortización a la Deuda: Hasta 7 años, de acuerdo a la factibilidad del proyecto.
/ Máximo Financiado: 90/
Monto Máximo Financiado: B/.50,000.00
Localización del Proyecto: Penonomé, Aguadulce, Santiago, Chitré, Los Santos, Las Tablas, David, Concepción, Puerto Armuelles.
Proyectos Elegibles: Industriales, Comerciales y de Servicio.

### PROGRAMA DE FINANCIAMIENTO A LA INDUSTRIA PEQUEÑA (MICI - COFINA/BANCO MUNDIAL).

Información General:
Interés: 12/
Período de Gracia: De acuerdo a las necesidades del Proyecto (6 meses)
Período de Amortización: Hasta 5 años
/ Máximo Financiado: 70/
Monto Máximo Financiado: B/. 50,000.00
Localización del Proyecto: Panamá, Colón, Bocas del Toro, Darién, y San Blas.
Proyectos Elegibles: Industrias o Servicios a la Industria.

## REQUISITOS BASICOS

### PERSONA NATURAL.

Proyecto Nuevo:

Copia de la Solicitud de Licencia industrial o Comercial.
Referencias de Credito verificadas con personas, bancos y comercios.

Fotocopia de la cédula y carnet del Seguro Social del deudor.

Proyecto en Operación:

Copia de la Licencia Industrial o Comercial.
Referencias de Crédito verificadas con personas, bancos y comercios.
Fotocopia de la cédula y carnet del Seguro Social del deudor.

Declaración del Impuesto sobre la Renta.

### PERSONA JURIDICA:

Proyecto Nuevo:

Copia de la Solicitud de Licencia Comercial o Industrial.

Copia del Pacto Social de la Empresa debidamente inscrito en el Registro Público.

Acta de la Junta Directiva autorizando al Representante Legal o a otro miembro para que gestione el préstamo e hipoteque todos los bienes e inmuebles de la Empresa.



Fotocopia de la cédula y carnet del Seguro Social del Representante Legal o del Miembro que gestione el préstamo.

Proyecto en Operación:

Copia de la Licencia Industrial o Comercial.

Copia del Pacto Social de la Empresa debidamente inscrito en el Registro Público.

Referencias de Crédito verificadas con personas, bancos y comercios.
(Del Representante Legal).

Fotocopia de la cédula y carnet del Seguro Social del Representante Legal o del Miembro que gestione el préstamo.

Acta de la Junta Directiva autorizando al Representante Legal o a otro miembro para que gestione el préstamo.

Balance de Situación, Estado de Ganancias y Pérdidas y Anexos de Cuentas por Pagar y por Cobrar.

Declaración del Impuesto sobre la Renta.

Certificación bancaria de las obligaciones existentes indicando saldo y condiciones.

## OTROS REQUISITOS

Compra de Equipo:

Cotización o facturas proformas de la maquinaria o equipo, con el origen y procedencia del mismo. (Valor CIF Panamá).

## GARANTIAS

Toda solicitud debe ser cubierta con una garantía

Garantías Personales:

Fotocopia de la cédula y carnet del Seguro Social de (el) (los) fiador (es).

Talonario de cheque del deudor y de (el) (los) fiador (es).

Certificado de trabajo del deudor y de los fiadores o de la persona que solicite el préstamo, con las deducciones y sus respectivos timbres.

Garantía Hipotecaria:

Avalúo del terreno o edificio que se dejarán en garantía, por una persona o compañía idónea.

Escritura del Registro de la Propiedad de las fincas que se dejarán en garantía.

Certificado del Registro de la Propiedad en donde conste que las fincas que se dejarán en garantía están libres de todo gravamen.

Borradoe de la Minuta de Venta de las fincas adquiridas con el préstamo.

Garantía Hipotecaria de Bien Muebles:

Listado del equipo, maquinaria y otro bien mueble con los valores actuales y fecha de adquisición.

Avalúo del equipo, maquinaria, y otro bien mueble por una persona o compañía idónea.



1. Compra de Terreno sólo será financiada por el Programa URBE/AID.
   (Se financiará un 11/ del total del préstamo solicitado).

2. Para solicitudes mayores de B/25.000.00, el 60/ del monto a financiar debe ser cubierto por garantía hipotecaria.

3. Para el Registro de la Minuta Hipotecaria del préstamo se necesita:

   Paz y Salvo de Inmuebles.

   Paz y Salvo de Idaan.

   Paz y Salvo del Seguro Social.

   Paz y Salvo de Rentas Internas.

4. La maquinaria, equipo o bien mueble presentado como garantía sólo se aceptará por el 60/ de su valor.

## DIRECCION GENERAL DE LA PEQUEÑA EMPRESA

Ave. 4ta. Sur
Calle 49 Bella Vista Tel. 64-1611

DIRECCION PROV. DE BOCAS DEL TORO
Ave. Sur Tel. 76-9243

DIRECCION PROV. DE COCLE Penonomé
Ave. Hector Conte Tel. 97-9289

DIRECCION PROV. DE COLON
Ave. Bolivar, 9136 Tel. 47-7563

DIRECCION PROV. DE CHIRIQUI David
Avenida Quinta este No. 4939 Tel. 75-2800

DIRECCION PROV. DE DARIEN La Palma
Ave. Central Tel. 57-6233

DIRECCION PROV. DE HERRERA Chitré
Ave. Azuero Tel. 96-4578

DIRECCION PROV. DE PANAMA OESTE
Carrera Calle Real Tel. 53-3655

DIRECCION PROV. DE LOS SANTOS Las Tablas
Vía Sto. Domingo Tel. 94-6377

DIRECCION PROV. DE VERAGUAS Santiago
Ave. Central Tel. 98-4985



MINISTERIO DE COMERCIO E INDUSTRIA
DIRECCION GENERAL DE LA PEQUEÑA EMPRESA

## Appendix B

# PROYECTO DE REDISEÑO DE PROCEDIMIENTOS EN EL TRAMITE DE SUB-PRESTAMOS DE LOS PROGRAMAS DE CREDITO QUE OPERAN EN LA PEQUEÑA EMPRESA, DESDE LAS DIRECCIONES PROVINCIALES.

(Project to redesign the Procedures in the Processing of Sub-Loans of the Program of Credit which Operates in the Department of Small Business, from the Provincial Offices).

by

Vladimir Salazar
Assistant Director
Department of Small Business
Ministry of Commerce and Industry

with

Comments and Recommendations

by

Ing. Julio Benedetti
Former Loan Officer
COFINA

## Summary

(Translation of Text by Vladimir Salazar)

### General Objectives

- Improve the tecnichal-administrative capabilities of the Regional/Provincial Offices, in the aspects of operational procedures for handling the loan requests.

- Reduce the processing time of a loan request.

### Specific Objectives

1. Standardize documents and forms.

2. Reduce processing time from 3 months to 1 month. This refers to time after all the loan documents are completed and submitted to Pequeña Empresa in Panama.

3. Replace current forms with standardized forms to be used according to size of loan, (1) up to B/.5,000 and (2) from B/.5,001 - B/.20,000.

4. Replace the internal review board (Junta Interna de Evaluación) with two credit analysts who will be responsible for evaluating and reviewing the loan request and the project.

5. Each provincial/regional office will have one project/credit analyst, who will be responsible for evaluating the technical, financial and economic feasibility of the project. He will be responsible for putting together the complete project package.

6. Incomplete loan requests will be returned to provincial office within 5 days.

7. Loan requests with real and full guarantees will be given priority.

8. The Credit Committee, will meet weekly and if necessary, will invite the credit analyst to present the loan.

9. The Credit Committee will be the highest authority in deciding on the approval or rejection of a loan.

10. the provincial/regional offices will be responsible for the success, credit performance, collection and loan recovery. Morosidad index must be 10% of that already established by AID agreement.

11. Tentative timetable: 2 weeks to implement system, one month to test and correct.

Comments by Julio Benedetti

- General objectives are positive because on principle, they will expedite processing time and gives more authority to the provincial/regional offices.

- These are some possible bottlenecks in the specific objectives, the main one being manpower. The responsibility and work loan of the provincial/regional office is being increased and apparently not equally or adequately matched with manpower.

Recommendations by Julio Benedetti

1. The 26 forms suggested are necessary, but could be covered by a 4 page formulario de solicitud, like the one used by COFINA.

2. Review the entire manpower structure of Pequeña Empresa in order to shift the bulk of the personnel from the Panama Office to the provincial Office. The objective is to place all the technical and operational personnel in the provincial offices and only the minimum administrative personnel in the Panama Office.

3. The loan request must be processed entirely at the provincial/regional office and submitted directly to the Credit committee by the Director of the Regional Office for decision making.

4. Very little is mentioned about post-credit follow-up. This again must be done at the provincial office, and is another reason to support items 2 of the recommendations.

5. The Panama Office must have following functions:

   a. Final decision making on a loan request. Credit Committee.

   b. Overall administration of program.

   c. Overall record keeping for:

      - approval of loan request
      - post-credit follow-up

   d. Periodic credits of regional/provincial offices.

6. The provincial/regional must have following functions:

   a. Complete loan preparation and evaluation.
   b. Loan presentation to credit committee for final decision.
   c. Collection and loan recovery control (direct responsibility).
   d. Post-credit follow-up.

Appendix C

ANALISIS DE LA MOROSIDAD
AL 31 DE DICIEMBRE DE 1982

1. PROYECTO BANCO MUNDIAL

| PROVINCIA | No. DE PRESTATARIOS | PRESTATARIOS MOROSOS | LETRAS MOROSAS | MONTO TOTAL MOROSOS | % |
|---|---|---|---|---|---|
| Panamá | 30 | 7 | 25 | 16,202.27 | |
| Colón | 9 | 2 | 15 | 5,300.88 | |
| Bocas del Toro | 2 | - | - | - | |
| Total | 41 | 9 | 40 | 21,503.15 | |

2. PROYECTO URBE PEQUEÑOS NEGOCIOS - AL 31 DE ENERO

| PROVINCIA | No. DE PRESTATARIOS | PRESTATARIOS MOROSOS - | % | LETRAS MOROSAS - | % | MONTO TOTAL MOROSOS | % |
|---|---|---|---|---|---|---|---|
| Los Santos | 38 | 15 | 6.25 | 34 | 6.3 | 3,64.85 | 3.7 |
| Chiriquí | 48 | 19 | 23.7 | 161 | 29.7 | 34,014.70 | 34.2 |
| Herrera | 52 | 11 | 13.7 | 63 | 11.6 | 16,294.52 | 16.3 |
| Veraguas | 56 | 18 | 22.5 | 98 | 18.1 | 15,842.43 | 15.9 |
| Coclé | 57 | 27 | 33.7 | 185 | 34.2 | 29,688.55 | 28.8 |
| Total | 251 | 80 | 100.0 | 541 | 100.0 | 99,493.00 | 100.0 |

ANALISIS DE LA MOROSIDAD
AL 31 DE DICIEMBRE DE 1982

3. PROGRAMA DE FINANCIAMIENTO PEQUEÑA INDUSTRIA

| PROVINCIA | No. DE PRESTATARIOS | PRESTATARIOS MOROSOS | LETRAS MOROSAS | MONTO TOTAL MOROSOS | % |
|---|---|---|---|---|---|
| Panamá | 67 | 38 | 642 | 106,926.01 | 60.3 |
| Chorrera | 6 | 6 | 68 | 6,457.21 | 3.6 |
| Los Santos | 3 | 3 | 60 | 11,892.39 | 6.7 |
| Herrera | 5 | 5 | 58 | 5,027.99 | 2.8 |
| Chiriquí | 10 | 10 | 177 | 25,482.44 | 14.3 |
| Coclé | 3 | 3 | 34 | 4,606.57 | 2.6 |
| Veraguas | 6 | 6 | 82 | 13,536.93 | 7.6 |
| Bocas del Toro | 1 | 1 | 10 | 2,492.52 | 1.4 |
| Colón | 1 | 1 | 4 | 749.24 | 0.4 |
| Total | 102 | 73 | 1135 | 177,191.30 | |

RESUMEN POR PROGRAMA

| PROGRAMA | No. DE PRESTATARIOS | PRESTA-TARIOS MOROSOS | % | LETRAS MOROSAS | % | MONTO TOTAL MOROSO | % |
|---|---|---|---|---|---|---|---|
| Banco Mundial | 41 | 7 | 4.3 | 40 | 2.3 | 21,503.15 | 7.2 |
| URBE Pequeños Negocios | 251 | 80 | 50.0 | 541 | 31.5 | 99,493.05 | 33.3 |
| Programa | 102 | 73 | 45.6 | 1135 | 66.1 | 177,191.30 | 59.4 |
| Total | 394 | 160 | | 1716 | | 298,187.50 | |

Appendix D

## DATOS DE PEQUEÑAS EMPRESAS-PROYECTO RUBE

Nombre del Prestatario

Género: M ___ F ___ N/A ___ Profesión: _____

Dirección del Prestatario: _____

Tipo de propiedad de empresa: _____ Natural _____ Jurídica

Localización del proyecto (dirección): _____

Actividad económica: _____

Fecha en que se inició la empresa: _____

Monto solicitado a financiar: _____ Fecha de solicitud: _____

Propósito del financiamiento: _____ Ampliación _____ Equipo _____ Capital

Monto aprobado: _____ Fecha: _____

Fuente de recursos: _____ MICI (%) _____ Propios (%)

Plazo de amortización: _____ Interés: _____

Período de gracia: _____

Fecha del primer desembolso: _____

Saldo por desembolsar: _____

Saldo por recuperar: _____ Fecha último pago: _____

No. letras morosas: _____ Total de morosidad: _____

Empleo actual: _____ Con proyecto: _____ Empleo Total: _____

Relación inversión nueva/empleos generados: _____

Relación inversión total/empleo: _____

Rentabilidad calculada: _____ Relación amortización/utilidad neta: _____

Salarios por año: _____

Venta de producto por año: _____

Productos a vender: _____ Localización de Clientes: _____

Productos a comprar: _____ Procedencia de Productos: _____

**Comentarios:**

APPENDIX E

CHARACTERISTICS OF SAMPLE ENTERPRISES

Locations, Loans, Payments and Delinquency

| Location | Loan No. | Type of Business | New or Existing | Amount of Loan | Duration of Loan | Payments Due | Payments Delinquent | Loa Dat |
|---|---|---|---|---|---|---|---|---|
| CHIRIQUI | | | | | | | | |
| David | 49 | Furniture | EX | 1,917 | 24 mos. | 24 | 0 | 198 |
| | 1 | Metal Work | Ex | 7,947 | 60 | 26 | 18 | 19 |
| | 2 | Auto parts | Ex | 8,311 | 60 | 44 | 0 | 197 |
| | 188 | Block mfg. | Ex | 7,500 | 24 | 12 | 0 | 198 |
| | 210 | Grocery | N | 8,128 | 30 | 8 | 1 | 198 |
| | 232 | Specialty Store | N | 14,947 | 36 | 2 | 0 | 198 |
| | 234 | Motor repair | Ex | 8,438 | 30 | 0 | 3 | 198 |
| | 233 | Auto wash | Ex | 6,908 | 34 | 6 | 11 | 198 |
| Alanje | 219 | Grocery | Ex | 3,450 | 28 | 6 | 1 | 198 |
| Boquete | 204 | Grain prod | N | 7,951 | 36 | 0 | 8 | 198 |
| La Acequia | 226 | Furniture | N | 49,269 | 32 | 0 | 0 | 19 |
| Cerro Punta | 36 | Metal work | N | 7,660 | 48 | 18 | 15 | 198 |
| Volcán | 239 | Bakery | Ex | 7,940 | 35 | 2 | 2 | 198 |
| COCLE | | | | | | | | |
| Penonome | 99 | Medical | N | 7,074 | 32 | 25 | 0 | 198 |
| | 43 | Restaurant | N | 3,034 | 30 | 10 | 20 | 198 |
| | 134 | Specialty store | Ex | 6,846 | 42 | 15 | 1 | 198 |
| | 206 | Grocery | Ex | 1,596 | 22 | 8 | 0 | 198 |

* Business closed. This was the single business failure in the sample survey.

| Location | Loan No. | Type of Business | New or Existing | Amount of Loan | Duration of Loan | Pay-ments Due | Payments Delinquent | Loa Dat |
|---|---|---|---|---|---|---|---|---|
| | 274 | General store | Ex | 5,327 | 48 | 2 | 0 | 198 |
| | 205 | Block mfg. | N | 6,251 | 51 | 4 | 5 | 198 |
| | 108 | Shoemaker | N | 2,984 | 32 | 12 | 7 | 198 |
| | 68 | Clothing mfg. | Ex | 23,870 | 60 | 19 | 7 | 198 |
| | 87 | Grain processing | Ex | 13,767 | 60 | 46 | 2 | 198 |
| | 83 | Meat processing | N | 6,103 | 48 | 25 | 0 | 198 |
| | 112 | General store | Ex | 3,538 | 30 | 20 | 4 | 198 |
| | 41 | Grocery | Ex | 3,002 | 30 | 20 | 0 | 198 |
| | 92 | Tailor shop | N | 3,901 | 41 | 18 | 5 | 198 |
| HERRERA | | | | | | | | |
| Chitre | 20 | Radio/TV shop | Ex | 10,193 | 60 | 31 | 0 | 198 |
| | 284 | Specialty store | N | 4,197 | 36 | 2 | 0 | 198 |
| | 212 | Specialty store | Ex | 13,894 | 48 | 9 | 0 | 198 |
| | 225 | Grocery | Ex | 1,048 | 24 | 1 | 5 | 198 |
| | 309 | General store | N | 3,000 | 24 | 0 | 0 | 196 |
| | 11 | Metal work | N | 3,837 | 30 | 15 | 15 | 197 |
| | 200 | Nursery | N | 8,465 | 48 | 5 | 1 | 198 |
| Parita | 162 | Nursery | Ex | 14,522 | 60 | 5 | 5 | 198 |
| LOS SANTOS | | | | | | | | |
| Los Santos | 7 | Furniture | Ex | 10,000 | 60 | 38 | 2 | 197 |
| | 238 | Clothing mfg. | Ex | 2,116 | 30 | 5 | 1 | 1982 |

Appendix F

March 25, 1983

MEMORANDUM

To: Bernai Velarde

From: Robert Hackenberg

Re: Appropriate Technical Assistance for DGPE

Introduction: Problems Which Require Immediate Attention

Support services provided by USAID should be related to the objectives of the program. These were

1) to generate employment and provide goods and services within the URBE project area

2) through a lending instrument which would support new small scale enterprises.

It was clearly intended that the lending mechanism (DGPE) would be self perpetuating, and should continue for at least ten years beyond the project period.

The URBE evaluation concluded that these objectives are threatened and the program may fail to survive unless the following needs are recognized:

1. Increase profitability of existing small business loans.

Among the sixty small businesses visited during our study, a number were highly efficient, well-managed and profitable. The average case, however, fell far below its level of potential profit-making. This shortfall is reflected in the repayment and collection problems with which all provincial loan officers are concerned.

Primary problems were (a) failure to employ basic business procedures, such as records of purchases, sales and operating costs; (b) inadequate design of the production process, with consequent inefficiencies; (c) lack of market information; (d) poor safety and sanitation practises.

Since the health and growth of the entire DGPE program rests on the performance of existing small businesses, technical assistance to loan recipients is needed to increase profitability, stimulate business growth, expand employment, and improve repayment records.

Before this can be provided, a detailed study of business operations among a sample of loan recipients is urgently needed. The sample should include representatives of all major types of enterprises. It should observe both successful and marginal business operators. A prescription for technical assistance should emerge from this study.

2. Expand the rate of growth of the loan program.

Despite optimistic predictions that a target of 26 loans per month with an average value of $258,000 will be reached during the first three months of 1983, performance has fallen far short of this. During the first two months of the present year, there were only 11 loans per month with an average value of $105.000.

| Location | Loan No. | Type of Business | New or Existing | Amount of Loan | Duration of Loan | Pay-ments Due | Payments Delinquent | L D |
|---|---|---|---|---|---|---|---|---|
| Las Tablas | 82 | Accountant | Ex | 7,118 | 48 | 21 | 5 | 19 |
| | 231 | Clothing mfg. | Ex | 2,143 | 30 | 6 | 0 | 19 |
| La Colorada | 106 | Furniture | Ex | 5,075 | 42 | 17 | 5 | 19 |
| Pedasí | 264 | Grocery | Ex | 1,607 | 30 | 3 | 0 | 19 |
| El Bongo | 283 | Grocery | N | 2,148 | 30 | 1 | 1 | 19 |
| El Ejido | 138 | Furniture | Ex | 2,249 | 30 | 15 | 2 | 19 |
| Tonosí | 249 | Meat processing | Ex | 1,244 | 24 | 1 | 0 | 19 |
| | 300 | General store | N | 10,854 | 48 | 0 | 0 | 19 |
| VERAGUAS | | | | | | | | |
| Santiago | 308 | Restaurant | Ex | 38,218 | 50 | 0 | 0 | 19 |
| | 201 | Restaurant | N | 16,410 | 58 | 2 | 0 | 19 |
| | 37 | Grocery | Ex | 5,091 | 30 | 30 | 0 | 19 |
| | 29 | Welding shop | Ex | 2,502 | 30 | 30 | 0 | 19 |
| | 160 | Metal work | Ex | 1,547 | 24 | 8 | 4 | 19 |
| Soná | 185 | Grocery | Ex | 3,307 | 27 | 7 | 1 | 19 |
| | 176 | Meat processing | Ex | 1,468 | 18 | 14 | 0 | 19 |
| Atalaya | 248 | Grain processing | Ex | 3,117 | 24 | 5 | 0 | 19 |
| | 129 | General store | N | 1,039 | 24 | 19 | 0 | 19 |
| Río de Jesús | 52 | Welding shop | N | 2,296 | 30 | 30 | 0 | 19 |
| Montijo | 124 | Fishing | Ex | 1,677 | 24 | 18 | 1 | 19 |
| Rincón | 164 | Welding shop | N | 2,443 | 24 | 3 | 11 | 19 |

It seems possible that activity will ascend at a modest rate during 1983, probably reaching an average of 12 loans per month with a value of $125,000. But it appears that DGPE is bumping against the ceiling in its effort to increase loans by existing methods.

Unless the scale of operations is increased and the rate of reflows expanded, DGPE's present liquidity problem will worsen. While a "quick fix" in the form of a transfer of capital to the revolving fund will provide short term relief, the only permanent cure is an increase in the rate of applications which will generate higher returns.

A study should be rapidly launched to measure the market for small business lending within the target area for URBE operations. What types of businesses have reached saturation levels within which communities? What types of enterprises are needed to satusfy existing demands? How do the size, management and sales records of DGPE-supported businesses compare with others of the same type in the community? A prescription for the recruitment of new entreprenurs should emerge from this study.

3. Improve administrative efficiency in DGPE operations.

The single greatest obstacle to the rapid growth of the loan program is the length of time required to process applications. Many applicants withdraw in discouragement while their papers are at various stages of processing. The months which frequently intervene between loan approval and disbursement are a special burden on the applicant. Deterioration of business operations during the waiting period while needed credit is unavailable explains at least part of the poor performance of many small businesses.

A further source of inefficiency within DGPE is its failure to collect and process information effectively. The institution is unable to monitor itself. While many of the points described in these paragraphs are either known or suspected by DGPE personnel, neither loan personnel nor the URBE evaluators were able to specifically locate sources of these problems. The necessary information to determine the points at which the application process breaks down, for example, is either not available or not processed in usable form.

An information needs assessment, followed by the establishment of suitable routines for data collection and transmittal to the central office is urgently needed. These data should be processed in machine-readable form and manipulated by a computer to answer the needs of efficient monitoring by management. At the same time, the study should be expanded to include a description of operations and procedures at both field and central office level. The purpose should be to decentralize all possible steps, routines, and decisions to the provincial level. The impact of such steps on workloads in regional offices should be assessed.

The information needs and administrative operations studies should reinforce each other. Both are aimed at establishing higher levls of internal efficiency in DGPE. Their joint results should also provide identification of points at which problems frequently arise and where management intervention is required. A system of continuous evaluation of these problems (cash reserves, repayment rates, application levels) must be installed and appropriate solutions must be formulated and established as routines.

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An Appropriate Technical Assistance Response

To reach the objectives and solve the problems of the DGPE, a three-part series of studies and applications is proposed. The series takes the form of a preliminary, intermediate and long-range program. The preliminary program, which will be based primarily on existing DGPE personnel, is aimed at making short terms corrections on the basis of information now available. The intermediate program, based on three contract studies and applications to be derived from them, addresses the revision of DGPE's organization and operations required for growth and the survival of the enterprises it sponsors. The long term program, to be based on several consultant reports, confronts the question of a possible change in structure of DGPE accomplished through becoming a bank, merging with other financial institutions. or revising its repertoire of functions.

1. The Preliminary Program.

A. An automated data bank.

The primary need within DGPE today is access to information and its more effective use. A major gain can be accomplished by placing existing data into usable form and applying insights to current problems. Construction of an automated data bank using present records at the earliest possible date is essential.

Steps required are as follows:
1) prepare a records inventory in field and central offices.
2) replace or complete records which are missing or inadequate.
3) classify and code items in standard categories.
4) purchase appropriate hardware and software.
5) automate present data base.

B. Prepare preliminary studies.

To have basis data available for the use of management, contractors and consultants, a set of studies should be underatken with the automated data bank:
1) administrative studies (e.g., steps in approval procedure and time elapsed, rate and type of applications received by province).
2) loan performance studies (patterns of repayment, size of loan in relationship to type of business, analysis of morosidad).
3) small business studies (e.g., characteristics of owners, costs of new jobs produced by type of business).

C. Generate basic program statistics.

The automated data bank will provide (for the first time) a description of both the DGPE's internal operations and also its customers. Preliminary studies should suggest immediate improvement in
1) loan approval procedures.
2) decentralization of selected operations.
3) collections practises.
4) recruitment of applicants.

D. Train personnel.

It is best to train both management and clerical personnel in the use of an automated data base by beginning with existing records and terms with which they are familiar. They may then be 'graduated' to deal with a more complex management information system.

2. The Intermediate Program.

A. A set of contract studies is needed to prepare DGPE to revise its operations and support services (to both field offices and loan recipients), leading to the next stage of expansion and growth. Recommended studies are as follows:

1) Operation of small businesses and their technical assistance requirements.

An in-depth study of a sample of enterprises is needed to describe business practises, employment patterns, purchasing and sales, costs and prices, and production methods.

2) Market study of small business opportunities and requirements within the URBE area.

Barriers and opportunities for small scale enterprises by province should be investigated. A sample of enterprises not reciving DGPE support should be studied to identify factors associated with success and failure, and effective use of employees. Results should be compared with #1 above.

3) Administrative operations and information needs.

An in-depth description of administrative organization and operations in both th central office and field offices. Information needs should be recognized and decision points identified so that necessary data reaches the appropriate decision-maker at the right time. This study leads to the establishment of the management information system.

B. Analysis of these studies should provide a framework for the following intermediate steps toward the goals for DGPE:

1) design and delivery of effective technical assistance based on understanding of the practises and problems of loan recipients.

2) implementation of recruitment efforts aimed at expanding the pool of applicants based on the results of the market study.

3) installation of a management information system for comprehensive monitoring and continuous evaluation of program operations and requirements.

C. A training component is needed at this point to familiarize personnel from top management to the clerical level with the uses and benefits to be derived from the studies completed. They will also require training in the use of the management information system as a tool for administration and research.

D. The outputs from the program of intermediate studies, together with the applications package proposed for them, should include the following:

1) increments in profitability for small scale enterprises, together with improvement in repayment records.

2) expanded growth in the volume of applications processed, increased reflows and improvement in the liquidity problem.

3) greater efficiency in management with reduction in time elapsed between application and disbursement.

3. The Long Term Program.

A. To provide for the long term institutional stability and continuity of DGPE beyond the extended PACD, additional exploratory studies are needed in the following areas:

1) Scale of operations.

The study will seek an appropriate level of growth and scale of operations for DGPE. What are the consequences of rapid growth? What are its limits?

2) Alternative organizational models.

A study of the structural alternatives for linkage by DGPE with other credit institutions. What functions might be more effective if transferred elsewhere? What are the unique purposes served by DGPE and no other institution? Is there justification for a banking institution to serve the needs of small business alone?

3) Credit market for small business loan.

What is the future of credit availability to small scale entrepreneurs in Panama? Where do they fit in present plans for economic development during the next decade?

B. Outputs from these studies should include the following guidelines:

1) Targets for capitalization, level of operation and growth by DGPE.

2) Long terms plans for an evolving intermediate credit institution serving the needs of small scale enterprise.

Concluding Observations

In preparing these notes as a response to the several technical assistance requests now in circulation, several observations have repeatedly come to mind. They should be considered in evaluating all technical assistance requests in the future.

1. DGPE's attention should be focused on the purpose of the loan.

An intermediate credit facility was set up under URBE to achieve a set of specific objectives: employment generation and provision of goods and services to secondary cities and their market areas. Secondary goals were the utilization of local raw materials and recruitment of new entrepreneurs to the business sector.

The establishment of a loan office was a means to that end. It was not an end in itself. From the items contained in DGPE's $937,000 request, one might conclude that the purpose of the USAID program was to organize a bank, teach and learn banking operations, practise effective credit management, or operate a collection agency. It would be difficult to justify use of USAID funds to teach banking in Panama.

At present, DGPE feels no responsibility for the success of loan recipients, and does not believe it necessary to collect or process data on employment generated. MICI officers, both in Panama and in the provinces, are far more worried about morosidad than about the health, strength and growth prospects of small businesses for which they are the sponsors.

2. It is not USAID's responsibility to support personnel costs.

Many of the practises of the recent past have established bad habits within the URBE project components. The line between "consultants" and "management personnel" is difficult to distinguish. When consultants become executives within the organizations they are supposed to be assisting, severe damage results. There is neither training, nor learning, nor transfer of experience. Worst of all, when the consultant leaves (and they must, eventually) there is discontinuity within the host organization. He takes his experience with him to the next job.

In the case of provision of technical assitance to loan recipients, for example, DGPE apparently expects that USAID should provide consultants for this purpose. It is USAID's responsibility to provide the research and methods to be used in delivery of this service. But providing guidance to entrepreneurs is a function of DGPE, not USAID. Other analagous examples are abundant.

3. The "human capital perspective" on cost recovery.

Given the purposes of the small business loan program, it may be unreasonable to expect 100% cost recovery. The program may not be able to maintain itself from reflows alone. One of the loan documents observes that there is always a proportion of "shrinkage" from non-recovery in programs aimed at employment generation. This is acceptable when it is recognized that a continuing subsidy to employment generation is compensated in other areas of the economy: increased productivity, expanded demand, gains in purchasing power and tax yield. These should be factored into the analysis of cost recovery.

Tentative Budget

The purpose of the exercise in which we are engaged is to reprogram the technical assistance budget within the URBE Project to provide for the needs of its major components. The following tentative figures are proposed as a first estimate of the costs for the package of studies and applications proposed above.

| | |
|---|---|
| 1. Preliminary Program. | |
| A. Construction of automated data bank | $ 25,000 |
| B. Purchase of hardware | 20,000 |
| C. Training | 15,000 |
| | 45,000 |
| 2. Intermediate Program. | |
| A. Studies. | |
| 1) small business operation | 25,000 |
| 2) market study | 25,000 |
| 3) administrative study | 25,000 |
| | 75,000 |
| B. Applications: Experiments and Tests. | |
| 1) delivering technical assistance | 50,000 |
| 2) expansion of recruitment of applicants | 25,000 |
| 3) install self-management system | 35,000 |
| | 110,000 |
| C. Training | 15,000 |
| | 15,000 |
| 3. Long Term Studies. | |
| A. Scale of operations. | 10,000 |
| B. Alternative organization models | 10,000 |
| C. Credit markets for small business | 10,000 |
| | 30,000 |
| 4. TOTAL | $275,000 |