

525-173

PD-AAB-270-~~2~~

DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT
Washington, D.C. 20523

CAPITAL ASSISTANCE PAPER

Proposal and Recommendations
For the Review of the
Development Loan Committee

PANAMA - COOPERATIVE DEVELOPMENT LOAN

AID-DLC/P-2042

DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D.C. 20523

UNCLASSIFIED
AID-DLC/P-2042
June 6, 1974

MEMORANDUM FOR THE DEVELOPMENT LOAN COMMITTEE

SUBJECT: Panama - Cooperative Development Loan

Attached for your review are recommendations for authorization of a loan to the Government of the Republic of Panama ("Borrower") of not to exceed eight million one hundred thousand dollars (\$8,100,000) for U.S. and less developed free-world and local costs of goods and services required for the development of rural cooperatives for credit, production and consumption.

This loan proposal is scheduled for consideration by the Development Loan Staff Committee on Thursday, June 13, 1974. Also please note your concurrence or objection is due by close of business Tuesday, June 18, 1974. If you are a voting member a poll sheet has been enclosed for your response.

Development Loan Committee
Office of Development
Program Review

Attachments:

Summary and Recommendations
Project Analysis

UNCLASSIFIED

w'

CAPITAL ASSISTANCE PAPER - COOPERATIVE DEVELOPMENT LOAN - PANAMA

TABLE OF CONTENTS

I. SUMMARY AND RECOMMENDATIONS	1
II. NATURE OF THE PROJECT	1
A. Program Goals and Objectives.....	1
1. Project Goal	1
2. Program Justification	2
3. Project Benefits	5
B. Project Setting	7
1. Agriculture in the Panamanian Economy	7
a. The Agricultural Sector	7
b. Agricultural Policies	9
2. History of the Cooperative Movement	11
a. Legal Basis	11
b. Development of the Cooperative Movement	11
3. The Target Group Presence in the Cooperative Movement..	14
a. Income	14
b. Land Holdings	15
c. Production	16
d. Geographic Distribution	17
e. Savings	18
f. Credit Availability	18
g. Technical Assistance	19
h. Social Mobility	20
i. Migration	20
j. Overview	21
4. Existing Credit Situation	22
a. Availability and Source of Credit	22
b. Terms and Conditions - Historical	23
C. Project Description	24
1. Program Package	24
2. Project Components	25
a. Relending Funds	25
b. Institutional Development	32

b

UNCLASSIFIED

3. Relending Terms 36

 a. Interest Rates 36

 b. Terms for Sublending Activities 38

III. PROJECT ANALYSIS

A. Borrower 40

 1. GOP Balance of Payments Position 42

 2. GOP Fiscal Revenues and Expenditures 43

B. Executing Agencies 46

 1. Ministry of Agricultural Development - MIDA 46

 a. Rural Sector Assistance Philosophy 46

 b. Organizational Structure and Staffing Requirements 46

 c. Proposed Technical Assistance to Cooperatives 48

 d. GOP Institutional Support 48

 e. USAID Assessment of Institutional Effectiveness 50

 2. Agricultural Development Bank - BDA 51

 a. Background and Perspective 51

 b. Institutional Capacity 58

C. Recipient Institutions 61

 1. COAGRO and Affiliates 61

 a. History and Growth of Membership 61

 b. AID Grant Assistance and Loan 525-L-034 62

 c. Organization Structure - A Functional Description 63

 d. Technical Assistance Capability 65

 e. COAGRO Technical Assistance Requirements 66

 2. FEDPA and Affiliates 67

 a. History and Growth of Membership 67

 b. AID Assistance 67

 c. Organization and Management 67

 d. Coop Profile 68

 e. Technical Assistance Capability 68

 f. Lending Procedure 70

 g. USAID Assessment of Institutional Effectiveness 71

 h. Credit Needs 72

C'

UNCLASSIFIED

3. FECOPAN and Affiliates	73
a. History and Growth of Membership	73
b. Structure and Function	73
c. Coop Profile	74
d. Technical Assistance Capability	74
e. Technical Assistance Requirements	74
f. USAID Assessment of Institutional Effectiveness	75
g. Projection of Future Growth	76
h. Credit Needs	77
i. Developing a Marketing Strategy	79
4. Federation and Cooperative Relationships	80
D. Other Donor Activity Being Implemented	82
E. Socio-Economic Analysis	84
1. Capital Formation and Institutional Development	84
2. Manpower Development	86
3. Economic Power and the Small Farmer	87
4. Benefit - Cost Analysis	88
5. Environmental Considerations	89
F. Financial Analysis	90
1. Funding Requirements	90
2. Sources of Financing	90
3. Financial Position	92
a. Agricultural Development Bank	92
b. FEDPA	93
c. COAGRO	93
d. FECOPAN	94
4. Summary	95
G. Issues	96

d-

UNCLASSIFIED

IV. LOAN ADMINISTRATION

A. Target Implementation Dates 97

B. Administrative Provisions and Responsibilities 97

 1. Project Management/Monitoring Responsibilities 97

 2. Loan Disbursement Procedures 97

 3. Financial Controls 93

 4. Project Execution 93

 5. Evaluation 99

FIRST ANNEX

- I. STATUTORY CHECKLIST
- II. LETTER OF APPLICATION
- III. USAID DIRECTOR CERTIFICATION
- IV. DRAFT LOAN AUTHORIZATION
- V. MISSION RESPONSE TO DAEC COMMENTS

e

3. FECOPAN and Affiliates	75
a. History and Growth of Membership	75
b. Structure and Function	73
c. Coop Profile	74
d. Technical Assistance Capability	74
e. Technical Assistance Requirements	74
f. USAID Assessment of Institutional Effectiveness	74
g. Projection of Future Growth	76
h. Credit Needs	77
i. Developing a Marketing Strategy	79
4. Federation and Cooperative Relationships	80
D. Other Donor Activity Being Implemented	82
E. Socio-Economic Analysis	84
1. Capital Formation and Institutional Development	84
2. Manpower Development	86
3. Economic Power and the Small Farmer	87
4. Benefit - Cost Analysis	88
5. Environmental Considerations	89
F. Financial Analysis	90
1. Funding Requirements	90
2. Sources of Financing	90
3. Financial Position	92
a. Agricultural Development Bank	92
b. FEDPA	93
c. COAGRO	93
d. FECOPAN	94
4. Summary	95
G. Issues	96

UNCLASSIFIED

IV. LOAN ADMINISTRATION

A. Target Implementation Dates 97

B. Administrative Provisions and Responsibilities 97

 1. Project Management/Monitoring Responsibilities 97

 2. Loan Disbursement Procedures 97

 3. Financial Controls 93

 4. Project Execution 92

 5. Evaluation 92

FIRST ANNEX

- I. STATUTORY CHECKLIST
- II. LETTER OF APPLICATION
- III. USAID DIRECTOR CERTIFICATION
- IV. DRAFT LOAN AUTHORIZATION
- V. MISSION RESPONSE TO DAEC COMMENTS

g'

SECOND ANNEX
TABLE OF CONTENTS

- A. FINANCIAL ANALYSIS TABLES
- B. INSTITUTIONAL DEVELOPMENT - FINANCIAL SUMMARY
- C. PENETRATION OF SAVINGS AND LOANS COOPERATIVES INTO
THE POPULATION OF CENTRAL AMERICAN COUNTRIES 1964-1972
- D. FEDPA - ORGANIZATION CHART
- E. COAGRO - ORGANIZATION CHART
- F. MIDA - ORGANIZATION CHART
- G. COST BENEFIT ANALYSIS TABLE
- H. FEDPA - LOCATION OF MEMBER COOPERATIVES
- I. COAGRO - SHORT RANGE PLAN
- J. FEDPA - SHORT RANGE PLAN
- K. PROPOSED FEDPA - COAGRO - FECOPAN RELATIONSHIPS
- L. USAID EXPERIENCE WITH LOAN 525-L-037
- M. FUNCTIONS OF AGRICULTURAL SECTOR INSTITUTIONS

Authentication 6/29/74

UNCLASSIFIED
ATD-DLC/P-2042

1. SUMMARY AND RECOMMENDATIONS:

A. BORROWER: The Republic of Panama

EXECUTING AGENCIES: Ministerio de Desarrollo
Agropecuario - (MIDA)
Banco de Desarrollo Agropecuario -
(BDA)

B. IMPLEMENTING AGENCIES:

- a. Federación de Cooperativas Agropecuarias (COAGRO)
- b. Federación de Cooperativas de Credito de la Republica de Panama (FEDPA)
- c. Federación de Cooperativas de Consumo (FECOPAN)

C. PROJECT COSTS:

Loan Amount		\$ 8,100,000
Local Contribution		
GOP:	\$ 1,080,000	
BDA:	1,350,000	
Cooperative Movement	<u>1,225,000</u>	
Sub-Total		<u>3,655,000</u>
Total		<u>\$11,755,000</u>

D. LOAN:

- a. Amount: Not to exceed eight million one hundred thousand U.S. dollars (\$8,100,000).
- b. Terms: The loan will be repayable in 40 years including a grace period of 10 years. The interest rate will be two percent (2%) per annum during the grace period and three percent (3%) per annum thereafter.

E. PROJECT DESCRIPTION:

The proposed project will consist of two major components designed to strengthen the rural cooperative movement in Panama. In so doing, cooperatives will become more responsive to the needs of their existing client members and able to expand their membership to include lower income farmers not as yet affiliated with any cooperative.

One component will consist of funds for relending from a Cooperative Revolving Fund to be established in the Agriculture Development Bank (BDA). Resources for the cooperative loan fund will be contributed by both AID (\$6.75 million) and the BDA (\$0.5 million). These funds (\$7.25 million) will be relented to the three federations active in the rural areas (COAGRO, FEDPA and FECOPAN), their affiliated cooperatives and to individual cooperative members to finance the following activities: agricultural production credit, equipment and infrastructure, and working capital. Since the fund will finance only 90% of subproject costs, the cooperatives will contribute the remaining 10% or \$725,000, to the activities financed by the fund.

As an indication of the GOP's support of the project, the BDA has agreed to replenish the fund with other resources to the extent that losses resulting from defaults are incurred by the fund. This action will prevent the fund from being decapitalized. Over and above the \$500,000 shown in the preceding paragraph, the BDA will contribute \$850,000 in services towards the administration of the revolving fund. In the event that not all of this contribution will be used for administrative support costs the GOP has agreed to make the difference available to the revolving fund for relending purposes.

As a means of addressing the longer range program objectives, an institutional development component of \$2.93 million has been included in the project. Funds will be provided for strengthening the institutional capacity of the three federations, the Agricultural Development Bank (BDA) and the Department of Cooperatives of the Ministry of Agriculture (MIDA) so they will be able to offer improved services to their respective clienteles. AID loan funds will be made available to MIDA to pay for the following services: expatriate technical assistance, training and salary costs for coop managers, supporting equipment and vehicles, the creation of an auditing section within MIDA, and the U.S. share of costs associated with joint GOP/AID data gathering and evaluation activities. Up to \$1.35 million of loan funds will be applied towards the costs of these various activities.

MIDA will contribute \$1.08 million from other resources to finance technical assistance to the primary cooperatives for agricultural production services (60 field agents), training and education programs, and support costs for the AID-financed external technical assistance. The cooperatives will contribute \$500,000 towards the costs of improving management, providing training, and supporting the 60 production agents assigned to work with individual cooperatives.

The total cost of the program is \$11,755,000, of which AID will provide \$8,100,000 (69%), the GOP \$2,430,000 (21%) and the cooperative movement \$1,225,000 (10%). The GOP has confirmed its intention to repay the loan from its general revenues.

F. Project Purpose:

The purpose of the project is to strengthen the technical and financial capacity of the rural cooperative movement so that it can develop into a viable, self-help mechanism, able to offer better services to its existing small farmer/members and concurrently reach out to attract other low-income farmers not yet cooperative members.

Priority: The GOP has assigned a high priority to this project as part of its rural sector strategy.

G. Financial Plan:

The proposed financial plan is summarized as follows:

	SOURCE (Thousands of \$)				TOTAL
	AID	BDA	MIDA	COOPS	
<u>Relending Funds (BDA):</u>	<u>6,750</u>	<u>500</u>	<u>-</u>	<u>725</u>	<u>7,975</u>
FEDPA and Affiliates	2,000	-	-	200	2,200
COAGRO and Affiliates				-	
Production Credits	1,450	-	-	145	1,595
Infrastructure and Equipment	1,100	-	-	110	1,210
Working Capital	1,450	-	-		
FECOPAN and Affiliates:					
Infrastructure and Equipment	590	-	-	60	650
Working Capital	160	500	-	65	725

	SOURCE (Thousands of \$)				TOTAL
	AID	BDA	MIDA	COOPS	
Institutional Development (MIDA)	1350	-	1,080	500	2,930
External Technical Assistance:	640	-	220	-	860
Local Technical Assistance	510	-	860	500	1,870
Establishment of Audit Section in MIDA	160	-	45	-	205
Agronomic and Credit Agents (60)	-	-	440	110	550
Training Costs	350	-	375	390	1,115
Equipment	200	-	-	-	200
Administrative Costs	-	850	-	-	850
	<u>8,100</u>	<u>1,350</u>	<u>1,080</u>	<u>1,285</u>	<u>11,755</u>

- H. Other Sources of Funds: No other sources of funds are available for the project.
- I. Statutory Criteria: All statutory criteria, as set forth in Annex II of this paper, have been met.
- J. View of the Country Team: The country team has recommended approval for the loan.
- K. Issues: The fundamental issue is whether the inputs to be provided in the project will be sufficient to bring the small farmers permanently and adequately into the market economy.
- The second issue is whether this three-year project which is all that appears manageable now will create organizations of sufficient strength to survive.
- L. Loan Administration: Usual disbursement and procurement procedures will be followed in this loan.
- M. Recommendation: On the basis of the conclusions of the Capital Assistance Committee, that the project is technically, economically and financially justified, it is recommended that a loan to the Government of Panama for an amount not to exceed eight million one hundred thousand dollars (\$8,100,000) be authorized subject to the following conditions:
1. Conditions
In addition to the normal conditions precedent to disbursement, the following shall be required:

-vi-

- (a) Prior to the issuance of any commitment document or to any disbursement under the Loan, Borrower shall:
- (i) Establish a Coordinating Committee for administering the project, which has representation from the Ministry of Agricultural Development, FEDPA, COAGRO, FECOPAN and The Agricultural Development Bank. Borrower shall furnish documentation, in form and substance satisfactory to A.I.D., showing the planned functions of the coordinating committee in coordinating loan Project Activities, evaluating progress of the various components of the Project, and collecting baseline data to be used as a basis for that evaluation.
 - (ii) Furnish, in form and substance satisfactory to A.I.D., a time phased implementation plan for the technical assistance, which shall include a schedule for the counterpart funding to be contributed by the Borrower.
- (b) Prior to the issuance of any commitment document or to any disbursement under the Loan for other than technical assistance and supporting equipment, Borrower shall establish a Cooperative Revolving Loan Fund in the BDA, for funds to be relent exclusively to COAGRO, FEDPA, FECOPAN, and their affiliated cooperatives including rural credit unions. Borrower shall furnish, in form and substance satisfactory to A.I.D., a statement as to the general lending policies of the fund, the terms and conditions upon which subloans will be made and a time-phased implementation plan which shall include a schedule for the counterpart funding to be contributed by the Borrower.
- (c) Prior to the issuance of any commitment document or to any disbursement under the loan for an activity of FEDPA or any of its affiliates, Borrower will furnish in form and substance satisfactory to A.I.D., a statement of the lending policies and procedures to be followed by FEDPA and a plan for obtaining the participation of an increasing number of lower income farmers in this portion of the Project.
- (d) Prior to the issuance of any commitment document or to any disbursement under the loan for relending by an affiliate of COAGRO, BDA and AID shall agree upon a statement of lending policies and procedures which will be used for subloans to be made by COAGRO affiliates from Project funds.
- (e) Prior to the issuance of any commitment document or any disbursement under the loan to finance infrastructure, the Ministry of Agricultural Development shall furnish, in form and substance satisfactory to A.I.D. and the Coordinating Committee, a plan for the coordinated use of such infrastructure among the various implementing agencies for this Project.

2. Covenants

- (a) Unless A.I.D. shall otherwise agree in writing, Borrower agrees to conduct, through the Coordinating Committee, annual reviews with AID of the progress of the Project.
- (b) All individual infrastructure projects in excess of \$100,000 will be subject to the prior written approval of A.I.D.
- (c) Borrower covenants that the Ministry of Agriculture will assign to COAGRO and the FEDPA for their use on agricultural production projects, an appropriate number of qualified extension agents, to be made available on a timetable mutually agreed upon by AID and the Ministry.
- (d) Unless A.I.D. otherwise agrees into writing, funds received from the repayment of subloans made with Project funds will be used solely for additional sublending for the same general purposes.
- (e) Borrower will cause to be established in the Ministry of Agricultural Development an audit section having the responsibility to audit the activities of each of the three cooperative federations and their primary affiliates.

PROJECT COMMITTEE:

Joslyn Fearson, Development Planning
Joe Hill, Office of the Controller
Auit Nathanielsz, Development Planning
Malcolm Novins, Rural Development
David Robertson, Rural Development
George Rublee, Deputy Director
Raymond White, Rural Development

CONTRIBUTING CONSULTANTS:

Daniel Chaij, USAID/Guatemala
Laurence Hausman, AID/Washington (LA/DR)
John Heard, AID/ Washington (LA/DR)
Edward Schaefer , AID/Washington (LA/DR)
Helen Soos, Economist

11. NATURE OF THE PROJECT

A. PROGRAM GOALS AND OBJECTIVES

1. Project Goal

The goal of the proposed loan-funded program is to effect a redistribution of income in the rural areas by improving the relative economic position of those small and medium farmers who make up the present and potential membership of the rural cooperative movement (See Target Group Profile, Section 11.B.3.). The program objectives will be achieved by strengthening the capacity of the cooperative movement to service its rural clientele more effectively. This will be accomplished by providing technical assistance to upgrade the service capabilities of the participating institutions and organizations as well as by providing a variety of credit to target coop members, affiliates, and federations.

This program will complement the Government of Panama's announced objective of raising the economic and social standards of the entire rural sector. The Government has been moving in this direction since shortly after General Omar Torrijos came to power in October 1968.

Since that time, the GOP has made a strong effort to implement an evolving socio-economic strategy of development for Panama which entails rearranging the traditional distribution of benefits that result from economic growth. The strategy encourages more rapid economic growth in the two terminal cities that service the Panama Canal Zone, Panama and Colon, and, in turn, envisions investing the public resources generated by this rapidly growing sector into social and economic programs to improve the living standards of the urban and rural poor. A corollary of this strategy has been an attempt to integrate the heretofore neglected rural areas of the country with the more prosperous areas bounding the Panama Canal Zone. The proposed loan both supports and complements this strategy.

2. Program Justification

For some time the GOP has recognized that a numerically small group of farmers who are aware of modern production and marketing techniques exist side-by-side with a numerically large group of traditional subsistence farmers, and that the latter group has not benefited from the increased production of the agricultural sector in the same measure as the modern farmer.

The Government's concern for improving the welfare of the large group of poor farmers is evidenced in its rural sector investment program. The GOP is supporting land colonization schemes, farmer groupings, and pre-cooperatives as a response to the various sub-sector needs of the rural areas. These programs have concentrated resources on a small percentage of poor farmers. The government is presently attempting to strengthen the cooperative movement as a means of reaching a greater number of small farmers. In the GOP's preliminary loan application, the Ministry of Agricultural Development (MYDA) underscored the Government's policy of assisting the small and medium farmer and improving the performance of the agricultural sector through the promotion of cooperative associations.

The proposed loan supports this GOP policy. Its objective is to strengthen the cooperative movement in Panama both vertically, by improving its line of services, and horizontally, by extending its reach to more small farmers. Panama's cooperative system presently reaches a limited number of farmers with a line of services including credit, sale and delivery of farm supplies, technical assistance, and limited marketing and transportation services. Although the cooperative movement has had more relative success in reaching the small farmer than other private or public institutions in Panama's recent history, the potential contribution of cooperatives to rural development has scarcely been tapped. Many services are not sufficiently developed; many farmers have not yet been organized; and some geographic regions have scarcely been penetrated by cooperative organization. As cooperative services improve, more farmers will recognize the benefits of participation in cooperative associations, and the cooperative movement will extend its reach to more small farmers.

The strategy for the achievement of the loan objective is to pursue the following goals:

a. Full Service Line

In order to be effective in improving the lives of its members, the rural cooperative movement must offer a full line of services including credit, sale and delivery of farm supplies, mechanization, transportation, marketing and storage, and eventually food processing. In addition, technical agricultural advice and member education must be provided either directly by cooperatives, or in combination with other institutions, to insure efficient use of services.

b. Economic Viability

Achievement of social and economic goals is directly dependent upon the economic viability of the institutions. In order to be viable the cooperatives must be of sufficient size so that the volume of activities, when combined with a reasonable profit margin, allows the employment of full time, qualified managers, administrative staff and other personnel required to provide efficiently the package of services described above. The present trend towards federations of cooperatives contributes to the economic viability of cooperatives by promoting economies of scale.

c. Vertical Integration

In order to fulfill the objectives noted above, cooperatives have to be integrated into federations on a national level, capable of backstopping a full line of services at the local cooperative level. The loan supports the vertical integration of the cooperative movement by providing for the improvement of agricultural production services through COAGRO and FEDPA, and by promoting consumer cooperatives and marketing services through FECOPAN.

A cooperative is essentially a business, but with a predominantly social objective. As an organization, a cooperative must be financially viable; but it must also be capable of offering technical assistance and services to promote the changes in attitudes and practices which result in improved productivity and increase income. The

—USAID concurs with the GOP's choice of cooperatives as a key vehicle to promote rural development and to improve the welfare of the small farmer.

3. Project Benefits and Outputs

The project will strengthen cooperatives both at the primary level and the secondary level. The direct benefits of the project will fall into the following categories:

1. Institution building at the level of the three participating federations.

a. COAGRO - Improving the ability of COAGRO to act as a farm input wholesaler to its affiliated coops and developing an ability in COAGRO to market the farm produce of its members and member coops in coordination with FECOPAN and FEDPA.

b. FECOPAN - Developing the ability of FECOPAN to wholesale consumer products to its member coops and gradually building its capability as a farm produce assembler and marketing agent for its own membership as well as the farmer/members of COAGRO and FEDPA.

c. FEDPA - Improving FEDPA's ability to market its credit union services, especially among the lower income rural farm population. FEDPA will also coordinate with FECOPAN and COAGRO to improve marketing channels for the produce of its own farmer/members.

ii. Expansion of the availability of credit for cooperatives and their members through federations and through the Agricultural Development Bank.

iii. Improved delivery of technical assistance through the institutionalization of access to technical assistance through parent cooperative federations. The technical assistance will not only be directed at assisting farmers to grow traditional crops more efficiently but also to grow crops best suited to the soil conditions, location, access, projected markets and other pertinent considerations.

iv. Improved services to individual cooperatives (a) through the rationalization and the coordination of the roles and activities of the federations so that they can become mutually reinforcing; and (b) through the integration of services at the local level, reducing possible duplication and lowering costs to small farmers by achieving economies of scale:

a. COAGRO will provide small farmers with agricultural inputs at reasonable prices, technical assistance, and some marketing services;

b. FEDPA will provide production credit and finance small agro-business ventures; it is expected that FEDPA will encourage the establishment of voluntary savings facilities in those affiliates which presently offer only mandatory share accounts;

c. FECOPAN will provide small farmers with a system of member-owned consumer outlets and a channel for marketing agricultural produce.

The indirect benefits of the project will be (1) an increase in agricultural production, (2) an increase in the income of the small farmer, thereby improving income distribution, (3) an improvement in the marketing system, (4) the development of managerial and technical capabilities among rural cooperative members, and (5) an increased proportion of low income farmers participating in cooperatives.

Measurement of the direct benefits derived from the project will include:

- i. Increased cooperative membership on the order of
 - a. Sixty percent in agricultural cooperatives
 - b. Sixty percent in rural consumer cooperatives
 - c. Thirty-Five percent in credit unions
- ii. Delivery of credit and technical assistance to a minimum of 50% of agricultural cooperative members.
- iii. Participation in a cooperative marketing system of a minimum of 50% of agricultural cooperatives representing at least 40% of producer members.
- iv. Increase in the volume of business of the agricultural cooperatives from the current \$3,500,000 to a minimum of \$6,000,000 annually including an increase in the volume of COAGRO's business from \$1,500,000 to \$3,000,000 annually by the end of the loan. The latter figures refer solely to COAGRO's business with its own cooperatives.

- v. Increase in the volume of FECOPAN's business from a projected \$230,000 in 1974 to \$1,240,000 by 1977, plus an increase in sales volume of FECOPAN affiliates from the current \$4,000,000 to \$6,000,000.

- vi. Increase in the loans made by credit unions from the current \$2,900,000 annually to \$6,500,000, including an increase in volume of loans made by FEDPA to affiliated credit unions from \$1,300,000 in 1974 to \$2,120,000 in 1977.

The above criteria measure the quantity of services rather than the quality. In the final analysis, only observation will demonstrate the extent to which credit and services are provided in such a coordinated way that the small farmer cooperative member has access to a complete cycle of production inputs, technical advice, and markets for his produce. The success of the project can be measured in terms of its effect in strengthening the capacity of the cooperative movement to respond with continuity to the needs of its members. With that premise in mind, we expect the membership of cooperative organizations to increase by the margins cited above (number 1). We also expect a lowering of the average and median income level and farm size statistics reflecting small farmer participation and confidence in the benefits to be derived from cooperative membership.

UNCLASSIFIED

B. PROJECT SETTING

1. Agriculture in the Panamanian Economy

a. The Agriculture Sector

The Panamanian economy is unique in Central America in that the agricultural sector has not been the traditional motor for growth. The sector's contribution to GDP has been declining from a relatively small 29% in 1950, to 23% in 1960, to 16% in 1973. Agriculture nonetheless employs 35% of Panama's labor force, and represents 70% of Panama's commodity exports. The four basic components of the agricultural sector are crops (73%), livestock (22%), fishing (4%) and forestry (1%). Agricultural exports amount to 25% of crop production (banana and sugar), 3% of livestock and 50% of fishing production (shrimp).

The growth rate of the agricultural sector, despite its overall decline as a proportion of GDP, was a healthy 5.3% in the 1960's, dwindling to an overall 4.1% annual growth rate in the past five years and 3.7% in 1973. GDP per worker in agriculture was lower than in other major sectors, but it increased from \$368 to \$1,020 between 1960 and 1970.

This is partly due to an absolute decline in agricultural employment owing to a 10% annual increase in urban employment. The agricultural production index for Panama over the 1962-71 period shows an increase of 53% for the nine-year period, compared to 29% for Latin America as a whole.

Gross production and growth rate figures hide the extremes in income distribution and the disparate growth levels of applied technology. In 1972, 47% of all farms reported no cash sales of products. Over 80% of the farms used only hand labor. Less than 5% of farms received technical assistance and 10% received credit. With the exception of a thin strata of rapidly modernizing and efficient producers, mainly in export crops, cattle, poultry and rice, Panama's agricultural sector remains traditional.

The major crops in Panama are bananas, sugar, rice, corn, beans and tobacco. Bananas are produced for export, chiefly by large plantation growers. Much

UNCLASSIFIED

of the sugar is also grown by large producers although small farmers also play an important role in cane production. Rice, corn, beans and tobacco are produced predominantly by small farmers.

Undoubtedly the application of improved technology has the greatest potential for increasing agricultural production. Disseminating available knowledge to Panamanian farmers and research to broaden the technological base are top priority needs.

The quality of the land is the major bottleneck to increasing agricultural production. Panama has very little fertile land suitable for agriculture or intensive cattle raising. A tropical moist area, now largely deforested, comprised the original land settlements of the country. Only about a quarter of this area is presently suited for field crops or pasture. The best areas are the alluvia of Chiriquí in the west, and the Bayano Basin in the east. Some parts of the Darién are thought to have similar capability. The topsoil in these areas is thin and unstable and must be treated with a great deal of care to avoid irreversible erosion, especially through trampling by cattle. Large portions of the remaining land are claimed by tropical forests which have proved unsuitable for crops. Finally, topography in the mountain areas has imposed further limitations on the kinds of crops which can be cultivated. Thus the size of farm holdings bears little necessary relationship to farm income, or agricultural production.

Land tenancy patterns pose major obstacles to income distribution and production. Three hundred farms of over 500 hectares account for 22% of total arable land; at the other end of the spectrum, 4% of the land represents 54,400 farms (45% of all farms) in holdings of less than 5 hectares. Given the overall poverty of the soil; the alternate semi-arid, rain-forest topography of the country; and the serious pest and disease problems that pervade Panama, it is understandable that these small farms support little or no marketable surplus.

The lack of land titles, although wide-spread, has only a marginal effect on small farmer income; only 12% of the 105,000 agricultural holdings in the country are titled properties. In the frontier Province of Darién, two-thirds of the farms and 95% of the occupied land are untitled. In the older Pro-

UNCLASSIFIED

vince of Veraguas three-fourths of the farms and nearly 60% of the land have no title. The Agrarian Reform Commission, established in 1962, has attempted to promote the titling of land. Between March 1963 and May 1974, 10,190 titles covering 408,067 acres were issued. Progress has been slowed by two factors: the land-holder's fear of being taxed once the land is titled, and the red tape and expense involved in securing a title. Generally, no one is interested in taking away the small farmer's small holding of poor land, and the titling problem does not affect production greatly. This will remain the case until the small farmer is able to obtain credit from a source which would react negatively to his lack of title.

Internal migration has been both rural-to-urban, and rural-to-rural. The main area of out-migration continues to be the over-populated and increasingly land-poor Azuero Peninsula. The principal poles of attraction are the terminal cities of Panama and Colon, the Atlantic Coast, the virgin regions east of Panama, and the Chiriquí Province bordering Costa Rica.

b. Agricultural Policies

The GOP is aware that the policies designed only to promote the most rapid growth in agricultural output are unlikely to trickle down to the economically marginal farmer. The welfare of the small subsistence-level operator in Panama is likely to improve only if the two goals of raising the subsistence farmer's standard of living and raising output are pursued with equal vigor. In the past few years the GOP has experimented with several programs to accelerate the achievement of this goal.

The asentamiento scheme of collectively grouped agricultural settlements is a GOP means of addressing the problems of the poorest farmers: currently there are 140 asentamientos with about 5,000 families. About 60 Juntas Agrarias, or groups of farmers who pool their land resources, are also in existence, totalling approximately 2,500 families. ^{Special National Guard} ^{colonization} experiments into virgin land cleared by settlers, with the government providing services such as teachers, nurses, seed and fertilizer, have resulted in the formation of three colonies serving about 2,700 persons.

UNCLASSIFIED

UNCLASSIFIED

Having concentrated the majority of resources into the select programs described above, the government is presently attempting to strengthen the cooperative movement as a means of reaching more farmers, including utilizing the managerial talents and resources of the slightly more economically viable farmers to improve the lot of the more marginal members. The first steps were to create cooperative federations with specific areas of competence and authority. Thus FEDPA was founded in 1961 to foster the growth of credit unions, many of them in rural areas; COAGRO was founded in 1969 to foster agricultural production; FECOPAN was formed in 1972 to promote and supply consumer cooperatives. These cooperative federations are receiving the full support of the GOP to strengthen their performance of these tasks.. The proposed loan request is illustrative of the GOP's interest.

When considering the GOP's approach to agricultural problems in the past, one might question whether production has been overemphasized to the neglect of marketing and other components of the sector, thus unbalancing the system. The present Government has indicated that the intention of the GOP is to redress this imbalance by moving more aggressively into programs of production credit, technical assistance, marketing, price support and other incentives, as well as specific production projects. This loan will support the shift to a more balanced program.

UNCLASSIFIED

UNCLASSIFIED

2. History of the Cooperative Movement in Panama

a. Legal Basis

The legal basis for cooperatives in Panama originated in the National Constitution of 1946. The legislative framework governing the organization and operation of cooperatives is incorporated as Title VIII of the Agrarian Code of March 1, 1963. Articles 15 and 18 of the Code encourage the organization of agricultural cooperatives to serve as the institutional infrastructure for channeling credit and promoting linkages between producers and consumers. The Code placed the supervision and regulation of all cooperative activities under the Ministry of Agricultural Development.

The Constitution of October 11, 1972, deals with cooperatives in Articles 115 (3) and 247 saying respectively that the Government shall encourage the establishment of cooperatives and create institutions to develop cooperatives and to audit them.

b. Development of the Cooperative Movement

The cooperative movement in Panama has evolved slowly: in 1956 there were only nine registered cooperatives including seven credit unions, one agricultural coop, and one consumer coop. During the 1960's the cooperative movement began a period of steady expansion, with the credit union movement in the forefront. (See Annex B). As evidenced in Table I, the number of organized cooperatives increased by a factor of nine between 1956 and 1964, and has continued a sharp upward trend. Membership in the cooperative movement has increased even more rapidly, doubling between 1968 and 1972, although the number of cooperatives increased by only 59%.

UNCLASSIFIED

TABLE I

GROWTH OF COOP MOVEMENT IN PANAMA *

	<u>1956</u>	<u>1964</u>	<u>1968</u>	<u>1972</u>
A. No. of Coops	2	81	168	267*
Credit Union	7	59	106	137
Agricultural	1	11	23	31
Consumer	1	5	29	24
Other	0	6	10	75
B. Membership	N.A.	N.A.	<u>20,028</u>	<u>40,112</u>
Credit Union			12,825	21,429
Agricultural			2,685	5,879
Consumer			2,778	6,500
Other**			*** 1,740	6,304
C. Transaction/Services ('000\$)	N.A.	N.A.	<u>\$5,825</u>	<u>\$18,640</u>
Credit Union			1,448	4,986
Agricultural			3,023	4,196
Consumer			1,344	3,500
Other			10	5,958

* There are 35 agricultural pre-cooperatives with a combined membership of 1,200 and 20 consumer pre-cooperatives with an additional 1,500 members which are not included in Table I.

** Includes fishing, housing, transportation and general cooperatives

*** 1967 figures.

Handwritten notes and calculations:

- 1200
- 1000
- 40112
- 42312
- 52
- 261
- 2

UNCLASSIFIED

While credit unions have spearheaded the development of new cooperatives, membership in agricultural and consumer cooperatives has grown more rapidly in recent years. Furthermore, the volume of transactions of agricultural and consumer cooperatives is nearly as high as that of credit unions. (See Table I).

Three federations of cooperatives dominate the movement in Panama presently. The Federation of Credit Unions of Panama (FEDPA) was organized in 1961 and has 79 member coops with a combined membership of 18,639. The Federation of Agricultural Cooperatives (COAGRO) was founded in 1969 and has 21 member coops with a membership in excess of 5000. The Federation of Consumer Cooperatives of Panama (FECOPAN), founded in October 1972, has affiliations with 17 consumer coops with a combined membership of 6,500. The Ministry of Agricultural Development has been instrumental in the formation of the latter two federations, lending personnel and supporting specific service functions: COAGRO recently became the government's distributor of certain fertilizer and agricultural inputs. The government expects FECOPAN to supply a chain of consumer outlets and eventually to play a major role in marketing.

79 18639
21 5000
17 6500

117

30139

Beginning in 1964, USAID/Panama has provided support to the movement, mostly in the form of technical assistance, but also with grant and loan funds. Further, various types of equipment have been granted through the Grant-in-Aid and Excess Property Programs. The 034 Loan (1969) contained a credit component of \$400,000 which was relented to COAGRO and its affiliates, and the 037 Loan (1971) provided FEDPA with a relending fund of \$1.9 million. (For experience see section on COAGRO, III. C.1., and on FEDPA, Annex L).

The prospects for the continuing growth of the Panamanian cooperative movement appear to be good. The technical assistance and financial support provided in this loan will strengthen the cooperative movement. The continuing commitment of the government to agricultural and consumer cooperatives in particular will enable the movement to provide more effective services and to reach a larger portion of Panamanian farmers.

UNCLASSIFIED

UNCLASSIFIED

3. The Target Group Presence in the Cooperative Movement

a. Income

The cooperative movement in Panama presently has a membership of 30,000 families. 17,000 or 57% are rural. In April of this year a survey of 76 rural members of agricultural, consumer or credit coops was conducted by AID/Panama and the GOP. ^{1/}It shows that half the families belonging to the rural coops have annual incomes of less than \$1,500. This \$1,500 figure includes an imputed cash value of \$700 for family produced food. The cash per capita income level then is less than \$160 a year. (See Table II).

The broad range of income within the sample (from \$6 to \$25,000) reflects the diversity within the cooperative movement. A breakdown of the income categories represented by the sample shows that 50% of the cooperative family members had per capita cash annual incomes of \$60 to \$160; 63% had per capita incomes of \$260 - \$460 or less; and 78% earned less than \$460-\$660. This compares with the national average of \$820. Judging from this sample, the rural poor make up at least 63% of Panama's rural cooperative movement.

The lending procedures to be utilized under this proposed loan will encourage coops to give priority to lower income members.

^{1/} A survey of 21 rural coops and 76 members was made by 6 joint USAID/GOP teams. 9 COAGRO coops, 3 FECOPAN rural coops, and 10 FEDPA rural coops were visited. One coop was a member of both FECOPAN and COAGRO.

Coops were selected to give a geographical dispersion over the South-Western portion of the country where most coop activity is located; 6 of 9 districts were covered. No urban coops were visited.

UNCLASSIFIED

TABLE II

<u>Net Income (\$)</u>	<u>No. of Coop. Members</u>	<u>% of Coop Members</u>	<u>% Cumulative</u>
0 - 500	7	10	10
501 - 1000	13	18	28
1001 - 1500 **	16	22	50 **
1501 - 2000	1	1	51
2001 - 3000	8	12	63
3001 - 4000	4	6	69
4001 - 5000	6	9	78
5001 - 6000	8	11	69
6001 - 10000	5	7	96
10001 - 15000	2	2	98
15001 - 25000	2	2	100
TOTAL	<u>72</u> *	<u>100</u>	<u>100</u>

* 4 interviewees gave no response.

** Median income

The sources of income among those sampled in the USAID/GOP survey varied: approximately one-third derived income only from the farm; another third derived income from both the farm and from other sources; and the remainder obtained all income from non-farm sources. The latter group included not only non-farm members of FEDPA and FECOPAN, but also subsistence farmers who had part-time employment.

b. Land Holding

The picture changes if size of land holding is the criteria of wealth. The average land size of the 56 farmers in the sample is 46.5 hectares. Prima facie this reinforces the notion of the relative wealth of agricultural coop members compared to non-coop members. The median land size is 18 hectares, and the distribution is fairly even over a large range as evidenced in Table III. A comparison with national figures verifies that coop members have more land than the average farmers; only 25% have less than 5 hectares.

UNCLASSIFIED

UNCLASSIFIED

TABLE III

LAND DISTRIBUTION IN PANAMA

<u>Area</u>	USAID Coop Sample			1970 Agricultural		Census
	No. Farms	% Total	Cum. %	No. Farms	% Total	Cum. %
Less than 1 Ha.	3	5	5	20,000	19	19
1 - 2.9 Ha.	8	15	20	--	--	--
3 - 4.9 Ha.	4	5	25	34,400	33	52
5 - 9.9 Ha.	10	18	43	13,900	13	65
10 - 19.9 Ha.	4	7	50	14,200	14	79
20 - 49.9 Ha.	9	16	66	14,100	13	92
50 - 99.9 Ha.	11	20	86	5,500	5	97
100 - 499.9 Ha.	8	14	100	2,800	3	100
Over 500 Ha.	0	0	100	300	.3	100
TOTAL	56			105,200		

A comparison of Tables II and III suggests that the correlation between income and land size is weak. More than 40% of the farmers have over 30 hectares, yet some of these farmers earn \$3,000 or less per annum. This is the result of differences in land fertility, land use, location or a combination of these and other factors. (See discussion on soil quality, Section II.B.1.).

c. Production

A major question is whether the target farmer will be reached through AID assistance to cooperatives. Out of 76 persons interviewed, 61 (or 82%) reported having undertaken agricultural production projects, cumulatively valued at \$196,717. Of these projects 60% or \$119,297 were in crops; the remainder were in livestock. The average gross value of production per member was \$4,098. Total value of gross production per member ranged from \$30 to \$25,000, with crops ranging from \$20 to \$15,000 and livestock from \$150 to \$20,000. The distribution of the gross value of production is shown in Table IV. The majority (82%) of gross agricultural production was sold, 7% was consumed by the member and his family, 2% was used for seed and animal feed; and 9% was undetermined.

UNCLASSIFIED

UNCLASSIFIED

TABLE IV

GROSS VALUE OF AGRICULTURAL PRODUCTION IN PANAMA

	<u>Total</u>		<u>Crops</u>		<u>Livestock</u>	
Less than \$1,000	19	40%	17	47%	13	52%
\$1,000 to 4,999	16	33%	10	28%	8	32%
\$5,000 to 10,000	6	12%	5	14%	2	8%
More than \$10,000	<u>7</u>	<u>15%</u>	<u>4</u>	<u>11%</u>	<u>2</u>	<u>8%</u>
	<u>48</u>	<u>100%</u>	<u>36</u>	<u>100%</u>	<u>25</u>	<u>100%</u>

These findings are consistent with the generally low level of agricultural development in Panama. National statistics show that fully 47% of all farms or 49,196 farms sell no produce, while the next 27% or 27,752 farms sell less than \$100 worth of produce. While it is unlikely that many of those lowest income farmers are presently reached by the cooperative movement, it is anticipated that more will become members as the cooperative movement expands. Presently 78% of coop members have gross annual incomes below the national average.

d. Geographic Distribution

The geographic distribution of cooperatives is concentrated in the relatively wealthier areas of the Azuero Peninsula, Coclé and Chiriquí. The least represented area, Darién, is also the poorest in the country.^{2/} This observed phenomenon is easily explained: Cooperatives are established by people who have some cash income and are active in and familiar with the market economy, unlike purely subsistence farmers. (See Annex H)

The tendency of the cooperative movement to reach downward as it expands is demonstrated by a breakdown of the original sample by size of coops which shows that size of coop and level of income correlate inversely: Small coops of less than 150 members

^{2/} Annual per capita income of rural residents of the Azuero Peninsula in 1970 was \$238, of the Coclé Province \$255, and of the Chiriquí Province \$310. The corresponding figure for Darién was \$92.

UNCLASSIFIED

averaged incomes of \$3,961, while medium-sized coops of 150-400 members averaged \$3,538 and large coops averaged \$2,986. These subgroups were equally represented by COAGRO and FEDPA coops which dominated the AID sample.

e. Savings

Savings of the coop members varies greatly, ranging from \$5 to \$6,000 in the AID sample, with an average of \$392. (See Table V).

TABLE V

COOPERATIVE MEMBER SAVINGS

<u>Amount Saved</u>	<u>Member Saver</u>	<u>% of Savers</u>	<u>% of Total</u>
0	19	-	25
Less than \$100	20	35	26.3
\$100 to \$499	24	42	31.5
\$500 to \$1,000	11	19	14.5
More than \$1,000	<u>2</u>	<u>4</u>	<u>2.7</u>
Total	<u>76</u>	<u>100</u>	<u>100.0</u>

f. Credit Availability

Coop members appear to have easier access to credit than the average small farmer: 63% of the interviewees received credit during the past year. Of these, 77% borrowed from coops, 17% from other sources, and 3% had loans from both coops and other sources. Table VI demonstrates the exclusiveness of bank loans in comparison to coop loans. The survey indicates that the minimum amount of bank lending was \$500; 88% of loans were over \$1,000 and the average loan size was \$3,243. By contrast 45% of coop loans were less than \$500, and 32% were over \$1,000, bringing the average up to \$897. Thus the poorer coop member has apparent access to loans only through his cooperative or through informal credit sources. FEDPA has a \$5,000 credit ceiling on individual loans which helps to channel cooperative loans to those unable to obtain bank credit.

UNCLASSIFIED

UNCLASSIFIED

TABLE VI

LOANS FOR AGRICULTURAL PRODUCTION

	<u>From Coops</u>	<u>From Other Sources</u>		
No. of persons who received loans	22 (29%) *	8 (10%) *		
No. of loans	31	10		
Amount	27,795	32,430		
Average per loan	897	3,243		
Average per person	1,263	4,054		
Range per person	60 - 7,500	1,000 - 5,000		
Distribution per person:	<u>No.</u>	<u>%</u>	<u>No.</u>	<u>%</u>
Less than 100	2	9	0	0
100 to 499	8	36	0	0
500 to 1000	5	23	1	12
More than 1,000	<u>7</u>	<u>32</u>	<u>7</u>	<u>88</u>
	<u>22</u>	<u>100%</u>	<u>8</u>	<u>100%</u>

* Refers to % of total members interviewed (76).

g. Technical Assistance

Technical services extended to agricultural coop members have been minimal. FEDPA has only three agents trained as rural agronomists to supply technical assistance to its coop members. COAGRO has not supplied extensive technical assistance, although some affiliates receive assistance. Two large COAGRO cooperatives supplied assistance for special products (potatoes in Cerro Punta and swine in Santiago). The programs were highly successful. Small coops that depended on MIDA for technical assistance have high delinquency rates.^{3/} MIDA and the BDA already

^{3/} This may well reflect the historical fact that in the 1971-73 period MIDA's resources of technical assistance were concentrated on the asentamiento program to the neglect of the vast majority of the small farmers.

UNCLASSIFIED

provide some limited technical assistance, but have undertaken to make a major contribution of technical assistance to the coops participating in this loan. On a national average, it is estimated that less than 5% of small farmers have been touched by any form of technical assistance in the years 1971 through 1973. However, the AID sample reported a much higher percentage (38%), although only 56% of that group stated that the assistance was adequate.

Judging from the survey, the use of production inputs is quite high among cooperative members indicating relatively sophisticated farming techniques: 93% of those reporting in the AID sample used fertilizer; all used pesticides or herbicides; 55% used improved seed; and 44% used some form of mechanization. Field visits by Mission staff indicate these figures are at variance with their earlier observations, and the reader is therefore cautioned accordingly. At the national level, use of fertilizer and pest controls has been increasing rapidly; however, the impact of this technology on small farmers is limited. Probably, fewer than the 10% of Panamanian farmers receiving credit or technical assistance have been able to make effective use of these inputs.

h. Social Mobility

Social mobility in Panama generally depends on the level of income and the ability to acquire an education. Educational opportunities are greater in urban areas. Although the overall percentage of school-aged children enrollment is higher in the rural areas, the level of education is basically limited to primary school. Lack of secondary schools limits the availability of technical and university level education. Thus, social mobility is more limited in the rural areas although the rural-urban migration rate demonstrates that many rural people choose that route to social mobility.

i. Migration

There are two important migratory flows; foremost is the movement of younger people from the rural areas to the cities. The second important flow originates chiefly in the Azuero Peninsula and is made up of farmers moving from those poor lands to newly opened land in eastern Panama Province and the Darien.

UNCLASSIFIED

UNCLASSIFIED

j. Overview

The difficulties of reaching out to the poorest of the rural poor, those living beyond the reach of urban influences, cooperatives or the market economy, are tremendous. These poor require the attention and continuous support of a socially concerned government. In recent years the GOP has actively undertaken this task, as witnessed by the asentamiento and juntas agrarias programs. The loan complements this activity but its target is the coop member, the farmer who already markets some of his produce and is therefore a part of the market economy, but who is still a relatively poor individual. The median per capita income of coop members bears this out. A comparison of the level of assistance and credit received by coop members to the average farmer, indicates that cooperatives are a key vehicle in reaching farmers. The extension of cooperative services to more small farmers will bring them closer to the mainstream of agricultural development.

4. Existing Credit Structure

a) Availability and Sources of Credit

Adequate credit has been available only to a small number of commercial farms and ranches. In 1972, less than 10,000 individual farmers received institutional credit. Small farmers received less than 3% of this credit and intermediate farmers received 9% in spite of the efforts of BDA and the coop system. The apparently favorable macro-credit situation for Panama's agricultural sector hides the lack of credit to small and medium farmers.

TABLE VII

FARM CREDIT - 1960, 1970, 1972

	<u>1960</u>		<u>Live-</u>	<u>1970</u>		<u>Live-</u>	<u>1972</u>
	<u>Total</u>	<u>Crops</u>	<u>stock</u>	<u>Total</u>	<u>Crops</u>	<u>stock</u>	<u>Total</u>
Private Banks	6.1	15.0	15.1	30.1	28.1	31.5	59.6
BNP*	1.7	1.0	5.3	6.3	2.6	11.7	14.3
IFE**/IDB	0.6	2.6	3.9	6.5	3.8	4.0	7.8
IFE**/AID/MIDA	-	0.3	0.6	0.9	1.2	0.8	2.0
Sectoral Prod. Plan***	-	-	-	-	1.1	0.3	1.4
TOTAL	8.4	18.9	24.9	43.8	36.8	48.3	85.1

* Banco Nacional de Panama specializes in larger cattle loans.

** The Instituto de Fomento Económico (IFE) was merged into the BDA, Banco de Desarrollo Agropecuario in January, 1973.

*** Loans to agrarian reform collectives.

UNCLASSIFIED

Taking note that credits of \$81.7 million in 1972 from private banks, the Banco Nacional de Panamá, and the IDB loans for livestock were made to large and medium producers, we see that of a total of \$36.8 million in agricultural loans only \$3.4 million was available to small farmers. Of this, \$1.4 million went to the agrarian reform collectives. Outside of the commercial banking system, small farmers can resort to cooperatives, money lenders, and their own savings. The latter source is meager at best. An AID survey showed that 25% of a sample of coop members saved nothing, 34% saved less than \$100 and 78% less than \$500 per year. Credit from money lenders and local merchants is available to a limited extent but expensive, often with large hidden interest charges. Lacking capital, cooperatives have not developed sufficiently to be classified as a major source of production credit.

b) Terms and Conditions - Historical

The largest part of the institutional credit came from private banks and the BNP, which charge commercial interest rates. BDA charges the lowest interest rate, 5% to cooperatives other than credit unions, 8% to individuals and 9% to credit unions. Cooperatives' rates to their members vary according to the cooperative. The FEDPA affiliates' sub-lending rate is one percent per month, or 12% annually; the COAGRO affiliated coop members can receive credit directly from the BDA at 8% but only 10% of the members are reported to be borrowers. Maturities for production loans from banks, both private and official, vary from six months (crop cycle) to 5 years for livestock loans, equipment and infrastructure.

The requirements for borrowing from private banks are very difficult for small farmers to meet. Substantial collateral is required; this effectively closes this source of financing to the vast majority of small farmers. The AID survey showed that no commercial bank loans for less than \$500 had been made; the average size of bank loans to the few eligible coop members was over \$3,000.

Viable production cooperatives or credit unions probably offer the best hope of extending credit to a sizeable segment of Panamanian farmers. Cooperatives are in a good position to determine the credit needs and repayment prospects of their members. The funds to be made available for relending under this loan are expected to bolster the capacity of the recipient coops to service the credit needs of their farmer members.

UNCLASSIFIED

C. Project Description

1. Program Summary

The proposed program will consist of two major components designed to strengthen the rural cooperative movement in Panama, thereby making it more responsive to the needs of its rural client members and also permitting it to expand its membership outward to include other low-income farmers as yet unaffiliated with any cooperative. This program will be supported by funds from the GOP, the rural cooperative movement and AID. The total amount of the program is \$11,755,000, of which AID will provide \$8,100,000 (69%), the GOP \$2,430,000 (21%) and the cooperative movement \$1,225,000 (10%).

The larger program component will consist of funds for relending from a Cooperative Revolving Fund to be established in the Agricultural Development Bank (BDA). Resources for the Revolving Fund will be contributed by both AID (\$6,750,000) and the BDA (\$500,000). Together these funds will be relented to the three federations active in the rural areas (COAGRO, FEDPA and FECOPAN), to their affiliated cooperatives and to individual cooperative members. The funds will finance the following activities, agricultural production credit, equipment and infrastructure, and working capital. Of the funds to be made available by AID for production credit, none shall be used to finance the following commodities: cotton and tobacco. ^{1/} Since the fund will finance only 90% of total subproject costs, the cooperatives or the federations will contribute from their own resources the remaining 10%, or \$725,000, to the activities financed by the fund.

The second program component consists of funds for institutional development, which will be made available to the Ministry of Agriculture Development (MIDA) to pay for services to the federations, the BDA, and to MIDA itself. These services will include technical assistance, training and subsidy costs for coop managers, supporting equipment and vehicles, creation of an auditing section within the Department of Cooperatives of MIDA, and the U.S. share of costs relating to data gathering and evaluation activities. To provide a statistical basis for future evaluations of the effectiveness of the loan, a survey will be carried out to collect and tabulate certain baseline data relating to the welfare level of selected cooperative members. The total cost of this institutional development component is \$2,930,000, of which the proposed AID loan will provide \$1,350,000.

Furthermore, the Agricultural Development Bank (BDA) will provide an additional \$850,000 in services towards the administration of the revolving fund. In the event that not all of this contribution will be used for administrative support costs the GOP has agreed to make the difference available to the revolving fund for relending purposes.


^{1/} Coffee and sugar cane have not been excluded because those who would obtain credit under this loan for this production are small farmers, not vertically integrated into exporting systems.

2. Project Components - Activities to be Financed

Loan funds will be used to provide credit for relending through the cooperative movement in the rural sector of Panama. These resources will be complemented by a contribution from the cooperatives equal to 10% of all sub-project costs financed under this portion of the loan. Loan funds will also be used to provide institutional development support to the federations as well as to the Ministry of Agricultural Development (MIDA) and the Agricultural Development Bank (BDA).


a. Relending Funds

A cooperative revolving fund of \$7,250,000 will be created and administered by the BDA, consisting of \$6,750,000 of AID loan resources and \$500,000 from the GOP. These funds will be lent to the three federations and their affiliated cooperatives. Since only 90% of estimated total project costs will be eligible for financing, the cooperatives will make available an additional contribution of \$725,000 from their own funds to complement the various activities being financed under this activity. Together, these funds total \$7,975,000. They will be used in support of the following activities:



(1) COAGRO

The Federation of Agricultural Cooperatives (COAGRO) currently provides a variety of services to its 21 affiliated cooperatives and 5000 rural members. These include wholesaling services for a range of agricultural inputs and farm supplies, some marketing and distribution services, storage programs, consumer outlets, and related technical assistance. Several of COAGRO's member cooperatives are multi-service and some are multi-community. The volume of business of the COAGRO operation has grown considerably over the past two years, in large part because it was recently appointed as GOP wholesaling agent for certain



agricultural inputs. The federation projects a net profit for 1974. (See the Financial Analysis, Section III. F.).

Notwithstanding the relative success of its expanded activities to date, COAGRO is still a young organization and some of the services provided by the federation and the affiliated cooperatives to its clientele should be expanded or improved, to strengthen the institution's role as a service organization. The members of COAGRO affiliated cooperatives will also require access to additional production credit and related technical assistance to be able to take advantage of COAGRO's expanded services. The additional technical assistance will be provided by 60 field production agents of the Ministry of Agriculture, approximately half of whom will be assigned by COAGRO to work with individual affiliated cooperatives. The credit requirements of all three levels of the COAGRO movement - the individual farmer/member, the affiliated cooperative and the federation - will in part be met by funds available under this loan.

Up to \$4.0 million of loan funds from the BDA cooperative revolving fund will be made available to COAGRO and its 21 affiliated cooperatives. A portion of these funds will be borrowed directly by the affiliates and lent to individual members. These loan funds will be used to finance the following kinds of activities:

	<u>COAGRO</u>	<u>Affiliated Coops</u>	<u>Total</u>
1. Production Credit	- -	\$1,450,000	\$1,450,000
2. Working Capital	480,000	970,000	1,450,000
3. Equipment/Infrastructure	<u>300,000</u>	<u>800,000</u>	<u>1,100,000</u>
	\$780,000	\$3,220,000	\$4,000,000

- (a) The \$1.45 million of production credit will be used to finance agricultural inputs for crop and small livestock production projects. These projects will be undertaken by either cooperatives in group farming schemes or by individual

Amy

- 27 -

coop members. The items to be financed will include recurring expenditures such as farm tools, family labor, fertilizers, pesticides, improved seed, livestock purchases, artificial insemination, etc.

- (b) The \$1.1 million for equipment and infrastructure will be used to finance investments in productive fixed assets by either the federation, the primary cooperatives or, in some instances, individual coop members. The items to be financed include multi-purpose warehousing, workshops, cold storage facilities, refrigeration equipment, office equipment, vehicles and farm machinery.
- (c) The working capital component (\$1.45 million) will be used for productive, short-term investments by the federation and the affiliated cooperatives for their own accounts, to finance inventories of agricultural inputs, inventories of consumer goods (sold through COAGRO's consumer stores), administrative expenditures (such as the salary expenses of a coop manager or accountant), and purchasing and marketing expenditures attendant to COAGRO's marketing operation.

In addition, to help strengthen the organization at the federation as well as at the primary cooperative level, long-term technical assistance (37 man-months for cooperative administration, procurement/distribution and production/marketing) will be provided to COAGRO under the loan. These services will complement a grant-financed program of technical assistance (including 12 man-months of financial management assistance) to COAGRO for which funds have already been obligated, plus a proposed 12 man-months for institutional development which has yet yet to be approved.

Furthermore, the primary cooperatives and their members will be able to avail themselves of training, educational and auditing programs supported by MIDA and

AID, and will also be eligible for a joint AID/cooperative-supported management training and subsidy program (see following discussion on Institutional Development).

(2) FEDPA

A second institutional vehicle for channelling funds to the rural sector comprises the credit unions affiliated with the Federation of Credit Unions of Panama (FEDPA). Currently FEDPA has 36 affiliated credit unions in the rural area with a membership of approximately 9,700, many of whom are small and medium scale farmers. The project envisages reaching a majority of these farmers through a joint action program of credit supplemented with technical assistance. The technical expertise will be provided primarily by the agricultural production agents of MIDA (approximately half of the 60 MIDA agents will be assigned to FEDPA affiliates). The credit portion will come from \$1,500,000 of the loan made available by the BDA to FEDPA for relending to FEDPA's rural affiliates. Another \$500,000 of the loan to be disbursed to those affiliates directly by BDA under arrangements approved by AID (See Section II. C. 2.). In turn, all these funds will be relent to individual credit union members.

Up to \$2.0 million of the loan will be made available to small and medium scale farmers who are members of FEDPA's affiliates. To complement these funds, the borrower will contribute 10% of total project costs, or \$200,000. Together these funds will be used to finance agricultural inputs for crop production and small livestock operations, farm machinery, and working capital plus some equipment for small, rural businesses. It is estimated that approximately 85 percent of these loan funds (or \$1.7 million) will be used for agricultural production related purposes.

2070
2070
4570

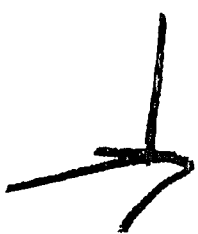
BDA

(\$1,500,000)-----	FEDPA---	FEDPA ---	Cr.Union_____	Eligible Projects
		Aff.Cr.	Members	
(\$ 500,000)-----	-----	Unions	(+10%, or	(\$2,200,000)
			\$200,000)	

The interest rate to the ultimate borrower under this program will be 12% (See discussion on Lending Terms, Section II. C. 3.).

FEDPA's recent shift in its orientation to the rural areas was supported by funds made available under a previous AID loan, 525-L-037 (See discussion, Annex L). The funds proposed under this loan will accelerate that rural orientation and provide member farmers of FEDPA's affiliates the wherewithal (credit plus technical assistance) with which to improve their economic well-being. In conjunction, FEDPA affiliated credit unions will also receive the benefits of two MIDA-sponsored programs: a mobile education and training program designed to reinforce the managerial and financial capabilities of existing credit union staff, and a program of regular audits to be carried out by the AID-supported Auditing Section within MIDA (See following section on Institutional Development).

(3) FECOPAN



A final institutional vehicle for addressing some of the inequities of the rural poor is the Federation of Consumer Cooperatives of Panama (FECOPAN). As a federation representing its affiliates it has had a very limited history; as a group of functioning consumer cooperatives, 10 of which are located in rural areas (3700 members), it has been able to provide member farmers and others in the rural sector with access to consumer goods at more equitable cost.

FECOPAN's present function has been that of wholesaler/supplier of certain consumer goods to its affiliated consumer outlets. The

future plans of the federation include an expansion of that activity as well as assuming an active role in marketing activities. The mutually complementary roles of FECOPAN, COAGRO and FRIGOMIDA (the Agriculture Ministry's marketing arm) deserve careful coordination (see discussion, Section III. C. 3.).

Negotiations with the GOP have resulted in a reduction in loan funds from the amount proposed in the IRR from \$1,900,000 to \$750,000. The GOP has agreed to increase its contribution by \$500,000 for working capital. The AID funds would be used for working capital (\$250,000) and infrastructure (\$500,000) as follows:

Infrastructure will consist of warehousing, refrigeration and cold storage equipment, vehicles, office and store equipment, and store construction. Working capital will be used for inventories of consumer goods, administrative expenses and expenditures for marketing and distribution. These funds will be lent by the BDA to FECOPAN or its affiliates. The interest rate on such lending will be 5% per annum.

The estimated apportionment of funds under this activity between FECOPAN and its affiliates is as follows:

	<u>FECOPAN</u>	<u>Affiliated Coops</u>	<u>Total</u>
Working Capital	\$ 300,000	\$ 359,000	\$ 659,000
Equipment and Infrastructure	<u>211,000</u>	<u>380,000</u>	<u>591,000</u>
	\$ 511,000	\$ 739,000	\$ 1,250,000

To help capacitate the organization at the federation as well as at the affiliated consumer store level, long-term technical assistance services (60 man-months for coop administration/finance and procurement/distribution) will be provided to FECOPAN under the loan; the

Loan will also provide funding for short-term technical assistance in consumer coop management to be made available to FECOPAN.

In addition, FECOPAN and its affiliates will directly benefit from the training, educational and auditing programs supported by MIDA and AID, and will also be eligible for an AID-supported management training and subsidy program (see following discussion on institutional development).

b. Coordination and Direction of Project

The primary executing and coordinating agent for this project will be the Ministry of Agriculture. It will provide policy guidance to the BDA through its chairmanship of the Bank's Executive Committee. A high level coordinating committee will be established which will include a permanent voting member from each of the cooperative federations, the BDA and MIDA itself. AID will participate in this committee in an advisory capacity. The committee will be responsible for major policy decisions relating to the allocation and utilization of project resources, both from the AID loan and the GOP.

4
 2
 1250 UNCLASSIFIED

 7250

c. Institutional Development

The government entity charged with the responsibility of providing direct support to the cooperative movement -- through training and technical assistance programs -- is the Department of Cooperatives within the Ministry of Agriculture. The Department of Cooperatives itself will receive technical assistance to enhance its capacity to carry out its supportive functions. Furthermore, the federations will receive technical assistance in certain technical skill areas. The GOP recognizes that augmentation of managerial competence at various levels in the cooperative system is a serious need, more serious than the need for either credit or physical facilities.

A technical assistance plan with various components has been conceived to strengthen the GOP institutions dealing with cooperatives and to help each federation improve its operations and consolidate its sub-sectors.

(1) External Technical Assistance

At the national level, the project envisions utilizing 193 man-months of foreign technical assistance in response to the above needs. Technical assistance will be provided to MIDA's Department of Cooperatives, BDA's Department of Cooperative Credit and two of the three sub-borrowing federations, COAGRO and FECOPAN. The total cost of this activity will be \$810,000; AID loan funds will support \$590,000 of these costs and MIDA will provide \$220,000 for local counterpart expenses (See Annex B for a detailed description).

(2) Regulatory Functions

An important institutional development component will be satisfied with the creation of an Audit Section within the MIDA Department of Cooperatives. It is the opinion of the GOP and the Mission that this important function should operate as a managerial tool for MIDA and the cooperative movement. To do this it must be located within MIDA, which has a regulatory responsibility and an interest but not a conflict of interest (as might the federations

or even the BDA) in an objective auditing operation. The three year development costs to institutionalize this program will be \$205,000; AID will finance \$160,000 of this amount and MIDA will contribute \$45,000. After the third year, all costs will be assumed by the GOP.

(3) Agronomic and Credit Assistance to the Local Cooperatives.

The core of the technical capacity of the local cooperatives lies in the staff of permanent, full-time Field Production Agents. These men are agronomists who have training or experience in credit and production techniques and an intimate knowledge of the problems faced by the small farmer.

As an integrated part of the production sub-lending activity of the loan, MIDA will permanently make available the services of 60 production agents. These agents will be assigned to COAGRO and FEDPA who will in turn reassign them to specific affiliated cooperatives or clusters of cooperatives according to their demonstrated need for technical assistance. They will lend technical competence in areas of farm machinery utilization, marketing handling of agricultural products, procurement of supplies, credit and the design of member services.

The total cost of this program will be \$725,000; AID will finance dollar commodity procurement of \$175,000, MIDA will provide \$440,000 to cover the salaries of the Production Agents, and the federation/cooperatives will contribute \$110,000 for other supporting costs.

(4) Mobile Cooperative Education Teams

Another important function of MIDA's Department of Cooperatives is to provide, in close coordination with the three federations, training for local directors, committeemen, managers and accountants. This activity will encompass training in cooperative management, financial and accounting practices, marketing activities, inventory control, membership promotion and education, mobilization of savings, distribution of

farm supplies and other related cooperative endeavors.

Two mobile teams composed of four instructors and a coordinator will spend a minimum of 150 working days per year implementing the above grass roots education efforts. Lectures, short seminars, and training courses will be offered in the local communities, or within a limited geographic area. This will reduce attendance costs and encourage maximum participation by local coop staff. The total cost of the Mobile Teams is \$575,000, of which AID loan funds will cover \$25,000 for vehicles and commodities; MIDA will provide \$375,000 for salaries and supporting costs and \$175,000 for a portion of participant expenses, and the local cooperatives will contribute \$175,000 for the balance of participant attendance costs.

(5) Manager and Accountant Trainees

Finally, with respect to the importance of managerial competence in making the cooperative system viable, the GOP, through MIDA's Department of Cooperatives, will establish a Rural Managers Training Center to be supported by a tri-partite arrangement between the Inter-American Development Bank (IDB), the Government of Israel, and the GOP.

Graduates from the Center will be assigned as managers and/or accountants to local cooperatives participating in this project. The specific assignments will be done through the federations in order to respect and maintain the essential coordinating linkage between federation and affiliate. The vital element here is the willingness of the GOP to use loan funds to support a three-year decreasing subsidy component, covering the salaries of these cooperative managers/accountants. Again, the subsidy funds will flow through the federations to maintain the integrity of affiliate loyalty to its apex organization.

The major problem confronting cooperatives is the scarcity of capable management to handle the administrative and accounting functions. Therefore, resolving the problem is of utmost importance if the cooperative movement desires dynamic growth. MIDA is prepared to use loan proceeds to subsidize the salaries of 40 managers and 30 accountants. These administrators will be assigned to rural cooperatives which do not have competently trained management, after an intensive three-month training programme. It is anticipated that these trained personnel will have proven their worth to the cooperatives and will be entirely funded by the cooperatives by the fourth year of the program.

	RATIO OF GOP SUBSIDY			
	1st Year	2nd Year	3rd Year	4th Year
GOP	90%	60%	30%	-
Local Coops	10%	40%	70%	100%
Total	100%	100%	100%	100%

	AMOUNT OF GOP SUBSIDY			
	1st Year	2nd Year	3rd Year	4th Year
GOP	\$160,875	\$107,250	\$ 53,625	-
Local Coops	17,875	71,500	125,125	\$178,750
Total	\$178,750	\$178,750	\$178,750	\$178,750

Total costs of this activity are \$565,000; AID loan funds will cover a decreasing salary subsidy program amounting to \$350,000 and the local cooperatives will contribute \$215,000 in an ascending ratio for the same purpose.

(6) Other Donor Activities

Several of the institutions involved in this loan will be receiving technical support from other sources. This is discussed in detail in Section 111.D.

3. Relending Terms

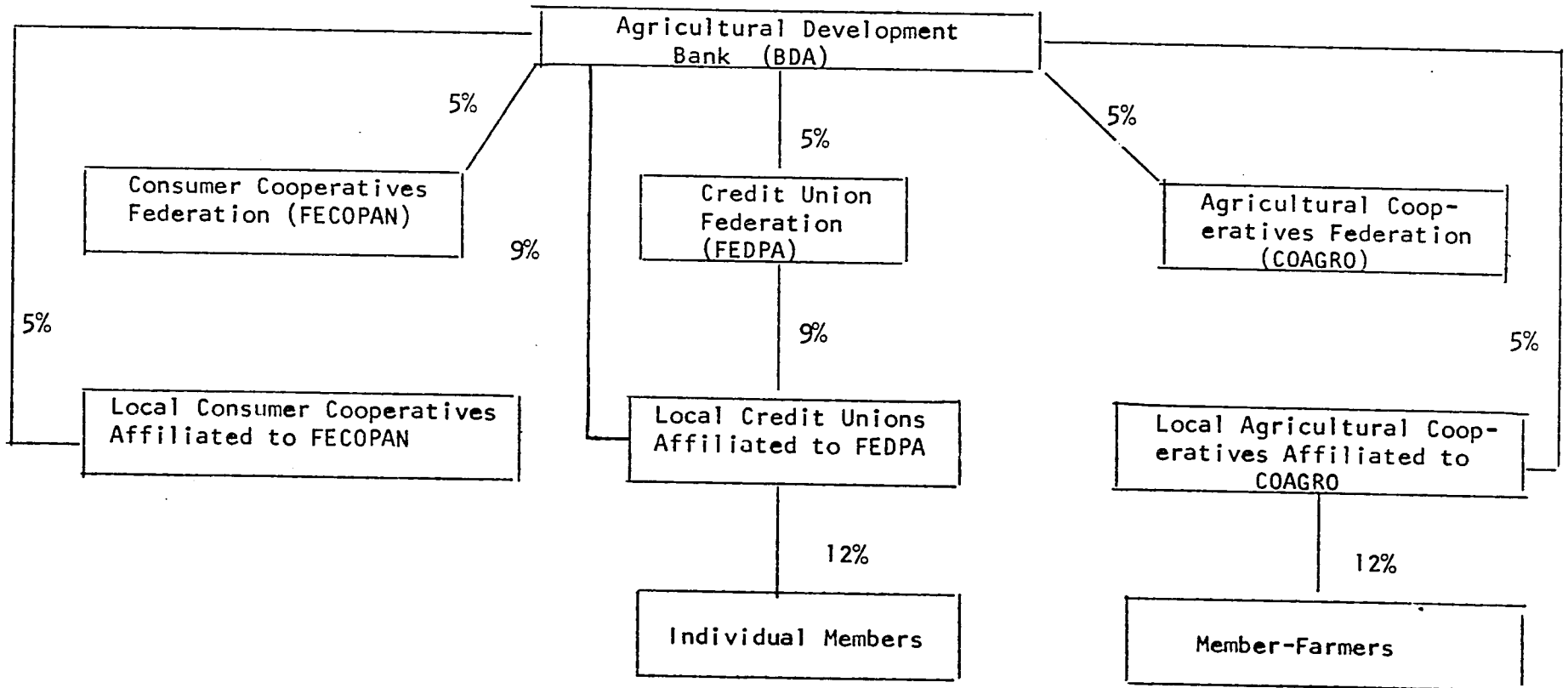
a. Interest Rates

TABLE VIII
LOAN FUNDS AND INTEREST RATES

	<u>Interest Rate</u> ^{1/}	<u>Purpose of Sub-Loans</u>	<u>Amounts</u>
AID Loan	2% first 10 yrs. 3%:Next 30 yrs.		8,100,000
BDA Sub-loans to all three Federations	5% per annum	Infrastructure and equipment; working capital; production credit relending to affiliated credit unions.	6,750,000
BDA Sub-loans to: -Agricultural Cooperatives (COAGRO affiliates):	5% per annum	Production credit; infrastructure and equipment.	4,000,000
-Consumer Cooperatives (FECOPAN affiliates):	5% per annum	Infrastructure and equipment; working capital.	750,000
-Credit Unions (FEDPA affiliates):	9% per annum	Production credit, crops, livestock, small rural business	500,000
FEDPA Sub-loans to Affiliated Credit Unions	9% per annum	Production credit, crops, livestock, small rural business.	1,500,000
FEDPA affiliated credit union sub-loans to members:	12% per annum	Production credit, small rural business.	2,000,000
COAGRO affiliated agricultural cooperatives sub-loans to farmers:	12% per annum	Production credit	1,450,000

^{1/} Local credit unions and their member-borrowers accept an add-on to their loans of 5% which they invest in capital shares of FEDPA or the credit union, as applicable. COAGRO and its agricultural cooperatives similarly capitalize 1% of all gross sales within their system.

TABLE IX
Flow of Loan Funds and Interest Rates



b. Terms for Sublending Activities

Working Capital: 1 to 5 years
3 months to 1 year
grace period

Equipment and Infrastructure: 5 to 15 years
1 to 5 years grace
period

The final interest rates to the farmer are the minimum which will permit financial viability for the primary cooperatives and credit unions, and the maximum the government is willing to charge within the context of its philosophy of preferential treatment to the small farmer.

The GOP has accepted a higher interest on sub-loans from COAGRO affiliates to their members than it presently charges on its BDA direct loans to farmers (8%), recognizing the dual objective of this loan: institutional development of the cooperative movement and provision of rural credit. An ultimate and uniform 12% interest rate supports the credit union interest rate structure in Panama without creating unfair competition at the same time that it supports the concept of an interest rate which is close to market cost.

In addition to direct interest costs paid by cooperatives and their members, both the credit union and agricultural cooperative systems employ mandatory capitalization schemes. The objective is automatically to mobilize paid-in equity and thus strengthen the system's capital base. Both FEDPA and the local credit unions presently discount 5% of all loans to their affiliates and members, respectively. COAGRO and its affiliates capitalize 1% of gross sales. It should be noted that this feature does not increase the effective cost of borrowing since the purchase of shares is an investment which can be withdrawn once affiliation ceases. These capital shares also receive automatically reinvested dividends of 5% to 6% per annum.

Table IX, Flow of Loan Funds and Interest Rates, shows that loan proceeds will not reach the final farmer-borrower at less than 12% interest. However, it has been noted that BDA has other funds which are presently available for direct farmer lending at 8% interest. On the surface, this interest rate differential would be cause for concern since it introduces a disruptive factor in the arguments for rationalizing end-user interest rates. However, upon further analysis the Mission has concluded that this concern is not justified. Several factors have influenced the Mission's conclusion. First, the opportunity cost of the lower cost BDA credits are not fully reflected in the 8% interest rate of the BDA sub-loan. The farmer must incur certain additional expenses to obtain the BDA

credit directly, including travel expenses to reach the nearest BDA branch office. Second, the results of a Mission-conducted field survey indicate that cooperative members have been near unanimous in citing the celerity and ease of borrowing from their cooperative as compared with the red tape and time delays encountered in dealing with the BDA.

It is to the farmer's advantage to support and cover the operating costs of the institutions which serve him, otherwise he is unlikely to receive the range of services he requires. The government cannot supply all the services needed by the 100,000 small and medium-sized farmers of Panama. Providing technical assistance alone would require an estimated 1,000 production agents, a far larger number than MIDA's present staff.

In order to provide credit to all small and medium farmers, the government would need over \$50,000,000. The resources required to help this one sector of the economy simply are not available to the country at this stage in its development. Unless the private sector helps, and especially unless the small farmer helps himself, those credit needs will never be met.

The federations are presently considering two additional charges besides the interest rate. One is a 2% fee designed to alleviate the debt burden of the small farmer in cases of major crop losses by establishing a revolving crop disaster fund that will provide the resources to refinance his crop losses over a period of years at very soft terms.

The other charge being seriously discussed is a loan service fee of 1-2% destined to supplement the gross income from retail lending operations and institute a de facto interest rate increase in line with commercial banking rates which would allow the cooperative movement to make the necessary transition to borrowing from commercial sources as additional capital requirements develop.

Finally, it is also important to note the interest rate structure within the cooperative movement and the projected use of interest spread, where applicable. For the credit union system money is its only saleable commodity and interest is its major revenue source. Therefore, there is little downside flexibility in its 12% rate to the ultimate member-borrower. The spreads at the FEDPA level (4%) and at the local cooperative level (3%) allow these institutions to provide their members with adequate services and to cover their related operating costs. Local credit unions can operate at this reduced margin vis-a-vis COAGRO affiliates because of their one service function, diversified portfolio, specialized financial management systems and uniformity of procedure, and the all-important fact that this activity is now an add-on to an existing capital base which amply covers fixed costs, and the additional lending will only have an incremental effect on the total operating expenses. One should keep in mind that the expenses of running a cooperative organization are approved by the members through the board of directors. It is to be expected that unnecessary increases in expenses will be disapproved, and any excess income will be returned to members in the form of an interest refund or an increase in share equity.

COAGRO affiliates will use their interest spread (7%) to establish a reserve for bad debts and to cover part of the operating expenses of their lending programs. The agricultural cooperative system is not indiscriminately receiving a low interest rate from BDA, rather the GOP recognizes the higher risks these cooperatives accept in serving as intermediate credit institutions and the additional operating burden this service represents. As it stands, it is anticipated that the lending operation will actually be subsidized by the gross profit margins obtained from sale of production inputs and marketing of member crops.

Assurances have been received from the GOP that they will not allow overlapping or duplication

UNCLASSIFIED

of credit services between COAGRO affiliates and FEDPA affiliates. Agricultural cooperatives will engage in retail lending operations only in localities where there are no credit union services.

Ideally, it's best to keep agricultural cooperatives out of the lending business, which is a high risk, low margin operation requiring specialized personnel. However, there is no viable alternative in a number of COAGRO affiliates. After lengthy discussions the Mission and the GOP have concluded that MIDA production agents assigned to such coops will be trained to assume credit management functions as part of their assignment. To implement this activity, USAID will grant fund a full time, cooperative credit management specialist at COAGRO to backstop the operation and assist in developing this type of expertise within the movement.

In summation, BDA's proposed charges to the federations and cooperatives are uniform with the interest rate structure presently in effect. The interest rate to be charged to the small farmer is in line with the structure needed by FEDPA to remain viable. COAGRO affiliates will charge their membership the same interest rate (12%) as FEDPA credit unions.

	To members	Interest to Coops
COAGRO	12%	7%
FEDPA	12%	4%

III. PROJECT ANALYSIS

A. BORROWER

1. GOP: Balance of Payments

During the past six years the rate of increase in Panama's real economic growth has fluctuated between 6.3 and 8.7 percent annually, as measured by GDP in constant 1960 Balboas. Most of the sectors which have supported this impressive period of growth have been service-related, i.e. construction, transport and communications, banking, commerce, and public utilities. Manufacturing, formerly the leading growth sector (1960-68), has slowed somewhat although it has generally kept pace with the overall growth of the economy. Agriculture and Canal Zone services have shown noticeably poor growth rates during the same period (1968-present). Growth in the agricultural sector has been only slightly ahead of the average rate of population growth (3.7 vs. 3.0%), and has continued its decline as a percentage of GDP (from 23% in 1960 to 20% in 1968 to 16% in 1973). Rapid growth has taken place largely in the urban areas and not in rural activities; in part the reason has been that emphasis in the rural sector has been directed more towards social objectives than output goals.

The explosive growth of the banking sector since 1968 has turned Panama into a major regional financial center for the "Latin-dollar" market. Freely convertible currency (\$US), favorable banking legislation and a healthy economic climate have attracted 58 foreign banks and upwards of \$1.2 billion in foreign deposits (about 85 percent of GDP) to Panama. Private direct investment, once the largest source of foreign capital, has declined markedly as a component of financial capital flows (\$13.6 million in 1972 vs. an average of \$22.3 million in 1968-71). This has been replaced in importance by medium-and long-term borrowing, principally by the GOP and its agencies, which has averaged close to \$50 million a year since 1968. This is in sharp contrast to average borrowings of \$4 million during 1961-68.

In October 1973 the GOP contracted a loan for \$115 million with a consortium of 31 U.S., Canadian, European and Japanese banks. Part of this loan was used to refinance short- and medium-term external commercial debt maturing during the next few years.*/ Prior to that, debt service, including repayments financed through additional borrowing, was approximately 30 percent of ordinary GOP revenues. The loan permitted an adjustment in the debt servicing schedule, easing the GOP's debt servicing burden during the 1974-76 period and shifting it to 1978-80. As of February 28, 1974, Panama's total funded public debt stood at \$467.6 million, 64% of which is external. The current debt service ratio is approximately 22 percent of ordinary GOP revenues and is within the capacity of the Government to service.

Rapid extension of the economy has contributed to the increased deficit in the foreign trade account. Exports showed a 10.2 increase in value in 1973 - primarily because of higher world prices for fish meal, sugar and shrimp. Imports increased at the slightly higher rate of 10.3%, although the change in the composition of the imports was not a desirable development. After a sharp rise in 1972, imports of capital goods were down by almost 6%. The value of fuel and lubricant imports, on the other hand, were up sharply by some 35%, making up 21% of total imports.**/ Panama's balance of payments deficit for goods and services was \$96.8 million in 1972, due largely to a 15 percent increase in the trade deficit. The favorable balance in services (principally to the Canal Zone)

*/ Panama 5710

**/ The long-term effects of the petroleum shortage and the accompanying rise in petroleum prices on Panama's merchandise account have yet to be fully analysed, although preliminary projections indicate a petroleum-related deficit alone of \$45.6 million. This is over and above the current consumption cost of about \$26.5 million.

UNCLASSIFIED

only partially offset the merchandise trade deficit of \$280 million incurred that year. In 1973, provisional figures indicate the current account deficit rose to \$121.4 million, attributable to an increasingly large merchandise trade deficit (minus \$308 million) which again was only partially offset by a favorable balance in services (\$187 million). Net transfers were insignificant. For FY 1974, the estimated current account deficit lies in the range of minus \$161 million to minus \$179 million.***/

In the past this deficit has been covered by official external agency loans, borrowing by the public sector from private external sources, and the inflow of offshore funds to the numerous foreign banks.

The present balance of payments difficulties experienced by Panama are not likely to affect Panama's ability to repay the loan. In fact, the long-term nature of the loan should improve Panama's debt structure. Furthermore, the amount of the loan is relatively small, so that interest payments during the grace period will be marginal in relation to the current debt service ratio and are well within the capacity of the government to service. The prospects for Panama's repayment of the loan are favorable.

***/ Panama 1016

UNCLASSIFIED

2. GOP Fiscal Revenues and Expenditures

During the 1969-73 period Central Government revenues grew at an annual rate of 14.0%, from \$133 million to \$225 million. This rate of expansion exceeded the general growth of the economy which increased at an average annual rate of 11.4% (as measured by GDP at current prices). Revenues as a proportion of GDP have risen steadily during this period, and 1974 revenue estimates are budgeted at \$260.8 million, representing an increase of 15.9% over 1973 figures. Tax revenues represent 77% of that projection. Current expenditures of the Central Government have increased over this same 1969-73 period at an average annual rate of 12.1%.

The public sector investment program, which in recent years has been an important factor in Panama's high level of economic growth, continues to receive priority attention in the Government. The 1974 public sector budget amounts to \$319.1 million, representing a 40% increase over the 1973 budget. Investment in the agricultural sector, which amounted to \$11.0 million in 1971, has received an allocation of \$60.4 million in the 1974 budget, or 19% of the total.

The major sources of financing for the investment budget expenditures during the past five years have been the autonomous agencies and the loans from international agencies. During this period, private external loans have also been an important source of financing, providing counterpart for concessionary external finance or freeing up domestic resources from other uses in order that they might serve as counterpart.

The operating budget of the Ministry of Agricultural Development has increased from \$5.7 million in 1969 to \$7.0 million in 1973. Current outlays budgeted for 1974 amount to \$9.8 million, or a 14% increase over 1973.

Of the \$60.4 million programmed for investment in the agricultural sector in 1974, \$48 million or 80% represent funds for credit programs to be made available through the Agricultural Development Bank (\$26.0 million) and the Banco Nacional (\$22.0 million); almost one half million will go for research to be implemented by the University of Panama; and the remaining \$11.9 million, to be expended by MIDA, will go into agro-industries, infrastructure, machinery and equipment.

UNCLASSIFIED

UNCLASSIFIED

B. EXECUTING AGENCIES

1. Ministry of Agricultural Development (MIDA)

a. Rural Sector Assistance Philosophy

A growing GOP concern for improving conditions in the rural sector is evidenced by an ever increasing amount of Government resources to assist the marginal farmer^{1/} in an effort to improve his productivity through the use of credit, agricultural extension and marketing services, and management training for leaders of associative groups. Government objectives for this sector include a substantial increase in agricultural productivity and a higher standard of living for the rural population.

The law establishing MIDA aptly summarizes the resolution of the Government to achieve a breakthrough in improving the quality of life of the rural poor, i.e.:

"Art. 1.- The Ministry of Agricultural Development is created for the purpose of promoting and assuring the economic, social and political improvement of the rural man and his community and his participation in the mainstream of national activity..."

" The Ministry will have the following functions:

Art. 12.- Foster and monitor the organization and operations of ... campesino colonies, local marketing and agrarian boards and cooperatives."

b. Organizational Structure and Staffing Requirements

MIDA is the successor to the Ministry of Agriculture and Livestock. The Ministry was reorganized in January 1973. Cooperatives, pre-cooperatives, campesino colonies, local marketing and agrarian

^{1/} The 1974 GOP investment budget includes \$60.4 million (or 19% of the total) for agriculture; this contrasts favorably with the 1971 investment budget, when only \$11.0 million (or 11% of the total) was similarly allocated.

UNCLASSIFIED

UNCLASSIFIED

boards are supported by a special section of MIDA, the Directorate General of Social Development (see following organization charts and Annex F). The primary objective of this Directorate is:

"It is the priority task of this Directorate to succeed in the socio-economic and cultural incorporation of the campesino who traditionally has lagged in adopting new technology."

The Department of Cooperatives has been seriously limited in its capabilities to respond to the demand for assistance from existing cooperatives and pre-cooperative groups. One of the major institutional development purposes of the proposed Loan is to assist the Department of Cooperatives in strengthening its technical expertise. Loan funded specialists will work with MIDA counterpart staff in the following fields:

- I. Cooperative Administration/Financial Systems
- II. Rural Organizations and Farm Management
- III. Agricultural Credit
- IV. Cooperative Procurement, Inventory control and Distribution Systems
- V. Cooperative Credit
- VI. Management and Financial Auditing
- VII. Specialized Short-term Consultants

An illustrative description of the external technical assistance under this project is detailed in Annex B, Exhibit 1.

The national staff of the Department of Cooperatives consists of 20 technical and clerical persons at the Panama City office and 14 field personnel assigned to seven of the eight regional offices of MIDA. Given the broad responsibilities of the Department, the human and physical resources are inadequate to carry out the program effectively. For this reason the Mission will negotiate a requirement that the adequate counterpart staffing and supporting services listed below be in place before loan funded technicians are contracted and prior to the first disbursement of funds for relending.

In addition to the expatriate advisors some of whom will work directly with the recipient institutions,

UNCLASSIFIED

the Department of Cooperatives will assign the following personnel to the project:

- i. 8 Counterpart technicians to foreign specialists
- ii. 10 Coordinators and instructors - Mobile Training Teams
- iii. 5 Auditors
- iv. 3 Administrative Officers
- v. 6 Secretaries

c. Proposed Technical Assistance to Cooperatives

The organizational structure of the MIDA Department of Cooperatives is not expected to change during the period of loan disbursement. Rather, the additional personnel and external technical assistance will strengthen the existing organization. The Department will then be able to extend much needed assistance to FECOPAN, COAGRO, FEDPA and BDA so that all key institutions under this loan can gain technical competence in their different activities.

Two cooperative federations and BDA will receive the following man-months of external technical assistance:

BDA:

12 man-months of cooperative credit assistance

COAGRO:

15 man-months of cooperative administration/financial systems.

10 man-months of production inputs, procurement and distribution systems.

12 man-months of farm production/marketing systems.

FECOPAN:

36 man-months of cooperative administration/financial systems.

24 man-months of consumer cooperatives procurement, inventory control and distribution systems.

d. GOP Institutional Support

GOP institutional support to the cooperative move-

UNCLASSIFIED

UNCLASSIFIED

ment can be clearly seen in the proposed level of counterpart contributions to the loan. The amounts shown in the Table below are above and beyond the annual budget appropriation for the MIDA Department of Cooperatives.

MIDA Technical Assistance Support

<u>Activity</u>	<u>Total</u>	<u>1st Year</u>	<u>2nd Year</u>	<u>3rd Year</u>
1. Counterparts to Foreign Technicians	\$ 220.0	\$ 73.4	\$ 73.3	\$ 73.3
2. Production Agents	440.0	60.0	140.0	240.0
3. Mobile Teams	200.0	66.7	66.7	66.6
4. Seminars	175.0	58.4	58.3	58.3
5. Audit Section	<u>45.0</u>	<u>15.0</u>	<u>15.0</u>	<u>15.0</u>
TOTAL	<u>\$ 1,080.0</u>	<u>\$ 273.5</u>	<u>\$ 353.3</u>	<u>\$ 453.2</u>

Most of the responsibility for giving support to associative groups rests within MIDA, and specifically its Directorate General of Social Development. The Directorate seeks to:

- i. Organize, orient and audit cooperative institutions to make their operations viable;
- ii. Stimulate the formation of agricultural production units according to the needs of each region;
- iii. Evaluate the economic and social effects obtained from the use of model rural organizations with a view to replicating the more effective organizations to increase agricultural production elsewhere in the country;
- iv. Advise rural organizations on national and regional objectives, programs and goals;
- v. Promote the formation of new campesino colonies and cooperatives according to the

UNCLASSIFIED

production goals of the regional programs of the Ministry.

Shortages of adequately trained personnel, field transportation and backstopping support have proven formidable barriers to communication between the Government and the marginal farmer. However, there has been an encouraging improvement in the support capabilities of the MIDA Directorate of Social Development during 1973 as noted in the progress of its various departments: Cooperatives, Campesino Organizations, Rural Organizations, Technical Support and Campesino Training.

e. USAID Assessment of Institutional Effectiveness

The Department of Cooperatives of MIDA, and predecessor agencies, have been engaged in cooperative development since the mid 1950's. The Government has been an active promoter of the value of cooperative association among farm families as the most efficient way to improve their productive efforts and provide them with good management and bargaining power.

The efforts of the Government have fallen short of the ultimate purpose of achieving a strong, independent cooperative system to organize farmers and consumers alike. Available resources have simply been too limited to accomplish the task. Through the proposed loan, the GOP is determined not only to improve the institutional capability within the Department of Cooperatives but also to utilize the cooperative federations to continue the task of integrating and consolidating the cooperative sector. The assignment of the 60 agronomists directly to the federations, the change in previously subsidized BDA interest rates so as not to compete with FEDPA on financing charges, the support given COAGRO, all demonstrate this collaboration between MIDA and the Federations.

With the external technical assistance inputs and the cadre of competent counterparts programmed, the Department of Cooperatives and the Federations should develop acceptable institutional effectiveness.

UNCLASSIFIED

2. Banco de Desarrollo Agropecuario - BDA

a. Background and Perspective

(1) Capsule History

The BDA is a new institution (created by decree in January 1973), but its history dates back to the establishment of its institutional predecessors: (a) The Institute for Economic Development (IFE) in 1953, and (b) The Credit Department of the Ministry of Agriculture (MAG) in 1965. It is the only major source of agricultural credit to the small and medium farmer.

Prior to 1950, very little credit, either public or private, was available to farmers in Panama. During the 1950's IFE gradually increased its agricultural lending activity, but the majority of its effort was directed to price stabilization. It was not until 1963, and the first of four IDB loans, that the focus and resources of IFE were shifted substantially to rural credit.

With the availability of substantial external resources for ag credit activities from both IDB and AID during the past decade (\$14.2 million), Bank activity was expanded and decentralized from headquarters operations to the present system of regional and local offices. This is described in a later section.

(2) Organization and Functions of the BDA

The organization and functions of BDA are established as follows.

(a) Executive Committee

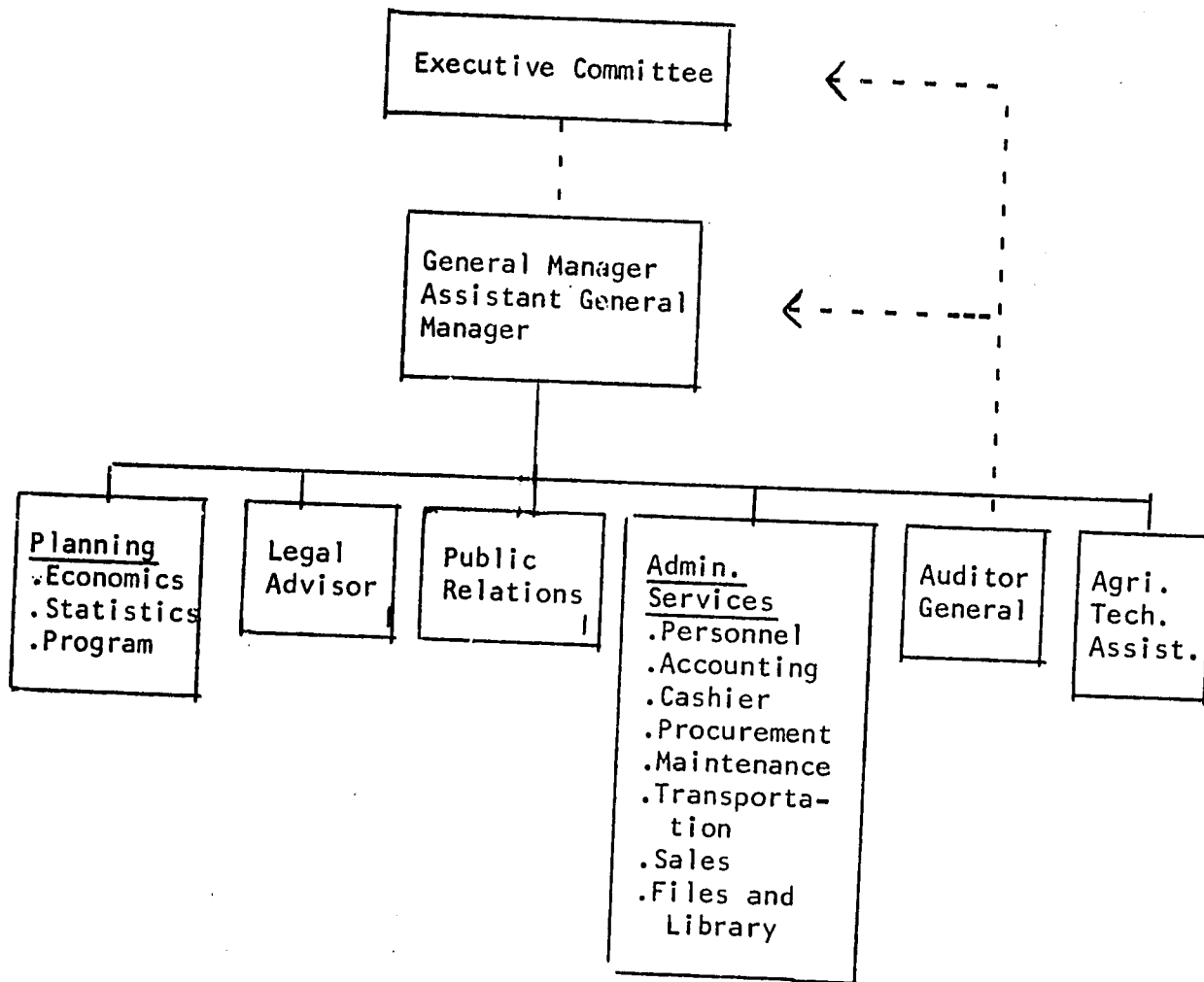
The five member Executive Committee acts as a Board of Directors. It establishes policy for the Bank, approves the Development Plan and Budget and generally supervises operations of the organization in accordance with GOP policy guidance from MIDA. In addition, the Committee authorizes all negotiations and operations of the Bank which entail an investment of over B/ 20,000.

For loans over B/ 50,000, approval requires an absolute majority.

(b) General Management

The general manager of the Bank and the assistant manager supervise day-to-day operations and handle all matters not requiring attention from the Executive Committee.

TABLE IX

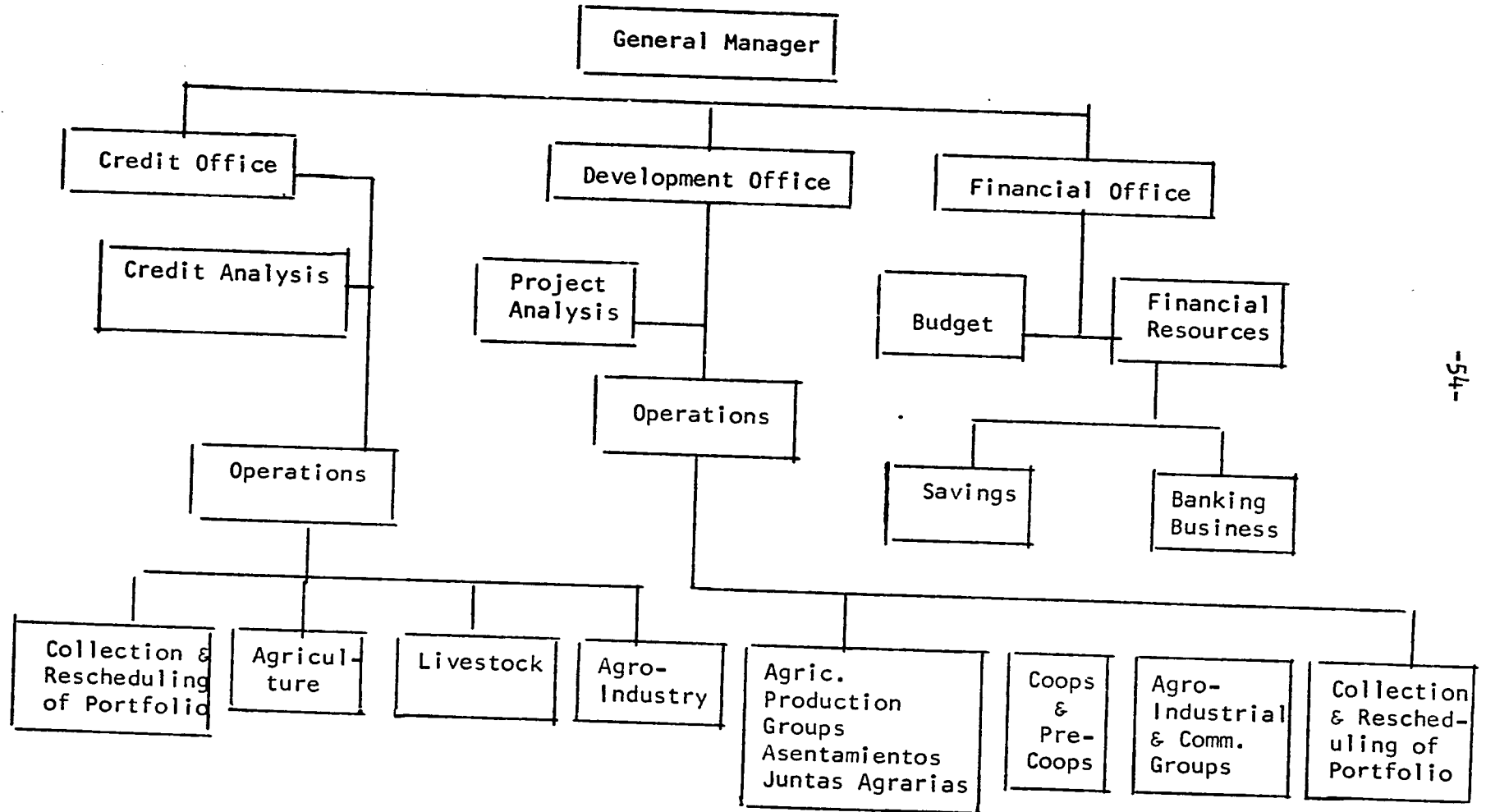


- (i) Planning: The planning department is responsible for the formulation of credit policy, coordination of activities of all other departments, programming and evaluation of financial activities of the Bank and the general preparation of necessary studies and analyses.

 - (iii) Agricultural Technical Assistance: This department is responsible for providing, directly or through MIDA, the technical assistance to support credit operations. The technicians for the most part are engaged in the preparation and approval of farm investment plans.
- (c) Operations - Headquarters Level

Also reporting to the General Manager are three major operating divisions which include the bulk of the Bank's manpower and carry out national and field lending and financial activities. These divisions are described in Table X.

TABLE X



- (i) Development Office. The Development Office is dedicated to the programming, supervision and execution of credit and investment projects for campesino organizations including asentamientos, juntas agrarias, cooperatives and pre-coops, municipal corporations (municipios) and community boards (juntas comunales). Individual lending is the responsibility of the Credit Office. Although this operational split exists at the headquarters level, it is consolidated in the field. The primary functions of the Development Office are to: review and approve credit requests; and investment plans; prepare investment budgets for each region area; program monitoring and supervise regional agents.

Under the Development Office are two major departments, Analysis and Operations. The Analysis Department studies credit proposals and evaluates field results. The Operations Department is divided into sections by type of group receiving services (1) Agricultural Production Groups, (2) Coops and Pre-Coops, (3) Agro-Industry and Community Groups, and (4) a special section for collection and debt rescheduling.

- (ii) Credit Office. The Credit Office is similar in function to the Development Office but is responsible for individual lending. It also has two major departments, Analysis and Operations, each of which perform duties similar to their counterpart in the Development Office. The Operations Department is divided into sections by type of lending - agriculture, livestock, and agro-industry, and it too has a special section for collection and debt rescheduling.
- (iii) Financial Office. The Financial Office carries out budgetary functions and

mobilizes funds from both internal and external sources. It maintains liaison with international financial organizations and insures compliance with external funding agreements. The budget section assigns loan funds to regional offices based on requirements and availabilities. Financial controls are established in coordination with the Audit Department.

(d) Operations - Field Level

- (i) BDA field operations are under the direction of regional managers who report directly to the General Manager of the Bank.

The Regional offices review and approve credit requests or forward them to headquarters for final approval depending on amount. They are also in charge of field credit and agricultural technicians and the supervision of the primary level of BDA activity, the branch offices.

- (ii) The branch offices receive and process loan applications and monitor their implementation. They also refer larger applications to the regional and headquarters offices and are responsible for loan collection.

- (iii) At both the regional and branch office levels there are local credit committees who must be consulted on relatively major loans.

(3) Credit Policy and Procedures

(a) Eligibility

Any "legal person" engaged in agricultural, livestock, fish, agro-industrial or rural artisan production is an eligible borrower. With respect to rural organizations, the following groups qualify:

Asentamientos	Cooperativas
Juntas Agrarias	Juntas Comunales
Juntas de Mercadeo	Other organizations
Pre-cooperativas	which are recognized by MIDA

With the proposed loan BDA would lend only to the Federations, their affiliated organizations and individual members thereof.

(b) Conditions for Financing

The project must be shown to be both productive, profitable and feasible. An investment plan (cost of project, loan amount requested, payment scheme, guarantees and financial capacity to repay) is required. The experience of the borrower is also taken into account and where necessary technical assistance is required to insure success of the proposed investment. Although the borrower need not be a property owner, he must show legal right to the use of the land to be farmed. Finally the borrower must be directly and personally involved in the project.

(c) Loan Approval

The BDA cannot authorize any loan if the application does not include a field report and analysis prepared by the appropriate technician. A loan application is rejected if the borrower is already delinquent. Loan approval levels are established depending on the size of the project to be financed.^{1/}

Approval Authority	Amount
Executive Committee	\$ 30,000 plus
Credit Committee (Head Office)	20,000 - 30,000
General Manager	15,000 - 20,000
Credit or Development Office Managers	10,000 - 15,000
Regional Credit Committee	5,000 - 10,000

^{1/} The BDA will not make any loan of over \$100,000 from the revolving fund unless AID agrees otherwise.

Regional Manager	2,500 - 5,000
Branch Credit Committee	1,000 - 2,500
BDA Field Agent/Community Credit Committee	1 - 1,000

(d) Sublending Terms and Amounts

Sublending terms and amounts depend on the BDA's definition of small or medium-sized farm operation. Small producers are characterized as having total assets of less than \$15,000; 80% of their total income must come from farming, and landholdings may not exceed 20 Ha. The medium-sized producer is one having assets of between \$15,000 and \$35,000; 50% of total income must come from farming, and landholdings may not exceed 500 Ha.

The maximum amount of loans to any cooperative is \$250,000. Sublending to the individual producer, however, is limited to \$5,000, including fixed and working capital expenditures. Family labor is an eligible cost of production. Up to 90% of the estimated project cost is eligible for financing.

The prior policy of the BDA had been to subsidize agricultural production input costs, through the interest rate mechanism. That is being changed as discussed earlier.

With respect to reflows, the BDA will use any reflows available during the disbursement period of the loan for the same purposes for which they were originally lent. Thereafter, those funds will be used to support the general objectives of the loan. This provision will be included in the BDA's relending policies to be submitted to AID for approval prior to disbursement of any funds for relending purposes.

b. Institutional Capacity to Manage Projects

(1) The Cooperative Section

The cooperative section of the Development Office

UNCLASSIFIED

presently contains only one cooperative technical specialist. The GOP plans to expand this section up to 45 people at a proposed budget over the three year disbursement period of \$850,000. The Ministry of Planning confirmed that to the extent these people are not needed for the project, the balance of the \$850,000 would be contributed in cash to the revolving fund or used for other purposes in support of the loan. The GOP plans to establish a separate cooperative lending window to administer this loan fund. The GOP expects this window would grow into a separate cooperative development bank at some future but as yet undetermined date.

(2) Viability of Revolving Fund

The GOP has undertaken to repay the AID loan from general Treasury resources thus leaving repayments within the revolving fund. The financial projects of the BDA for this activity indicate a BDA intention to restore losses to the fund from its other capital or profits.

(3) Coordination and Cooperative Representation

The GOP has indicated that coordination between the BDA, MIDA, and the cooperative federations will be established to insure an adequate voice for the federations in policy determination and the allocation of resources.

(4) Loan Approval

When BDA is considering lending from the revolving fund to FECOPAN, COAGRO or FEDPA affiliates, a representative of the concerned federation will sit on the credit committee.

BDA's lending policy and procedures for making subloans will also provide for not making a loan to a FEDPA affiliate until FEDPA has failed to make such loan within a reasonable time. In recognition of the judgmental area in which a governmental lender would be willing to take a credit risk which a private lender would not, \$500,000 of the \$2,000,000 which the IRR contemplated being relent by FEDPA will be available to BDA for loans to FEDPA affiliates. On such loans the

UNCLASSIFIED

mandatory capitalization discount charged by
FEDPA will be made by BDA and paid over to FEDPA.

(5) Loans for Facilities

In the case of lending for fixed assets such as
warehouses, marketing facilities, collection
stations, the Federation or affiliate must
demonstrate the engineering feasibility of the
facility. All such proposed facilities shall
be reviewed and approved by a qualified BDA
engineer.

UNCLASSIFIED

C. Recipient Institutions

1. COAGRO and Affiliates

a. History and Growth of Membership

In 1967, a GOP/AID project to provide technical assistance to a number of subsistence farmers was undertaken. As part of that effort it was recommended that a federation of agricultural cooperatives be formed. In December of 1969 the Federation of Agricultural Cooperatives (COAGRO) was founded to vertically link the individual cooperative members to services and functions beyond the capacity of local organizations to supply capital resources, wholesale priced fertilizer and other production inputs, and related technical services. The growth in membership and volume of operations has been continuous. As of March 31, 1974, farmer membership exceeded 5,000. The federation believes that during the loan disbursement period membership will approach 8,000.

Given the recent experience of COAGRO, USAID reaffirms its support of the organization and strongly believes in the project's potential.

At present COAGRO has 21 affiliated cooperatives, a capable professional manager with extensive financial background and a strong board of directors. The operations of COAGRO in 1973 neared the break-even point if one disregards an inventory write-off of about \$60,000 and interest income of \$71,000. These should be disregarded since the inventory losses occurred in prior years and the interest income is non-operating income. The inventory write-off is viewed favorably, for it represents the establishment of tighter financial and managerial controls.

Support of COAGRO by the GOP is demonstrated by the Government's action in naming the Federation as its agent for importing and distributing agricultural inputs to asentamientos and Divisa, the seconding of MIIA employees to COAGRO, and the guaranteeing of a \$4.2 million loan to COAGRO by the Bank of Brazil. To date, COAGRO's 1974 sales figures are running almost 300% above the comparable sales period in 1973.

UNCLASSIFIED

b. AID Grant Assistance and Loan 525-L-034

(i) USAID Grant Assistance to COAGRO

June 30, 1970	Technical Assistance - General Coop. Development	\$ 88,000
May 27, 1971	Technical Assistance - General Coop. Development	35,000
May 27, 1971	Commodities - Office Equipment	1,500
Nov. 15, 1971	2 Local fieldmen of COAGRO	10,000
	Local educational activities of COAGRO	15,500
Nov. 26, 1971	Technical Assistance - General Coop. Development	8,600
June 13, 1972	Technical Assistance - General Coop. Development	<u>40,000</u>
		<u>\$ 198,000</u>

(ii) AID Loan 525-L-034

Under on-going AID Loan 034 (Small Farmer Improvement) a pilot agricultural production credit program was set up to be operated by cooperatives for their members. This program was started in 1971 with \$100,000 of loan funds. To date 8 cooperatives have utilized \$101,528 of loan funds. In March 1974 a field survey of COAGRO affiliates and individual member borrowers was carried out as a part of the evaluation of the pilot program. Certain conclusions became clear during the field survey:

- (a) All farmer borrowers commented favorably on the savings in time and the reduction in red tape that they found in negotiating and securing disbursements on loans from their cooperatives as compared to BDA loans. This is a tremendously important point because of the importance of timing to agricultural projects.
- (b) The two large cooperatives that supplied technical assistance to member borrowers for production of special crops (potatoes and swine)

UNCLASSIFIED

had successful programs. Small cooperatives that depended on MIDA for technical assistance and made loans chiefly for traditional crops (corn, rice, beans) had a high delinquency rate. The borrowers on these crop loans had received either no or inadequate technical assistance.

- (c) There is local disapproval and pressure on delinquent borrowers. This was evident in unsolicited deprecatory references to these people by name by cooperative managers and by members during interviews.

Additionally under the same A.I.D. Loan 034, another \$100,000 was made available to primary cooperatives for expenditures on "infrastructure." Eight cooperatives took out loans totalling \$101,023 for various projects. The largest loans, totalling \$43,760, were for buildings. Approximately \$35,000 was spent for the purchase of trucks and tractors, and the balance for various items of processing equipment for agricultural products. These loans have repayment periods of from 5-10 years and most have a 2-year grace period on repayment of capital; therefore, there is no repayment record to date. Interest payments are reported as being up to date.

A survey of these loans showed that most of the cooperatives need assistance in pre-investment feasibility studies for larger projects. They need engineering assistance with building plans and in the selection and installation of equipment.

COAGRO has received \$400,000 of Loan 034 funds for operating capital. \$200,000 of this was from original loan funds and \$200,000 was from borrower funds from the Agricultural Production Credit program for individual farmers. These funds were used for inventory building purposes, chiefly the purchase of fertilizers and pesticides. Both of these loans have a 2% interest rate with a 3 year grace period. Interest payments have been made on schedule.

c. Organization Structure - A Functional Description

To make cooperatives more relevant to Panama's rural economic and social needs, COAGRO and its affiliates are pursuing the following goals:

UNCLASSIFIED

(i) Full Service Line

In order to be effective in improving the lives of its members, an agricultural cooperative must offer a full line of services including credit, sales and delivery of farm supplies, marketing and storage, transportation, mechanization and, eventually, food processing. In addition, technical agricultural advice and member education must be provided either directly by the cooperative institutions or in combination with the MIDA Department of Cooperatives, to insure the efficient use of services.

(ii) Economic Viability

Achievement of social goals is directly dependent upon the economic viability of the institutions. In order to be viable, the cooperatives must be of sufficient size so that the volume of activities, when combined with a reasonable profit margin, allows the employment of full-time, qualified managers, administrative staff and other personnel required to provide efficiently the package of services offered by COAGRO.

(iii) Capital Formation

One method by which the cooperative movement has been, and will continue to be strengthened is by increased paid-in capital. Thus far, capital is formed through direct investment by members, retained earnings and mandatory capitalization of 1% of all gross sales made. This system was not sufficiently dynamic at COAGRO's pre-1973 level of sales. With the increased level of sales contemplated as being financed by working capital loans from BDA, COAGRO's capital accumulation rate should improve substantially.

(iv) Vertical Integration

In order to fulfill the objectives noted above, cooperatives have to be integrated into a national level federation capable of backstopping a full line of services at the local cooperative level.

The acceptance of the objectives listed above has taken place over varying periods of time among most of the COAGRO affiliates.

d. Technical Assistance Capability

COAGRO's activities to date have been almost exclusively in farm supplies, mainly fertilizers, feed ingredients, seed and pesticides. The basic structure for such an operation has now been established and constitutes the major accomplishment of the initial stage of COAGRO development. With this phase completed a more complex level of growth for the Federation has been reached.

Now a realignment of priorities relative to a second phase of COAGRO's development has been indicated by the Board of Directors and the General Manager:

- (i) improved supply logistics to expedite the orderly procurement, assembling, and distribution of farm supplies to cooperatives and other customers,
- (ii) a marketing service to assist its affiliates to determine quantity and quality of markets; distribution systems; and practical linkage to governmental marketing, pricing and control policies,
- (iii) financial counseling to affiliates in determining the feasibility of infrastructure and equipment investments and to provide guidance in the management of production credit schemes. (The Federation does not engage in any long term credit operations with its affiliates. 30 day accommodation credit is extended in the supply sales, but this open account activity is closely monitored to avoid getting into the financing business).
- (iv) Training program for cooperative and Federation management personnel.
- (v) Adding agro-industrial services to COAGRO activities beginning with a concentrate feed mill for poultry and hogs, and a fertilizer bulk blending plant near the port of Aguadulce.

e. COAGRO Technical Assistance Requirements

Technical assistance during the first phase of development has been directed primarily to the operational aspects of farm supply cooperatives, both at the base level and at the Federation level and secondarily to organization, finances and manpower development.

It is now apparent that to reach COAGRO's objectives in the second phase of growth, technical assistance is required to guide and assist in establishing specific institutional capabilities. Attention is now centered in the following areas:

AID Grant Funded Assistance

Financial Management. A Resident Advisor who will work at both the Federation level and through COAGRO staff with the local cooperatives. The Advisor will work on administrative/financial needs including systems and procedures for mechanized accounting, purchasing, credit, cash flow and budgeting. He will also train Federation staff, cooperative managers and accountants and members of board of directors.

Institutional Development. An Advisor strong in member relations and education who thoroughly understands cooperative organization and the linkage necessary between the local affiliates and the Federation. An important part of the technical assistance must be directed towards the improvement of the economic advantages of membership in the Federation. The primary cooperatives should also have enough at stake in COAGRO - through paid-in capital and vital services received - to support it loyally because it belongs to them.

Additionally, COAGRO is scheduled to receive 37 man-months of loan funded technical assistance as shown in Annex B.

2. FEDPA and Affiliates

a. History and Growth of Membership

FEDPA is a private, non-profit federation of credit unions chartered in 1961. As of December 31, 1973 it had 79 affiliates with 18,639 members and paid-in capital of \$3,729,000.

During its first three years of existence, the Federation experienced limited growth and extended relatively few services to its affiliates. This situation is similar to the present situation with FECOPAN, and that of COAGRO last year.

b. AID Assistance

1964 marked the beginning of AID technical assistance to the credit union movement in Panama. The AID support helped the system to expand, creating a demand for external financing to supplement the movement's own capital. Credit operations were diversified, and in 1971, FEDPA launched an agricultural production credit program with proceeds from a \$1.9 million AID loan, 525-L-037. (See Annex L)

The loan was instrumental in developing FEDPA into a viable institution and in strengthening the credit union movement. Between December 31, 1970 and August 31, 1973, the total capital and reserves of FEDPA rose \$187,000, an increase of 23%.

In April 1973, AID/Washington approved an IRR for FEDPA for \$3.0 million, for use in relending for agriculture, small business and industry, and miscellaneous loans, such as home repairs, education expenses, and medical expenses. This loan was rejected by the GOP, in favor of the present all-inclusive loan.

c. Organization and Management

FEDPA is a well-organized, tightly-run credit institution with a capable manager, an active Board of Directors, an articulate General Assembly, and a trained staff to deal with financial, educational, and counselling problems of cooperative credit unions. (See Annex D).

UNCLASSIFIED

FEDPA's lending policies have tended to be conservative. FEDPA has loaned out \$7,000,000 and has recuperated \$6,000,000, with one \$2,000 delinquency which is currently being repaid.

Financial reporting and control systems are efficient. FEDPA provides 65 of the 79 affiliated credit unions with computerized monthly status reports shortly after the end of every month.

d. Coop Profile

FEDPA's 79 member coops reach a combined membership of 18,639. Thirty-six of the member cooperatives are rural, with individual membership of over 9,700. Half of FEDPA's membership have gross annual family incomes of under \$1,800, 75% under \$2,400 and 95% under \$3,000. (See Table XI).

e. Technical Assistance Capability

FEDPA's main function is to provide a source of funds to affiliated credit unions. Technical assistance to cooperatives in support of credit includes:

- (1) An education program covering budgeting, accounting, financial analysis, credit union philosophy, credit operations, public relations, communications and delinquency control. The Federation offered 110 training sessions during 1973 for 2,748 persons. It also organized eight seminars for 229 administrators to deal with specific cooperative problems.
- (2) Technical assistance to member credit unions in improved administrative techniques, implementing specialized programs, planning and developing promotional activities, and in analyzing their situations with respect to membership and savings. During 1973, Federation technicians made 1,086 visits to affiliated credit unions.
- (3) A management improvement loan fund whereby a manager is provided for a credit union until the union covers its normal operating expenses and repay the management loan. Six credit unions are currently making use of this service.
- (4) A system for the Centralization of Funds (COFAC), whereby separate checking and time deposit ac-

UNCLASSIFIED

TABLE XI

CREDIT UNION PROFILEFEDPA AFFILIATED COOPS

	<u>Urban</u>	<u>Rural</u>	<u>Both</u>
Number of Coops	\$ 43	\$ 36	\$ 79
Percentage of Coops	54%	46%	100%
Number of Members	8,851	9,778	18,629
Percentage of Members	47%	53%	100%
Savings	1,659,000	1,968,000	3,627,000
Percentage of Savings	46%	54%	100%
Savings per Member	187	201	195
Number of Loans Made (Cumulative)	33,041	138,216	171,257
Percentage of # Loans Made (Cumulative)	19%	81%	100%
Cumulative Value Loans Made	8,288,000	16,722,000	25,010,000
Percentage of Cumulative Value Loans Made	33%	67%	100%
Average Loan Size Cumulative Loans/Cumulative Borrower	250	121	146
Loans Outstanding	1,957,000	2,678,000	4,635,000
Percentage Loans Outstanding	42%	58%	100%
TOTAL ASSETS	\$2,693,000	\$3,031,000	\$5,724,000
Percentage of Total Assets	47%	53%	100%

Note: This table reveals that urban members use credit unions less than the rural dweller. Their cumulative borrowing is approximately one-half as much as rural borrowing. The rural dweller borrows smaller sums averaging \$121 per loan and pays them back over shorter periods of time.

UNCLASSIFIED

counts of participating credit unions are placed in a central bank account.

- (5) Life insurance to individuals and bond coverage of the managers of all participating unions.
- (6) Centralized procurement service for office supplies and equipment.
- (7) Free legal counsel for establishing credit unions; changing their constitutions, and tax exemptions.
- (8) Annual auditor.
- (9) A consumer education program.

f. Lending Procedures

An affiliated credit union may apply to borrow funds from FEDPA by submitting:

- (i) A properly executed application on Federation forms.
- (ii) A copy of the credit union charter and By-Laws.
- (iii) Balance Sheets and Profit and Loss Statements for the last three years and a Trial Balance of the latest month.
- (iv) A loan delinquency report.
- (v) A copy of the Loan Regulations of the credit union.
- (vi) A certified copy of the minutes of the meeting, signed by the Secretary of the Board of Directors, whereby the Board authorizes applying for the loan and representatives are named who can sign and act for the credit union in matters related to the loan.
- (vii) A plan for the use of the loan.

The Federation's Finance Division submits its analysis of the administration and operations of the credit union's capacity to repay, and recommendation including conditions necessary for the protection of the interests of the Federation. This report goes to the manager of credit committee with the loan application for approval.

UNCLASSIFIED

UNCLASSIFIED

There have been four basic restrictions on making loans to affiliates: (1) No affiliate may borrow more than 10% of the Federation's capital available for relending; (2) no affiliate can borrow more than five times its equity capital; (3) no credit union can borrow more than \$25,000 unless it has a full-time manager; (4) and no loans will be made to credit unions which have not repaid at least 50% of their earlier loan or if the delinquency rate on their portfolio exceeds 10%, or if their management is, in FEDPA's opinion, poor.

The following represent some of the changes enacted during the last year: (1) The maximum repayment period has been extended from 24 to 60 months; (2) capitalization on loans by the borrowing credit unions (5% annually of the average outstanding balance) is now collected quarterly instead of in advance of the first loan disbursement; (3) each loan drawdown has its own separate repayment schedule instead of one single schedule for the entire loan.

Periodic visits are made by Federation extension agents and auditors who recommend and arrange for technical assistance as needed, verify the use of sub-loans, and evaluate results.

g. USAID Assessment of Institutional Effectiveness

The USAID underscores the managerial competence and the financial viability of FEDPA. The line of technical assistance services offered by the Federation appears to be complete. If anything, the Federation has been too exacting with its affiliates, by maintaining standards so high that a significant number of affiliates have not sought loans.

h. Credit Needs

The 79 FEDPA affiliated credit unions have a combined loan portfolio of \$4,700,000 and total savings of \$3,700,000. The cash liquidity of the system totals \$1,117,619, most of which is held by FEDPA. Open lines of credit amount to \$337,000, with another \$69,000 under consideration. The General Manager of FEDPA has indicated that this accumulation of cash must be put to work. He plans to revise those restrictions on sub-lending that do not affect prospects of repayment, and he represents that the year-end liquidity position of FEDPA will be reduced

UNCLASSIFIED

UNCLASSIFIED

to \$250,000. In discussing the need for additional financing, FEDPA's manager represented that in three years, starting in July/August of 1974, FEDPA could make sound loans for rural production projects - crops, livestock, small industries - totalling \$1,500,000 over and above the resources otherwise available.

Technical Assistance

The technical assistance FEDPA will receive from the Latin American Credit Union Confederation (COLAC) described in Annex B page 7) will have a thrust of: developing a plan for growth, setting growth targets and developing a method of analyzing achievements. Growth is to be sought in three major directions: a) increased savings by existing members; b) increasing the number of affiliated coops, especially in poorer rural areas; and c) increasing the number of members of already affiliated coops, especially reaching lower income groups.

UNCLASSIFIED

3. FECOPAN and Affiliates

a. History and Growth of Membership

FECOPAN, the Federation of Consumer Cooperatives of Panama, is a second degree cooperative founded in October, 1972. The impulse towards cooperative stores arose with the efforts of banana workers in past years to free themselves from the 'company store'. More recently the National Guard under the personal direction of General Torrijos, established several cooperative stores and successfully brought down prices in certain prior monopoly situations. Subsequently FECOPAN was chartered by MIDA to reduce the cost of consumer items and basic foodstuffs to self-service member cooperatives through volume purchases. The organization also plans to establish a marketing system through which products grown or processed by its cooperative members will be channeled for distribution to affiliates and other retailers through FECOPAN. The Ministry of Agricultural Development actively supports FECOPAN and its objectives.

In May, 1974, FECOPAN's membership was comprised of 17 affiliated consumer cooperatives with a membership of 6,500. Ten of these cooperatives were rural, with a combined membership of 3,770, or 58% of all members.

b. Structure and Function

As an organization, FECOPAN is still in an incipient stage of development. Its role to date has been that of a service federation rather than an organizing agent. The seventeen member cooperatives preceeded FECOPAN and continue to exist by individual effort. The federation presently has a staff of two people: a manager and an accountant. This staff is seconded to FECOPAN by the Ministry of Agricultural Development, and is paid for by MIDA. The staff will be shifted to the payroll of the federation as soon as FECOPAN can afford to absorb them.

The major present function of FECOPAN is to service its affiliate cooperatives with the wholesaling of consumer goods, primarily basic foodstuffs. In the future, however, FECOPAN working closely with COAGRO, FEDPA and MIDA will expand into purchasing, assembling and marketing of agricultural production for both its own and COAGRO and FEDPA member cooperatives, thus eventually proving a complete vertically integrated cycle of services for the small producer member. Other planned support services to affiliates include accounting. Financial and administrative services; technical assistance in procurement, inventory control, merchandising; membership promotion; and education.

The total volume of FECOPAN's activities since its inception amounts to a nominal \$36,404, all of which has occurred in recent months. FECOPAN's gross margin was 17%, and its net profit was 5% on these transactions. The volume of sales in 1975 is expected to reach \$1,125,000 - if FECOPAN can supply 25% of the total demand of its 17 affiliates (this percentage is expected to be considerably higher in rural affiliates). The recent affiliation of several strong, urban-based consumer coops should greatly strengthen FECOPAN's total volume demand. While urban coops are projected to provide an estimated three-quarters of all sales volume in 1974, FECOPAN nonetheless plans to move decisively into rural wholesaling and marketing. This loan would be available to FECOPAN only for strengthening FECOPAN's ability to service rural entities.

c. Coop Profile

FECOPAN's present total membership of 6,500 includes 3,770 (or 58%) rural members. The income level of these members places them clearly within the target group: 60% of the families earn less than \$1,800 annually, 85% less than 2,400, and 95% less than \$3,000.

Many of the COAGRO affiliates have a need to market basic food staples as well as agricultural production inputs, and it is planned that FECOPAN and COAGRO will service each other's affiliates in the interest of economy. FECOPAN is similarly expected to coordinate with FEDPA on marketing some of their members' farm produce.

d. Technical Assistance Capability

FECOPAN's present ability to provide technical assistance to its members is very limited but will increase rapidly with the support of foreign technicians and a full complement of local staff to be financed out of the loan. The past eighteen months have seen the evolution of FECOPAN from a concept, to a legal reality, to the modest beginnings of supplier/wholesaler servicing its members. However, the Federation's ability to provide a greater number of services depends on its ability to increase volume and net profit margins.

e. Technical Assistance Requirements

The loan provides an essential ingredient to the institutional development of FECOPAN, technical assistance. This will enable FECOPAN to simultaneously fulfill the vital functions for which it was organized as well as gain expertise in those functions

UNCLASSIFIED

through in-service training of its planned professional staff. These service functions focus on the provision of low-priced consumer goods and food products to low-income rural and urban communities through the servicing of consumer cooperatives and other retail outlets. The corollary function of buying the products of rural coop members for distribution to COAGRO and FECOPAN affiliates as well as to other wholesalers will strengthen rural consumer and producer coops by increasing cash income of producer members.

The technical assistance planned in this loan will provide FECOPAN with experts to assist in (1) developing the critically important managerial and technical capability of FECOPAN's staff; (2) preparing a strategy for the promotion and expansion of consumer cooperatives; and (3) determining the feasibility of alternative strategies for planned marketing activities.

The original GOP request for FECOPAN's portion of this loan amounted to \$1,900,000. As a result of intensive review investigations, the USAID determined that FECOPAN was not sufficiently developed as an institution to effectively utilize this sum of money. The loan to FECOPAN has, therefore, been reduced to technical assistance requirements and essential equipment and basic infrastructure. The GOP has increased its contribution to provide FECOPAN with working capital (at least \$500,000).

f. USAID Assessment of Institutional Effectiveness

The USAID recognizes the present weakness of the institution. However, taking into consideration (1) the recent creation of the organization; (2) the high priority which the GOP places on the development of the Federation; and (3) the need for and potential contribution of FECOPAN to the quality of rural life through its dual role of providing low-cost consumer goods and food products and marketing the produce of coop members, USAID feels that the limited funds made available by the present loan will strengthen FECOPAN institutionally and enable it to make substantial contribution to the development of the rural sector.

UNCLASSIFIED

UNCLASSIFIED

g. Projection of Future Growth

The growth of FECOPAN depends (1) on the effectiveness of the institutional development aspects of this loan in terms of establishing managerial capability and creative planning; (2) on the ability of consumer cooperatives to compete in the retail business; and (3) on the degree of success achieved by the proposed integrated marketing activity.

FECOPAN's projections of sales promise to make 1974 its first year of financially viable operations.^{1/} Should this be the case, FECOPAN's management will begin to enjoy more flexibility for expanding its activities both geographically and functionally into farm produce marketing. The technical assistance provided under the present loan will make available expert advice, and the GOP will undertake feasibility studies to determine the optimal strategy for FECOPAN's expansion.

MIDA's plans for FECOPAN's development reflect the GOP's strong support for the cooperative food stores: a professional staff of twenty-eight plus supporting personnel is projected by the end of the loan disbursement period. Furthermore, the GOP envisages the explosive expansion of FECOPAN-affiliated consumer cooperatives in all rural areas to assure reasonable and just prices for the consumer. FECOPAN is to handle imported (duty-free) as well as domestically produced goods.

The GOP also envisages a role for FECOPAN as a central wholesaler in all products sold by its affiliates, so that it can reduce the cost of its products to the consumer. As an example, Table XII indicates the possible level of price reduction which could be gained by FECOPAN's entering the wholesale business. FECOPAN could act as transporter and wholesaler, reducing a \$2.00 wholesaler margin in onions (12.5% of final cost) and \$2.25 wholesaler margin in potatoes (15% of final cost). Furthermore, FECOPAN could control and probably reduce the retail mark-up of \$2.50 and \$2.25 respectively for these products. The results would benefit the producer with a high return on his production and stabilize prices of staple items to the consumer.

^{1/} If the present 3,770 families were to spend \$70 per person annually with FECOPAN's affiliates, this would yield a retail volume of \$1,408,000.

UNCLASSIFIED

TABLE XII

MARGINS OF COMMERCIALIZATION
(Herrera - Los Santos)

<u>MARK-UP</u>	<u>ONIONS</u>	<u>POTATOES</u>
	(...Prices per 100 lbs....)	
Producer	\$11.00	\$10.00
Cooperative	<u>.50</u>	<u>.50</u>
	11.50	10.50
Transport	<u>.50</u>	<u>1.25</u>
	12.00	11.75
Frigomida	<u>.50</u>	
	12.50	
Wholesaler	<u>1.00</u>	<u>1.00</u>
	13.50	12.75
Retailer	<u>2.50</u>	<u>2.25</u>
Final Consumer Price	<u>\$16.00</u>	<u>\$15.00</u>

h. Credit Needs for FECOPAN

FECOPAN's estimates of its credit needs for the next three years are divided among infrastructure, equipment, and working capital. Table XIII summarizes these needs, the use of AID funds and counterpart contributions. The total AID financed portion of the loan is \$750,000, which is slightly more than half of the total FECOPAN loan package. Infrastructure and equipment will include the construction of essential cold storage facilities, warehouses and offices, and transportation equipment. Technical assistance to FECOPAN will be financed through the AID loan to BDA but will be furnished to FECOPAN on a grant basis.

UNCLASSIFIED

TABLE XIII

DEMAND PROJECTIONS

FECOPAN CONSUMER COOPERATIVES SYSTEM

	<u>Source of Fund</u>			<u>Use of Funds</u>		<u>Grand Total</u>
	<u>AID</u>	<u>Counter-part Coops</u>	<u>GOP</u>	<u>FECOPAN</u>	<u>Affiliated Coops</u>	
Infrastructure & Equipment	\$ 500,000	\$ 50,000	\$	\$211,000	\$ 339,000	\$ 550,000
Working Capital	<u>250,000</u>	<u>75,000</u>	<u>500,000</u>	<u>300,000</u>	<u>525,000</u>	<u>825,000</u>
Loan Fund Totals	\$ 750,000	\$125,000	\$500,000	\$511,000	\$ 864,000	\$1,375,000
Grant T.A. from GOP	180,000	---	---	180,000	---	180,000
Training Costs	200,000	100,000	100,000	---	400,000	400,000
TOTAL ALLOCATION	<u><u>\$1,130,000</u></u>	<u><u>\$225,000</u></u>	<u><u>\$600,000</u></u>	<u><u>\$691,000</u></u>	<u><u>\$1,264,000</u></u>	<u><u>\$1,955,000</u></u>

UNCLASSIFIED

UNCLASSIFIED

i. Developing a Marketing Strategy

The development of a marketing strategy for FECOPAN will involve a series of consultations with both MIDA and COAGRO. The complete vertical integration of services from the producer to the consumer focus on two main processes: the farm-to-market, and the market-to-consumer process.

On the farm-to-market side, FECOPAN's services should include: collecting and disseminating effective market information so that the cooperative producer is aware of the correct timing to plant and to sell his produce; introduction of grading practices and regulations; the development of improved handling; storage and transportation facilities, including some refrigeration equipment; buying and selling mechanisms such as forward contracts; improved pricing efficiency; and technical assistance. COAGRO's activities and MIDA's production agent services should be coordinated to support these linkages.

The marketing of agricultural produce through FECOPAN (which would function as a food broker) gives the rural campesino the added advantage of vertically integrating him into the marketing structure which before limited him to selling at his farm gate. For a brokerage fee FECOPAN could assemble member farmers' produce in large volumes. This service or forward contractual commitments would stimulate production and increase the proportion of cash crops among farmer members.

On the market-to-consumer side, FECOPAN's services to member cooperatives will result in reduced costs of consumer goods, more reliable and stable supplies of consumer products, greater competition in rural areas reducing profit margins to acceptable levels, and the time-saving factor of consolidating both purchase and sales functions for the rural coop member.

The proposed types of research which should be undertaken before a marketing strategy is determined include consumer surveys to determine possible demand projections, and detailed marketing studies of present stores and the kinds of products and services which they provide.

4. Federation and Cooperatives Relationships: Present and Proposed

All three Federations provide different but inter-related services to rural Panama. All are fundamental to the improvement of rural life. The agricultural producer needs: credit to purchase production inputs; access to modern technological production tools at fair prices; technical assistance to help him utilize modern production methods; and a reliable marketing system which provides fair prices for his production. Similarly the rural consumer needs to buy food he cannot produce at reasonable prices.

With appropriate coordination the Federations' services will be complementary, one reinforcing the other. COAGRO's central concern is increasing rural income through greater agricultural productivity; FECOPAN will focus on maximizing the purchasing power of consumer outlets and on providing a reliable marketing channel for rural coop production; and FEDPA's objective is to provide credit for the self-determined needs of rural inhabitants, thereby improving the overall quality of rural life (See Annex K)

COAGRO and FECOPAN activities provide the best area for direct cooperation. Their services are very similar; both are wholesalers of merchandise and assemblers of agricultural production for marketing.

The marketing function of FECOPAN is closely related to agricultural production services provided to the small farmer by COAGRO. COAGRO's primary purpose is to provide agricultural inputs which it supplies through 7 regional warehouses. Through coordination with COAGRO, FECOPAN could assure the availability of the right product in the right quantity at the right time. Where these factors coincide, FECOPAN would face no marketing problem. FECOPAN could supply its own affiliated outlets, urban retailers-exporters, and perhaps contract products to service industries such as hospitals, hotels, etc., thereby providing a continuous source of demand for agricultural products.

National and regional warehousing facilities, transportation equipment, office space and staff must also be shared to achieve economic benefit to the producers. COAGRO is presently planning to establish radio communications to each of its seven warehouses. Access to this system is necessary for both FECOPAN and COAGRO in order to coordinate their activities.

The success of COAGRO-FECOPAN coordination will create economic incentives for FEDPA to greatly expand its production credit

program. Success in marketing will increase the demand for production credit. Similarly, increasing the income of rural producers will expand FEDPA's credit demand for home repairs and consumer goods.

Cooperation among the Federations is the only way that the cooperative movement in Panama can provide the spectrum of inter-related services essential to the development of the rural sector. MIDA is fully aware of the need for promoting close working relationships among the Federations. In fact, MIDA has proposed a Confederation of all federations, and has invited their representatives to sit on the Board of Directors of the BDA and the Bank's regional credit committees. Since MIDA is legally responsible for cooperative development in Panama, the USAID feels that effective coordination among the Federations will be promoted, strengthening the considerable contribution of the movement to rural development.

D. Other Donor Activities

Federal Republic of Germany - Began a project in 1973 establishing 2 pilot farm machinery centers to supply the needs of vegetable growers in Boquete and Cerro Punta and assist in the development of horticultural coops in this area. 36 man-months of technical assistance was supplied in 1973 and 10 man-months are programmed for this year. The project finances equipment and infrastructure in the amount of \$320,000.

Taiwan - is supplying technical assistance in practical horticulture to coops as part of an on-going program of technical assistance. 24 man-months are planned for 1974 in El Valle de Antón.

UNDP - is furnishing the services of an Israeli technician to give selected coop leaders training in the principles of coop management and administration. 6 man-months were donated last year and 12 man-months are programmed for 1974.

OAS - furnished 11 man-months of technical assistance in 1973 and 1 man-month in 1974 to train MIDA personnel in coop management. Training was received by FECOPAN management.

Latin American Credit Union Confederation - is providing FEDPA 85 man-days of technical assistance during FY 1974 in the areas of finance, production and promotion planning seminars and statistics.

→ A joint BID, UN, Israel AID and Panama Program - training courses for high school graduates in rural administration have recently been approved.

During the program's first year 40 students will be trained by external consultants from Israel with the Director of Training within MIDA and 2 professors acting as counterparts. 40 students will be trained in the second year of the program. The total costs of the program for the first 2 years are estimated at \$520,000. AID is to contribute \$10,000, Panama \$211,000, Israel \$51,000, UN \$39,000, and BID \$209,000.

Consortium for Promotion of Agricultural Coops - The GOP has authorized the submission of a request to COPAC for \$403,000 in grant funds for the training of 15 accountants and 26 managers over a 3 year period. In addition to training costs of \$57,000 in the first year, the project will include \$346,170 which will

UNCLASSIFIED

be used to subsidize the salaries of managers and accountants for Agricultural Coops in a diminishing amount over a 4 year period. (Loan funds will be used in conjunction with COPAC/FAO funds and will be concentrated in support of FECOPAN affiliated coops if these COPAC/FAO funds become available.)

IDB Loan - Cooperative Fishing Project - The total project will cost \$4,890,000. The GOP will contribute \$1,390,000 and the IDB loan \$3,500,000 to the project. The Project is to strengthen the fishing coop movement by creating a federation, strengthening the organization and improving the equipment of 7 fishing coops.

The BDA will be the borrower and managing entity. The GOP will guarantee the loan. A division for the "Fishing Project" will be created within the "Department of Credit and Development Operations" of the Bank which will have direct responsibility for the execution of the loan.

UNCLASSIFIED

UNCLASSIFIED

E. SOCIO-ECONOMIC ANALYSIS

1. Capital Formation and Institutional Development

Part of the strategy of this Loan is to help the federations achieve self-sufficiency, as a viable intermediate credit institution in the case of FEDPA, as a strong farm supply and marketing organization in the case of COAGRO, and as a rural consumer and marketing federation in the case of FECOPAN. With the efficient utilization of Loan funds the federations will simultaneously increase their own capital resources and stimulate their institutional growth and development.

Through a program of required capitalization, equity is systematically mobilized at all levels of the cooperative movement. For example, when a sub-loan is made by FEDPA to its affiliated credit unions or by the local credit union to any of its members, the loan is automatically discounted by 5%, with the discounted portion credited to the share account of the affiliate or the coop member, for use by FEDPA or the Coop as paid-in capital. This process is repeated with every loan. Furthermore, as additional capital is mobilized through the above mechanism or through savings of new members, the affiliated credit unions deposit a portion of this additional capital into their FEDPA account to maintain a level of deposits equal to 5% of paid-in capital.

In the case of COAGRO a similar system has been established. When a sale of fertilizer or other farm inputs is made, either by COAGRO to its affiliated agricultural cooperatives or by the local cooperative to their individual members, 1% is automatically added to the sale and credited to the share account of that member. These amounts increase the Coop's or COAGRO's paid-in capital and also increase the members' vested interest in the success of his cooperative. The process is repeated with every agricultural input transaction.

UNCLASSIFIED

UNCLASSIFIED

FECOPAN is planning to adopt a similar surcharge on their wholesaling operations to increase their capitalization.

The regulations of each of the federations provide that paid-in capital cannot be withdrawn unless the member leaves his cooperative or the cooperative disaffiliates from the federation.

This system of mandatory savings represents a most important contribution by the cooperatives to their own institutional growth and financial viability. However, to avoid abuse of this equity-building feature, serious consideration will be given to placing a ceiling on the capitalization which a member must pay-in and to establishing voluntary savings accounts where deposits can be withdrawn without penalty.

At present, the existing financial infrastructure in rural Panama is not responsive to rural credit needs. It serves to channel funds away from the small farmer whose credit needs remain largely unfulfilled. Those few commercial banks with branches in rural areas capture and funnel savings to other areas of the economy--to large, commercial farmers to export-oriented industries and to the capital city. The BDA, along with the credit union movement, helps to reverse this trend and redirects savings back towards the small farmer.

Economically and in terms of redistribution of income this system of mandatory savings is highly desirable. When a member capitalizes his local cooperative an investment is made in a local business from which he derives benefits rather than channeling those savings to the city for investment. When the coop capitalizes its Federation, savings are invested in the whole coop movement. Insofar as the affiliated coop and its members benefit from the federated system, the benefits of the investment are not lost to them. Of equal though less tangible importance is the psychological value of the concepts of ownership and participation. The customer/borrower is not merely a client/debtor but an owner and participant in his coop with a voice in its management.

UNCLASSIFIED

2. Manpower Development

One of the chief hidden benefits of the proposed loan, and one whose impact will last far beyond the loan disbursement period, is the development of managerial skills and leadership capability at the grassroots level. Leadership talents and technical qualifications on the level of the rural community will be stimulated not only by the substantial technical assistance and training components of the loan, but also through the implementation of the loan, which encourages the productive use of resources on a local level.

In its ultimate sense, the word 'development' means a change in the attitudes and practices of individuals, from traditional to innovative, from subsistence to marketable surplus, from passive poverty to active improvements in individual welfare. These attitudinal changes are necessarily linked to new technological processes and depend on the availability of and familiarity with improved technology.

The spirit of cooperativism requires attitudinal changes on both an individual and a community level: Initially, a recognition and belief that life conditions can be improved through individual effort; and subsequently, that collective action can multiply individual efforts and resources. Changes on the individual and collective level are mutually reinforcing.

By fostering cooperativism, this loan creates incentives for community organization and community development. In simultaneously introducing new technology and new organization, cooperatives necessarily develop local leadership and community cooperation. These by-products of the loan will have far greater impact than the mere generation of access to production inputs; they will create a cadre within the community which is both receptive to and capable of sustaining links with sources of credit and technological innovation outside of the immediate community.

3. Economic Power and the Small Farmer

The small farmer may be relatively close to urban centers in terms of distance, but he is far removed from them in terms of traveling time. His access to markets where he can sell his produce at price-support levels or better, buy consumer goods and farm inputs at competitive prices, avail himself of technical assistance, crop price information, and obtain BDA agricultural production credit is limited by his relative immobility. Poor secondary and tertiary roads, and lack of transportation prohibit him from going to the market and make it economically unfeasible for the market to come to him.

The middle-man is accused of exploiting this situation. In some cases such criticism is justified; in others it is not. In either event, the marketing/distribution system consists of middle-men whose businesses survive on low volume/high risk. The problem and solution lies in the fact that for the majority of farmers the only feasible alternative to this low volume/high risk system is a group-supported coop system.

The purpose of this loan is simultaneously to attack the four major bottlenecks in the farm production system through group activity. The members of a coop are more likely to receive technical assistance than are individuals, owing to economies of size. Similarly, group buying power should bring down wholesale prices for consumer goods and farm inputs. In turn this should increase the volume of produce for marketing and reduce transportation and handling costs.

Group activity can result in pooled "consumer-producer power", which in other countries has been a key factor in breaking the cycle of low volume/high cost marketing and chronic poverty.

4. Benefit-Cost Analysis: Commentary

In view of the extreme price variations in agricultural inputs in recent months and the uncertain outlook with respect to future prices, it is very difficult to predict the type and volume of crops and livestock that can be profitably produced. Therefore it is difficult to do a meaningful benefit cost analysis. The reader is urged to interpret the following analysis with extreme caution.

Another difficulty is posed by the lack of production packages for Panama's basic crops. At the present time the University of Panama is experimenting with production packages more suitable for Panamanian agricultural conditions for the three staple crops. When these are developed the cost of production is expected to be reduced. A.I.D. grant funds are being utilized to assist this program.

Despite the uncertainty owing to price fluctuations, a cost-benefit analysis was attempted at current prices. Annex G provides estimated per hectare costs and benefits for the production of rice, corn and beans, the three most widely grown crops in the country. These crops are grown by large, medium and small farmers, though at different technological levels.

The estimates show that at current price-cost relationships at the small farm level, cash returns to labor from rice production of about \$325 per hectare can be obtained. The estimated returns to labor for bean production are about \$120 per hectare. The estimate for corn is \$62 per hectare. Assuming further increases in fertilizer costs ranging from 25% to 100%, only the production of rice among these three crops will be profitable for sale, given present prices.

The policy to be followed in extending credit will be based on maximizing returns to the farmer, in light of production capabilities and anticipated market conditions. Each project will be considered on a case-by-case basis in which the economic feasibility of the activity will be the primary criterion. The target group will be assisted in determining the most promising production alternatives by the technical assistance component linked to this program.

The target group currently produces and markets a relatively small fraction of the total output of the rice, corn, beans, cattle, milk and vegetables produced in the country. The increase envisioned in their total production and sales will be easily absorbed by the market at the approximate prices prevailing in the recent past, given continued high rates of growth of national income. The danger that a segment of the target group will be encouraged to produce a crop which will be in unmanageable surplus is non-existent in light of Panama's current food imports.

5. Environmental Considerations

The project will have no negative environmental impact. The thrust of the loan is to improve the rural dweller's living conditions and his farming technology. The use of improved farm inputs and agricultural techniques will make the land more productive and less susceptible to erosion. The project will encourage more intensive care of the land and reduce the incidence of slash and burn agricultural techniques. The danger of contamination by over use of fertilizers, pesticides, and herbicides is remote.

F. Financial Analysis

1. Funding Requirements

The total costs of the proposed project are summarized in the following table:

<u>Description</u>	<u>COST (Thousands of \$)</u>		
	<u>U.S.</u>	<u>GOP</u>	<u>Total</u>
Relending Fund	6,750	1,225	7,975
Technical Assistance	975	815	1,790
Training	375	765	1,140
Administrative Costs (BDA)	- -	850	850
Totals	<u>8,100</u>	<u>3,655</u>	<u>11,755</u>

2. Sources of Financing

The following tables indicate the proposed sources and projected timing of disbursements:

<u>Source</u>	<u>COST (Thousands of \$)</u>			<u>%</u>
	<u>U.S.</u>	<u>Local</u>	<u>Total</u>	
A.I.D.	2,100	6,000	8,100	68.8
MIDA	- -	1,080	1,080	9.2
BDA	- -	1,350	1,350	11.5
COOPS/FEDERATIONS	- -	1,225	1,225	10.5
Totals	<u>2,100</u>	<u>9,655</u>	<u>11,755</u>	<u>100.0</u>

UNCLASSIFIED

3. Schedule of Financing

	COSTS (Thousands of \$)			
	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>	<u>TOTAL</u>
<u>Relending Fund:</u>	<u>1,224</u>	<u>2,628</u>	<u>3,398</u>	<u>7,250</u>
FEDPA and Affiliates	<u>300</u>	<u>700</u>	<u>1,000</u>	<u>2,000</u>
FEDPA:				
Production Credits	200	600	700	1,500
Affiliated Cooperatives:				
Production Credits	<u>100</u>	<u>100</u>	<u>300</u>	<u>500</u>
FECOPAN and Affiliates	<u>124</u>	<u>478</u>	<u>648</u>	<u>1,250</u>
FECOPAN:				
Infrastructure and equipment	17	194		211
Working Capital	107	100	93	300
Affiliated Cooperatives:				
Infrastructure and equipment	-	120	260	380
Working Capital	<u>-</u>	<u>64</u>	<u>295</u>	<u>359</u>
COAGRO and Affiliates	<u>800</u>	<u>1,450</u>	<u>1,750</u>	<u>4,000</u>
COAGRO:				
Infrastructure and equipment	100	200	-	300
Working Capital	100	250	130	480
Affiliated Cooperatives:				
Infrastructure and equipment	100	300	400	800
Production	250	450	750	1,450
Working Capital	<u>250</u>	<u>250</u>	<u>470</u>	<u>970</u>
<u>Federation & Coop Contributions</u>				
<u>to Loans</u>	122	263	340	725
<u>Technical Assistance</u>	676	467	647	1,790
<u>Training</u>	415	385	340	1,140
<u>Administrative Costs (BDA)</u>	235	282	333	850
	<u>2,672</u>	<u>4,025</u>	<u>5,058</u>	<u>11,755</u>

The total project will cost \$11,705,000 of which A.I.D. is being asked to finance \$8,050,000 or 68.8% of the

UNCLASSIFIED

project. The GOP will provide \$850,000 through the BDA for the administrative costs and a \$500,000 contribution to the loan revolving fund (11.5%), and \$1,000,00 through MIDA for technical assistance and training (9.2%). The balance of the project (\$1,225,000 - 10.5%) is to be financed by the federations and cooperatives.

3. Financial Position

Since there are four major organizations, each will be treated separately followed by a general impression of the financial viability of the project as a whole.

a. Agricultural Development Bank (BDA)

The BDA was formed as a successor organization to the Institute of Economic Development (IFE) in January 1973. Financial statements are available only for 1973 since some operations of IFE were absorbed by other organizations. However, BDA did convert the 1972 operating statement to the 1973 basis for comparison purposes as shown in Annex A, Tables 2 and 3. Further changes in the financial structure of the organization will complicate comparisons between 1973 and 1974. For example, long-term loans payable have been cancelled by the GOP; the capitalization of the bank has doubled; a direct contribution of \$535,000 from MIDA will add to BDA's permanent capital. In addition, the cooperative loan revolving fund to be created by this loan will become a permanent structural feature of the bank.

These new sources of capitalization will establish the BDA as a viable financial institution. As can be seen from Annex A, Table 2, (BDA projected balance sheet), by the time the loan is fully implemented the BDA will have a debt/equity ratio of 5.80 to 1. This favorable ratio is expected to improve. As to profitability, the revolving loan fund is not expected to be profitable because of its high risk portfolio and low interest rates. The GOP underwrites the BDA's losses. A further indication of the GOP's support of this program is that the BDA plans to charge losses against operating income.

UNCLASSIFIED

In summary, the implementing agency of the revolving loan fund established under the proposed loan is financially very sound. It can be expected to implement the activities under the project without difficulty.

b. Federation of Credit Cooperatives of Panama (FEDPA)

The current financial position of FEDPA is basically sound and extremely liquid. As of the end of 1973 (See Annex A, Table 4), FEDPA had a working capital ratio of more than 16 to 1 and a high but respectable debt/equity ratio of approximately 7.5 to 1.

During the years 1972 and 1973 FEDPA managed to show a small profit and this trend is expected to continue except for small losses in 1974 and 1975 because of the gearing-up effect on expenses for their expanding operations. This trend is easily discernible from Annex A, Table 5. The projected cash-flows, Annex A, Table 6, for FEDPA appear to be quite adequate to provide for future growth and repayment of its indebtedness, both present and proposed.

The basic assumption required for the forecasts made in the annexes is that the demand for credit will increase and/or the constraints in the system will be eliminated to the extent that FEDPA will be able to move the current funds on hand and be able to use the funds to be made available under the project. The basis of this assumption is explained on page 71.

c. Federation of Agricultural Cooperatives (COAGRO)

COAGRO has made excellent progress toward becoming a viable organization as shown in their revenue growth rate, a six-fold increase in 1973 over 1972, and a near elimination of their operating deficit in 1973 (See Annex A, Table 7). Furthermore, although it is not clearly discernible from the annex, their sales through the first four months of 1974 have nearly equalled the sales for the entire year of 1973. This is particularly encouraging since their best season starts in May of each year.

UNCLASSIFIED

Based on experience to date, it seems that COAGRO should be able to make the progress shown in the projected profit and loss statements as presented in the annex.

Because of this rapid growth the normal problems of a working capital squeeze can be expected to occur as can be seen by the deterioration of their working capital ratio from 1.03 to 1 in 1971, to .90 to 1 in 1973. But, in 1974 indications are that this situation will start to reverse itself, a 1.01 to 1 in 1974, and continue to improve from thereon.

At the end of 1973, because of the accumulated operating losses, COAGRO had a negative net worth. But that is expected to improve to a positive figure of \$324,000 by the end of 1974. This would produce a debt/equity ratio of 11.11 to 1 at that time. This ratio is expected to improve to a ratio of .35 to 1 by the tenth year of operations. (See Annex A, Table 8).

Based on projected income and expected cash requirements, COAGRO should be able adequately to meet their cash requirements (Annex A, Table 9), even though there will be a near-term period of cash scarcity. This scarcity can be covered by the lines of credit already established, by using their time deposits as security and by the continuation of the government guaranty of this line of credit.

The primary assumptions of this analysis are that the government will continue to use COAGRO as its primary source for agricultural commodities and that the technical assistance being furnished under this loan and the recently approved grant project will enable COAGRO to maintain at least a four times a year inventory turnover rate and reduce accounts receivable to a value of a two-months volume of sales.

d. Federation of Consumer Cooperatives of Panama. (FECOPAN)

The FECOPAN was formed in July, 1972 but was inactive until late 1973. Therefore, the historical financial base data for the Federation is limited to the first quarter of 1974. (See Annex A, Tables 10, 11 and 12 for income statement and balance sheet for quarter ended March 31, 1974.)

Based on this data, it is difficult to draw any firm conclusions. But, based on our discussions with the management of FECOPAN, we are able to make some predictions based on the following assumptions:

- i. There is presently approximately \$4.0 million being purchased by the affiliated consumer cooperative stores. FECOPAN believes they can capture 25% of this market for CY 1975 (Sales of \$1,125,000 in 1975), and can sustain a 5% per year growth rate thereafter.
- ii. A gross margin of 13% of sales can be maintained.
- iii. Inventory is conservatively estimated at a turnover rate of four times each year.
- iv. Accounts receivable will be small (one month's sales) since most sales will be for cash.
- v. A total of eight employees will be required for 1975-1978, and two added in 1979 and one more in 1982.

The foregoing assumptions, along with a reasonable estimate of general and administrative expenses (\$25,000 in CY 1975) indicate that the Federation can operate on a profitable basis and can repay to BDA the money borrowed from the Cooperative Development Revolving Loan Fund.

4. Summary

The sum total of the individual analyses is that the project appears to be financially viable. Each of the participating federations should be able to meet its loan repayment commitments and still generate enough capital to provide for moderate expansion in the future. The BDA is shown to be a strong financial institution and is prepared to meet the high risks inherent in the type of loan portfolio that it intends to maintain.

The loan repayment prospects to A.I.D. are excellent, since the loan will be repaid by the GOP and, therefore, A.I.D. is not directly dependent on the project for the generation of funds for repayment.

G. ISSUES

The Panamanian Government as a matter of social policy has determined to provide a more equitable share of resources to the half of the nation that lives in the countryside. Since conditions for farming in this tropical country are difficult, commercial agriculture has succeeded only when heavily capitalized. In the years 1971 through 1973 the Government concentrated its resources on the poor farmers grouped together in the asentamientos campesinos. Now the Government wishes to provide resources to an additional group, those farmers who have joined together in cooperatives. Historically, there has been little lending to such groups. Much of what there has been was bad. Over and above the difficulties of the poor soils, harsh drought and heavy rainfall, the bad loans consistently resulted from the lack of adequate technical assistance and the absence of an equitable marketing system.

The major issue here is whether the inputs contemplated for financing by this loan will be sufficient to transfer the resources and create the institutions needed to break the cycle of poverty. Will COAGRO, FECOPAN and FEDPA be able to integrate their services in order to deliver the quantities of credit, technical assistance, agricultural inputs and marketing services that are needed to bring the small farmers meaningfully into a cash economy? This is the key issue, and it involves judgments on the will and the competence of those engaged in the cooperative movement in Panama. It is the Mission's judgment that the will and the necessary Governmental support are there, and that the technical assistance to be provided under the loan will create the competence. We are not sure that this loan will bring in to being a self-sustaining countrywide cooperative system that will continue without further governmental subsidies. We believe, however, that it is as much as can be done in the next three years and that even without further external resources the project will be self-sustaining in certain geographic areas.

IV. LOAN ADMINISTRATION

A. Target Implementation Dates

As stated in the loan paper and the annexes, the Mission believes the host country agencies have the desire and the capacity to carry out this project. Nonetheless, the number of parties involved in implementing this loan and the complexities of their interrelationships compel the conclusion that predictions for loan signing dates, CP satisfaction dates, and various disbursement dates would be self-deceiving.

B. Administrative Provisions and Responsibilities

1. Project Management/Monitoring Responsibilities

Periodic consultations and annual reviews by the Project Coordinating Committee will:

- a. Review baseline data and subsequent changes.
- b. Appraise the performance of the institutions in implementing the objectives of the project.
- c. Discuss and mutually agree on measures to improve project coordination and implementation procedures.

2. Loan Disbursement Procedures

AID funds for relending to the Federations and their affiliates will be deposited in a revolving fund in the BDA. Mission will analyze the request for an initial disbursement to this fund in the light of anticipated needs over the then next 90 day period. The fund will be replenished as vouchers are received showing the depletion of the fund for project purposes. The size of the fund, the rates at which sub-loans are made, and the anticipated future needs will be considered to determine if the amounts on deposit are realistic in terms of the anticipated needs over the then forthcoming months. Replenishment will be adjusted according to these determinations. No sub-loan may exceed \$100,000 unless AID agrees otherwise. Procurement of equipment will be made by letter of commitment or other means agreed to by Borrower and AID.

3. Financial Controls

It will be the responsibility of MIDA and BDA to establish financial controls to the satisfaction of AID. Audit and review of activities will be made by the USAID Controller, the AID Auditor General and the Audit Department of MIDA.

4. Reporting

In addition to regular and routine contacts of the Mission's staff with local counterparts, periodic reports will be made available to AID. These reports will cover:

- a. The financial condition of the Federations,
- b. Portfolio of the BDA and the Federations, and
- c. Progress of the technical assistance and training components of the project.

5. Procurement

Direct procurement by Borrower's agents (MIDA or BDA) of Technical Assistance or equipment under the loan will be done in accordance with AID procurement regulations. Procurement done by sub borrowers of equipment, materials or services will be in accordance with good commercial practice.

In respect to projects financed by BDA, loan applications will be sufficiently detailed to allow BDA's staff to evaluate the financial and technical feasibility of the project. BDA has an engineering staff capable of evaluating and monitoring projects. BDA will monitor the projects to assure good commercial, engineering and financial practices are followed.

6. Data Collection and Evaluation

Throughout the disbursement period of the loan MIDA will collect and process data and share it with A.I.D. and the three federations participating in this program.

A joint annual evaluation will be conducted, designed to measure the impact of the project on the target group in terms of:

- i. Increase in number of affiliated coops and membership.
- ii. Increase in number and volume of coop loans to target group.
- iii. Increase in size of coop loans.
- iv. Improvement in default and delinquency rates.
- v. Increase in the use and quantity of farm inputs by the target group, i.e. fertilizer, herbicide, pesticide, improved seeds, etc.
- vi. Increase in the volume, yield and value of production of the target group.
- vii. Increase in marketing of farm inputs and other commodities through coops.
- viii. Increase in the number of farmers marketing farm products and purchasing other commodities through coops.
- ix. Increased farmer share of retail price of farm products.
- x. Increase in income of target group.
- xi. Increase in savings of target group.
- xii. Increase in number of coops with full-time paid managers and coop staff receiving training.

- xiii. Increase in number of extension agents working as part of cooperative movement.
- xiv. Increase in number of farmers receiving technical assistance.

CHECKLIST OF STATUTORY CRITERIA

(Alliance for Progress)

In the right-hand margin, for each item, write answer or, as appropriate, a summary of required discussion. As necessary, reference the section(s) of the Capital Assistance Paper, or other clearly identified and available document, in which the matter is further discussed. This form may be made a part of the Capital Assistance Paper.

The following abbreviations are used:

FAA - Foreign Assistance Act of 1961, as amended.

FAA, 1973 - Foreign Assistance Act of 1973.

App. - Foreign Assistance and Related Agencies Appropriations Act, 1974.

MMA - Merchant Marine Act of 1936, as amended.

BASIC AUTHORITY

1. FAA § 103; § 104; § 105;
§ 106; § 107. *Is loan being made*

- a. for agriculture, rural development or nutrition;* The basic thrust of the loan is to improve the standard of living of small farmers, through the development of the rural cooperative movement to improve the availability and effectiveness of Ag Credit, farm inputs, staple foods, and technical assistance.
- b. for population planning or health;*

c. for education, public administration, or human resources development;

d. to solve economic and social development problems in fields such as transportation, power, industry, urban development, and export development;

AID 1240-2 (4-74)

e. in support of the general economy of the recipient country or for development programs conducted by private or international organizations.

COUNTRY PERFORMANCE

Progress Towards Country Goals

2. FAA § 208; §.251(b).

A. Describe extent to which country is:

(1) Making appropriate efforts to increase food production and improve means for food storage and distribution.

(2) Creating a favorable climate for foreign and domestic private enterprise and investment.

The GOP has increased its investment budget for Agriculture from 11% of national investment budget in 1971 to 18.9% in 1974. \$56.5 million is provided for food production and improved means for food storage and distribution and 4.0 million for Agricultural Education, Research and Agro-Industry. The Government is focusing on helping small farmers through rural organizations. It is actively assisting Coops by seconding GOP personnel to Rural Coop Federations and conducting training courses.

The climate for foreign and domestic private investment is favorable. Panama's banking laws and its use of the U.S. dollar as Panamanian currency have attracted most of the major international banks, and the presence of this banking community has stimulated private investment.

AID 1090-2 (4-74)

(3) *Increasing the public's role in the developmental process.*

This project is designed to increase the participation in the cooperative movement. The government has encouraged public participation in development through the use of community committees in the fields of health, education, and agricultural production.

(4) (a) *Allocating available budgetary resources to development.*

In 1973 total investment expenditures were \$300.9 million or 27.3% of the GDP of \$1,101.2 million. The GOP's 1973 investment expenditures were \$80.8 million.

(b) *Diverting such resources for unnecessary military expenditure (See also Item No. 20) and intervention in affairs of other free and independent nations.) (See also Item No. 11)*

Panama's military expenditures have been a small percentage of the national budget. Panama has not intervened in the affairs of other free and independent nations,

(5) *Making economic, social, and political reforms such as tax collection improvements and changes in land tenure arrangements, and making progress toward respect for the rule of law, freedom of expression and of the press, and recognizing the importance of individual freedom, initiative, and private enterprise.*

Growth of Panama's tax revenues is the highest in LA. From tax revenues of \$133 million in 1969 Panama went to \$225 million in 1973. This loan represents the addition to government support of privately-owned cooperative member farms to the previously supported collective asentamientos. The dialogue over policy has increased between the Government and the business community. Media criticism of the Government has appeared without reprisal.

(6) *Adhering to the principles of the Act of Bogota and Charter of Punta del Este.*

Panama is adhering to the principles of the Act of Bogota and is working to achieve the objectives of the Charter of Punta del Este. In practically every category Panama is ahead of the targets set by the Charter or approaching them.

AID 1240-2 (4-74)

(7) Attempting to repatriate capital invested in other countries by its own citizens.

Capital repatriation is not a problem in Panama at the present time. Capital flows are not restricted.

(8) Otherwise responding to the vital economic, political, and social concerns of its people, and demonstrating a clear determination to take effective self-help measures.

Yes - The Government is clearly responding, especially in the areas of housing, education, health and nutrition. This loan project is another example of the Government's response to the felt needs of the people.

B. Are above factors taken into account in the furnishing of the subject assistance?

Yes

Treatment of U.S. Citizens and Citizens of Recipient Country

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

In the one such case known, the Government has reduced the obligation from over \$100,000 to less than \$10,000 and has indicated it will complete payment in full.

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

No

102

5. FAA § 620(o); Fishermen's Protective Act. § 5. If country has seized, or imposed any penalty or sanction against, any U.S. fishing vessel on account of its fishing activities in international waters,

a. has any deduction required by Fishermen's Protective Act been made?

Action is currently underway to obtain a waiver.

b. has complete denial of assistance been considered by A.I.D. Administrator?

An action memorandum for the Administrator to obtain such consideration is a precondition to notifying the Panamanian Government of the approval of this loan.

6. FAA, 1973 § 32. To what extent does government of recipient country practice the internment or imprisonment of that country's citizens for political purposes?

The GCP does not intern or imprison citizens for political purposes.

Relations with U.S. Government and Other Nations

7. FAA § 620(a). Does recipient country furnish assistance to Cuba or fail to take appropriate steps to prevent ships or aircraft under its flag from carrying cargoes to or from Cuba?

No.

AID 1240-2 (4-74)

8. FAA § 620(b). If assistance is to a government, has the Secretary of State determined that it is not controlled by the international Communist movement? Yes, it has been so determined.
9. FAA § 620(d). If assistance is for any productive enterprise which will compete in the United States with United States enterprise, is there an agreement by the recipient country to prevent export to the United States of more than 20% of the enterprise's annual production during the life of the loan? Not applicable
10. FAA § 620(f). Is recipient country a Communist country? No
11. FAA § 620(i). Is recipient country in any way involved in (a) subversion of, or military aggression against, the United States or any country receiving U.S. assistance, or (b) the planning of such subversion or aggression? No
12. FAA § 620(j). Has the country permitted, or failed to take adequate measures to prevent, the damage or destruction, by mob action, of U.S. property? No

102

AID 7240-2 (4-74)

13. FAA § 620(l). *If the country has failed to institute the investment guaranty program for the specific risks of expropriation, in convertibility or confiscation, has the A.I.D. administration within the past year considered denying assistance to such government for this reason?* On January 23, 1961 Panama agreed to institute the investment guaranty program for the specific risks of inconvertibility expropriation and war.
14. FAA § 620(n). *Does recipient country furnish goods to North Viet-Nam or permit ships or aircraft under its flag to carry cargoes to or from North Viet-Nam?* No
15. FAA § 620(q). *Is the government of the recipient country in default on interest or principal of any A.I.D. loan to the country?* No
16. FAA § 620(t). *Has the country severed diplomatic relations with the United States? If so, have they been resumed and have new bilateral assistance agreements been negotiated and entered into since such resumption?* No
17. FAA § 620(u). *What is the payment status of the country's U.N. obligations? If the country is in arrears, were such arrearages taken into account by the A.I.D. Administrator in determining the current A.I.D. Operational Year Budget?* Panama is not delinquent with respect to dues, assessments or other obligations to the U.N. for the purposes of Article XIX of the Charter.

AID 1240-2 (4-74)

18. FAA § 481. Has the government of recipient country failed to take adequate steps to prevent narcotic drugs and other controlled substances (as defined by the Comprehensive Drug Abuse Prevention and Control Act of 1970) produced or processed, in whole or in part, in such country, or transported through such country, from being sold illegally within the jurisdiction of such country to U.S. Government personnel or their dependents, or from entering the U.S. unlawfully?
- The Government of Panama has taken steps to cooperate in the prevention of narcotics and other controlled substances being produced or processed in or transported through Panama, or sold illegally there, or entering the United States. These steps are not now regarded as inadequate.
19. FAA, 1973 § 29. If (a) military base is located in recipient country, and was constructed or is being maintained or operated with funds furnished by U.S., and (b) U.S. personnel carry out military operations from such base, has the President determined that the government of recipient country has authorized regular access to U.S. correspondents to such base?
- Not applicable.

Military Expenditures

20. FAA § 620(s). What percentage of country budget is for military expenditures? How much of foreign exchange resources spent on military equipment? How much spent for the purchase of sophisticated weapons systems? (Consideration of these points is to be coordinated with the Bureau for Program and Policy Coordination, Regional Coordinators and Military Assistance Staff (PPC/RC).)
- Less than 2% 1973 budget
Less than 2% foreign exchange resources.
No sophisticated weapons systems have been purchased.

107

AID 1240-2 (4-74)

CONDITIONS OF THE LOAN

General Soundness

21. FAA § 201(d). Information and conclusion on reasonableness and legality (under laws of country and the United States) of lending and relending terms of the loan.
- The terms are both legal and reasonable under the applicable U.S. and Panamanian standards.
22. FAA § 251(b)(2); § 251(e).
- Information and conclusion on activity's economic and technical soundness. If loan is not made pursuant to a multilateral plan, and the amount of the loan exceeds \$100,000, has country submitted to A.I.D. an application for such funds together with assurances to indicate that funds will be used in an economically and technically sound manner?
- Yes. See Annex II for application and Section III, A of CAP for discussion of economic soundness and Section III, A, B for technical soundness.
23. FAA § 251(b). Information and conclusion on capacity of the country to repay the loan, including reasonableness of repayment prospects.
- There are reasonable prospects of repayment of this loan.
24. FAA § 251(b). Information and conclusion on availability of financing from other free-world sources, including private sources within the United States.
- No alternative financing is available.

AID 1240-2 (4-74)

25. FAA § 611(a)(1). Prior to signing of loan will there be (a) engineering, financial, and other plans necessary to carry out the assistance and (b) a reasonably firm estimate of the cost to the United States of the assistance? Yes
26. FAA § 611(a)(2). If further legislative action is required within recipient country, what is basis for reasonable expectation that such action will be completed in time to permit orderly accomplishment of purpose of loan? None required.
27. FAA § 611(e). If loan is for Capital Assistance, and all U.S. assistance to project now exceeds \$1 million, has Mission Director certified the country's capability effectively to maintain and utilize the project? Yes, see Annex
- Loan's Relationship to Achievement of Country and Regional Goals
28. FAA § 207; § 251(a); § 113. Extent to which assistance reflects appropriate emphasis on: (a) encouraging development of democratic, economic, political, and social institutions; (b) self-help in meeting the country's food needs; (c) improving availability of trained manpower in the country; (d) programs designed to meet the country's health needs;
- The cooperative movement to be aided by the loan is regarded as democratic.
 - The loan is intended to increase self-sufficiency in food production.
 - The project will increase the numbers of trained agricultural extension agents, cooperative managers and staff and will also train farmer members of cooperatives.
 - Both the projects' infusion of consumable staples through FECOPAN and increase in domestic Crop production through COAGRO should help overcome Panama's health problems.

AID 1240-2 (4-74)

(e) other important areas of economic, political, and social development, including industry; free labor unions, cooperatives, and Voluntary Agencies; transportation and communication; planning and public administration; urban development, and modernization of existing laws; or
(f) integrating women into the recipient country's national economy.

This project is designed to promote and strengthen the cooperative movement in Panama both at the primary and secondary coop levels.

29. FAA § 209. Is project susceptible of execution as part of regional project? If so why is project not so executed?

No.

30. FAA § 251(b)(3). Information and conclusion on activity's relationship to, and consistency with, other development activities, and its contribution to realizable long-range objectives.

The activity is consistent with other development activities and contributes to realizable long range objectives of building a cooperative movement, building institutions to provide agricultural technology to small farmers and raising standards of living of rural dwellers (income distribution).

31. FAA § 251(b)(7). Information and conclusion on whether or not the activity to be financed will contribute to the achievement of self-sustaining growth.

The basic project emphasizes an immediate impact upon a target group and the creation of a self sustaining system to continue furnishing assistance to the target group.

32. FAA § 209; § 251(b)(8). Information and conclusion whether assistance will encourage regional development programs, and contribute to the economic and political integration of Latin America.

The cooperative credit union movement has tended to support regional programs. It is expected the other cooperatives will also.

AID 1240-2 (4-74)

33. FAA § 251(a); § 111. *Information and conclusion on use of loan to assist in promoting the cooperative movement in Latin America.* The loan is to assist in promoting and strengthening the cooperative movement in Panama. As this movement gains strength and support it is expected to support regional programs.
34. FAA § 251(h). *Information and conclusion on whether the activity is consistent with the findings and recommendations of the Inter-American Committee for the Alliance for Progress in its annual review of national development activities.* This activity is consistent with the findings and recommendations of 1973 CIAP review.
35. FAA § 281(a). *Describe extent to which the loan will contribute to the objective of assuring maximum participation in the task of economic development on the part of the people of the country, through the encouragement of democratic, private, and local governmental institutions.* The loan will contribute to the strengthening of the democratic institutions of cooperatives both at the local and national level.
36. FAA § 281(b). *Describe extent to which program recognizes the particular needs, desires, and capacities of the people of the country; utilizes the country's intellectual resources to encourage institutional development; and supports civic education and training in skills required for effective participation in governmental and political processes essential to self-government.* The project is in direct response to the needs of Panama's disadvantaged rural dwellers for increased availability for production credit, technical assistance and farm inputs. The experience in the democratic process gained as a result of cooperation constitutes training in skills required for self government.

111

AID 1240-2 (4-74)

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

This loan will promote small businesses and bring small farmers' into the commercial economy. It encourages cooperative development and is designed to improve agricultural efficiency.

38. FAA § 619. If assistance is for newly independent country; is it furnished through multilateral organizations or plans to the maximum extent appropriate?

Panama is not newly independent.

Loan's Effect on U.S. and A.I.D. Program

39. FAA § 251(b)(4); § 102. Information and conclusion on possible effects of loan on U.S. economy, with special reference to areas of substantial labor surplus, and extent to which U.S. commodities and assistance are furnished in a manner consistent with improving the U.S. balance of payments position.

Loan is not detrimental to U.S. economy. Equipment financed hereunder is expected to be U.S. Panama is the 7th largest importer the U.S. in LA spending \$286.1 million in the U.S. in 1973 against exports to the U.S. of \$66.6 million.

40. FAA § 252(a). Total amount of money under loan which is going directly to private enterprise, is going to intermediate credit institutions or other borrowers for use by private enterprise, is being used to finance imports from private sources, or is otherwise being used to finance procurements from private sources.

The entire amount of the loan is going for the benefit of cooperatives or coop members.

112

AID 1240-2 (4-74)

41. FAA § 601(b). Information and conclusion on how the loan will encourage U.S. private trade and investment abroad and how it will encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).
- Private U.S. firms will manufacture most of the equipment financed by the loan.
42. FAA § 601(d). If a capital project, are engineering and professional services of U.S. firms and their affiliates used to the maximum extent consistent with the national interest?
- The capital items to be constructed under the loan such as warehouses and stores are too small to attract U.S. engineering firms.
43. FAA § 602. Information and conclusion whether U.S. small business will participate equitably in the furnishing of goods and services financed by the loan.
- Usual procedures for facilitating small businesses participation in AID financed procurement will be followed.
44. FAA § 620(h). Will the loan promote or assist the foreign aid projects or activities of the Communist-Bloc countries?
- No.
45. FAA § 621. If Technical Assistance is financed by the loan, information and conclusion whether such assistance will be furnished to the fullest extent practicable as goods and professional and other services from private enterprise on a contract basis. If the facilities of other Federal agencies will be utilized, information and conclusion on
- Technical assistance will be provided primarily from private sources.
- 112

(11/14)

whether they are particularly suitable, are not competitive with private enterprise, and can be made available without undue interference with domestic programs.

Loan's Compliance with Specific Requirements

46. FAA § 110(a); § 208(e). Has the recipient country provided assurances that it will provide at least 25% of the costs of the program, project, or activity with respect to which the Loan is to be made? The recipient country has undertaken to contribute at least 31% of the project costs.
47. FAA § 112. Will loan be used to finance police training or related program in recipient country? No
48. FAA § 114. Will loan be used to pay for performance of abortions or to motivate or coerce persons to practice abortions? No
49. FAA § 201(d). Is interest rate of loan at least 2% per annum during grace period and at least 5% per annum thereafter? Yes
50. FAA § 604(a). Will all commodity procurement financed under the Loan be from the United States except as otherwise determined by the President? From Panama, the United States and other 941 countries as defined in the AID geographic code book.
51. FAA § 604(b). What provision is made to prevent financing commodity procurement in bulk at prices higher than adjusted U.S. market price? The use of competitive bidding procedures will prevent this.

11/14

AID 1240-2 (4-74)

52. FAA § 604(d). If the cooperating country discriminates against U.S. marine insurance companies, will loan agreement require that marine insurance be placed in the United States on commodities financed by the loan? Yes
53. FAA § 604(e). If offshore procurement of agricultural commodity or product is to be financed, is there provision against such procurement when the domestic price of such commodity is less than parity? Not applicable.
54. FAA § 604(f). If loan finances a commodity import program, will arrangements be made for supplier certification to A.I.D. and A.I.D. approval of commodity as eligible and suitable? Not applicable. Loan does not finance a commodity import program.
55. FAA § 308(a). Information on measures to be taken to utilize U.S. Government excess personal property in lieu of the procurement of new items. Loan agreement will require utilization of such items, and USAID will monitor this provision.
56. FAA § 611(b); App. § 101. If loan finances water or water-related land resource construction project or program, is there a benefit-cost computation made, insofar as practicable, in accordance with the procedures set forth in the Memorandum of the President dated May 15, 1962? No such project or program is contemplated.

115

AID 1240-2 (4-74)

57. FAA § 611(c). *If contracts for construction are to be financed, what provision will be made that they be let on a competitive basis to maximum extent practicable?* The ICI lending to cooperatives for construction projects will covenant to determine that competition is used where practicable.
58. FAA § 612(b); § 636(h). *Describe steps taken to assure that, to the maximum extent possible, the country is contributing local currencies to meet the cost of contractual and other services, and foreign currencies owned by the United States are utilized to meet the cost of contractual and other services.* Not applicable. The currency used in Panama is the dollar although it is denominated a "Balboa". There is no U.S. owned "local currency".
59. App. § 113. *Will any of loan funds be used to acquire currency of recipient country from non-U.S. Treasury sources when excess currency of that country is on deposit in U.S. Treasury?* No.
60. FAA § 612(d). *Does the United States own excess foreign currency and, if so, what arrangements have been made for its release?* No.
61. FAA § 620(g). *What provision is there against use of subject assistance to compensate owners for expropriated or nationalized property?* The only two ways in which the GOP may use the loan - paying for TA and making loans to coops preclude using the loan for compensation.

AID 1240-2 (4-74)

62. FAA § 620(k). If construction of productive enterprise, will aggregate value of assistance to be furnished by the United States exceed \$100 million? No.
63. FAA § 636(i). Will any loan funds be used to finance purchase, long-term lease, or exchange of motor vehicle manufactured outside the United States, or any guaranty of such a transaction? No.
64. App. § 103. Will any loan funds be used to pay pensions, etc., for military personnel? No.
65. App. § 105. If loan is for capital project, is there provision for A.I.D. approval of all contractors and contract terms? Not applicable
66. App. § 107. Will any loan funds be used to pay UN assessments? No.
67. App. § 109. Compliance with regulations on employment of U.S. and local personnel. (A.I.D. Regulation 7). Loan agreement and implementation letters will so provide.

68. App. § 110. Will any of loan funds be used to carry out provisions of FAA §§ 209(d) and 251(h)? No.

69. App. § 114. Describe how the Committee on Appropriations of the Senate and House have been or will be notified concerning the activity, program, project, country, or other operation to be financed by the Loan. Notification has been made through the normal congressional presentation procedures.

70. App. § 601. Will any loan funds be used for publicity or propaganda purposes within the United States not authorized by the Congress? No.

71. MMA § 901.b; FAA § 640C. Requirements will be complied with.

(a) Compliance with requirement that at least 50 per centum of the gross tonnage of commodities (computed separately for dry bulk carriers, dry cargo liners, and tankers) financed with funds made available under this loan shall be transported on privately owned U.S.-flag commercial vessels to the extent that such vessels are available at fair and reasonable rates.

(b) Will grant be made to loan recipient to pay all or any portion of such differential as may exist between U.S. and foreign-flag vessel rates? Yes..



República de Panamá

Ministerio de Planificación y Política Económica

Panamá, 23 de mayo de 1974

Nota No.310 MPyPE

Señor
Alexander Firfer
Director de la Misión USAID en Panamá
E. S. D.

Estimado señor Firfer:

Como es de su conocimiento, Técnicos de nuestro Gobierno conjuntamente con personal de la Agencia para el Desarrollo Internacional (AID), han estado analizando el movimiento cooperativo en Panamá, principalmente en lo que a Cooperativas Agropecuarias, de Ahorro y Crédito y de Consumo se refiere, con el propósito de desarrollar un Programa de Financiamiento Cooperativo, a través del cual el Gobierno podría apoyar las actividades de las cooperativas rurales.

El programa podría proveer fondos de créditos dirigidos al sector rural y orientados hacia la producción agrícola, creación de pequeñas empresas, desarrollo de infraestructura, compra de equipo y para capital de trabajo. Igualmente el proyecto proveería asistencia técnica a las federaciones de cooperativas y a sus afiliadas en los campos gerenciales-administrativos y a nivel del productor.

El monto del programa sería de \$/11,706,000 de los cuales las federaciones y sus cooperativas aportarían \$/1,225,000, el Banco de Desarrollo Agropecuario \$/1,351,000 y el Gobierno Central \$/1,000,000 haciendo un monto total de \$/3,656,000 de aportación local. Se ha estimado que para llevar adelante este programa y por ende fortalecer el movimiento cooperativo se requerirán \$/8,050,000 adicionales a la aportación local.

Nota No.310 MPyPE
23 de mayo de 1974


2.

En vista de lo anterior le estoy solicitando formalmente un préstamo por la suma de B/.5,050,000, para los propósitos de apoyar el movimiento cooperativo en Panamá. Este préstamo será transferido al B.D.A., el cual utilizaría estos recursos para los propósitos, antes descritos.

A su vez el Gobierno de Panamá, a través de fondos del Presupuesto Nacional, del Banco de Desarrollo Agropecuario y del movimiento cooperativo apoyarán al programa con una suma estimada en B/.3,656,000.

Agradeciendo la atención que le dispense a la presente, quedo de usted,

Atentamente,


Nicolás Ardito Barletta
Ministro

CERTIFICATION PURSUANT TO SECTION 611 (e) OF THE
FOREIGN ASSISTANCE ACT OF 1961, AS AMENDED

I, Alexander Firfer, principal officer of the Agency for International Development in Panama, having taken into account Panama's execution, utilization and maintenance of projects previously financed by the United States, which I have personally observed since October 1970, do hereby certify that Panama has the capabilities (in terms of human as well as financial resources) effectively to maintain and utilize the capital assistance project for Cooperative Development which I am recommending for financing with a loan of \$8,050,000.

Alexander Firfer
ALEXANDER FIRFER
23 May 1974
DATE

121

DRAFT
LOAN AUTHORIZATION

Provided From : Alliance for Progress Funds
Panama: Cooperative Development Fund

Pursuant to the authority vested in the Deputy U.S. Coordinator, Alliance for Progress, by the Foreign Assistance Act of 1961, as amended, and the delegation of authority issued thereunder, I hereby authorize the establishment of a loan pursuant to Part 1, Chapter 2, Title VI, Alliance for Progress, and Part 1, Chapter 1, Section III, of said Act, to the Government of the Republic of Panama ("Borrower") of not to exceed eight million one hundred thousand dollars (\$8,100,000) for U.S. and less developed free-world and local costs of goods and services required for the development of rural cooperatives for credit, production and consumption. This loan will be subject to the following terms and conditions:

1. Interest and Terms of Repayment

Borrower shall repay the loan to the Agency for International Development (A.I.D.) in United States Dollars within forty (40) years from the first disbursement under the loan, including a grace period of not to exceed ten (10) years. Borrower shall pay to A.I.D. in United States Dollars on the disbursed balance of the loan interest of two percent (2%) per annum during the grace period and three percent (3%) per annum thereafter.

2. Conditions Precedent to Disbursement of Funds

- a) Prior to the issuance of any commitment document or to any disbursement under the Loan, Borrower shall:
 - 1) Establish a Coordinating Committee for administering the project, which has representation from the Ministry of Agricultural Development, FEDPA, COAGRO, FECOPAN and The Agricultural Development Bank. Borrower shall furnish documentation, in form and substance satisfactory to A.I.D., showing the planned functions of the coordinating committee in coordinating loan project activities, evaluating progress of the various components of the Project, and for collecting baseline data to be used as a basis for that evaluation.
 - ii) Furnish, in form and substance satisfactory to A.I.D., a time phased implementation plan for the technical assistance, which shall include a schedule for the

122

counterpart funding to be contributed by the Borrower.

- b) Prior to the issuance of any Commitment Document or to any disbursement under the Loan for other than technical assistance and supporting equipment, Borrower shall establish a Cooperative Revolving Loan Fund in the BDA, funds to be relent exclusively to COAGRO, FECPA, FEDCOPAN, and their affiliated cooperatives including Rural Credit Unions. Borrower shall furnish, in form and substance satisfactory to A.I.D., a statement as to the general lending policies of the fund, the terms and conditions upon which subloans will be made, and a time phased implementation plan which shall include a schedule for the counterpart funding to be contributed by the Borrower.
- c) Prior to the issuance of any Commitment document or to any disbursement under the loan for an activity of FEDPA or any of its affiliates, Borrower will furnish in form and substance satisfactory to A.I.D., a statement of the lending policies and procedures to be followed by FEDPA and a plan for obtaining the participation of an increasing number of lower income farmers in this portion of the Project.
- d) Prior the issuance of any commitment document or to any disbursement under the loan for relending by an affiliate of COAGRO, BDA and AID shall agree upon a statement of lending policies and procedures which will be used for subloans to be made by COAGRO affiliates from Project funds.
- e) Prior to the issuance of any commitment document or any disbursement under the loan to finance infrastructure, the Ministry of Agricultural Development shall furnish, in form and substance satisfactory to A.I.D. and the Coordinating Committee, a plan for the coordinated use of such infrastructure between the various implementing Agencies for this Project.

123

3. Other Terms and Conditions

- a. Goods, services (except for ocean shipping) and marine insurance financed under the Loan shall have their source and origin in Panama and countries included in AID Geographic Code 941. Marine insurance may be financed under the Loan only if it is obtained on a competitive basis and any claims thereunder are payable in freely convertible currencies. Ocean shipping financed under the Loan shall be procured in any country included in AID Geographic Code 941.
- b. United States dollars utilized under the Loan to finance local currency costs shall be made available pursuant to procedures satisfactory to A.I.D.
- c. Unless A.I.D. shall otherwise agree in writing Borrower agrees to conduct, through the Coordinating Committee, annual reviews with AID of Project progress.

124

AGRICULTURAL AID
1960-61 ECON SURV

UNCLASSIFIED
Classification

REPORT DUE MAR 74
TO DIRECTOR VACDC
FROM DELOREY PANAMA 4740
LT
UNCLASS STATE 59191

AIDAC

E.O. 11652: N/A
SUBJ: IRR - COOPERATIVE DEVELOPMENT

1. THE DADC REVIEWED SUBJECT IRR ON FEBRUARY 27. THE IRR IS APPROVED SUBJECT TO THE FOLLOWING CONSIDERATIONS AND QUALIFICATIONS:

A. GOP SHOULD DESCRIBE WHERE THE COOPERATIVE MOVEMENT IN PANAMA FITS IN GOP'S OVERALL AGRICULTURAL SECTOR STRATEGY AND DEMONSTRATE GOP'S OBJECTIVES FOR COOPERATIVE DEVELOPMENT IN PANAMA. WITHIN THE FRAMEWORK OF THE COOPERATIVES SYSTEM, THE INTENSIVE REVIEW SHOULD FOCUS ON DEFINITION OF THE ROLES AND THE INDIVIDUAL COOPS. IN THIS CONNECTION, THE FOLLOWING POINTS SHOULD BE EXPLORED:

The GOP objectives in agriculture are geared to extending economic benefits to the lower portion of the rural economy. The lowest level is addressed in the subsidized collective settlements and colonization programs. The cooperative movement is aimed at the next lowest level. (See Section II B 1).

1. LONG-RANGE GOP INTENTIONS WITH RESPECT TO ITS ROLE IN THE COOPERATIVE MOVEMENT SHOULD BE DEFINED. THE PROJECT AS PRESENTLY STRUCTURED RESULTS IN A HIGHLY CENTRALIZED, GOP DIRECTED MOVEMENT WHICH MAY BE APPROPRIATE DURING THE MOVEMENTS DEVELOPMENT PHASE BUT NOT FOR THE LONG RUN.

The GOP has shown its commitment to an independent cooperative movement by the degree to which it has allowed institutions to move independently as they develop. FEDPA, the most experienced organization, has a great degree of independence. COAGRO has been receiving a critically needed level of support from the GOP in its early years and is maturing under this tutelage. FECOPAN will require GOP assistance for its early years as have the others. (See Sections III 1, 2, 3).

125

2. THE QUESTION OF WHY THE TA FOR THE COOPERATIVE SYSTEM (AS DISTINCT FROM EXTENSION SERVICE ASSISTANCE TO FARMERS) SHOULD BE CHANNELLED THROUGH MIDA SHOULD BE DISCUSSED ALONG WITH AN ANALYSIS OF THE EFFECT THIS HAS ON THE ROLE OF THE FEDERATIONS (WHICH TRADITIONALLY PROVIDES THIS SERVICE) AND THEIR RELATIONSHIPS WITH AFFILIATED MEMBERS. THE MECHANISM FOR OBTAINING AND PROVIDING T.A. SHOULD BE CLEARLY SET FORTH.

MIDA is making the TA available to the federations and primary cooperatives on a grant basis. MIDA is also attaching the 60 extension agents to FEDPA and COAGRO.

3. IF THE EVENTUAL GOP GOAL IS TO SERVE AS A "WHOLESALE" OF CREDIT AND TA, WITH THE FEDERATIONS "RETAILING" SAME TO THEIR MEMBER COOPS, THE INTENSIVE REVIEW SHOULD EXAMINE THE WAYS IN WHICH PROGRAM DESIGN CAN PROVIDE FOR THE FEDERATIONS TO EVENTUALLY TAKE OVER THIS RETAILING ROLE. ASSUMING FEDPA IS THE ONLY FEDERATION PRESENTLY ABLE TO RENDER TA, THE PLANS SHOULD SHOW HOW COAGRO AND FECOPAN CAN BE STRENGTHENED TO THE POINT WHERE THEY TOO CAN RENDER TA TO THEIR MEMBER COOPS.

MIDA is bearing the bulk of the administrative costs of providing TA to the federations and the cooperatives with the idea that the federations will assume this function as they acquire the resources of skill and cash. (See Sections II C 2 and III B 1).

4. ALL OF THE INTEREST RATE SPREADS INVOLVED (IFR PAGE 8), OR THE ABSENCE OF SUCH SPREAD IN A CASE WHERE A SPREAD MIGHT SEEM APPROPRIATE, SHOULD BE JUSTIFIED IN TERMS OF OBJECTIVES FOR THE INSTITUTIONS AND PROGRAM COSTS. IF COAGRO AND FECOPAN ARE TO BE DEVELOPED AND MADE SELF-SUSTAINING, THEY WILL NEED AN INTEREST SPREAD ON LOANS TO THEIR MEMBER COOPS.

COAGRO and FECOPAN's financial self-sufficiency will be based on their earnings from their wholesale operations. Interest rate spread will be used for the sub-loans made by FECOPAN and COAGRO affiliates. (See Section II C 3 1).

5. THE IDEA OF HAVING COOP MEMBERS ON THE BDA BOARD OF DIRECTORS SHOULD BE CONSIDERED.

Federation members will participate in BDA credit committees and will be consulted on lending policies. (See Sections I and III B 2).

6. THE INTEREST RATE STRUCTURE AS PROPOSED IN THE IRP APPEARS TO BE DEFICIENT FROM A NUMBER OF STANDPOINTS. AS A BASIC PRINCIPAL, INTEREST RATES TO END-BORROWERS MUST BE SET AT A LEVEL WHICH WILL ENABLE THE COOPERATIVE MOVEMENT TO MAKE THE NECESSARY TRANSITION FROM RELIANCE ON CONCESSIONAL BORROWING TO BORROWING FROM COMMERCIAL SOURCES FOR LENDING CAPITAL. THE PROPOSED 12 PERCENT RATE FOR THE CREDIT UNIONS APPEARS TO SATISFY THIS REQUIREMENT WHEREAS THE 8 PERCENT RATE FOR FEDPA AND COAGRO DOES NOT. SECONDLY, THE PROPOSED DIFFERENCE IN SUB-LENDING RATES WILL INEVITABLY PENALIZE THE CREDIT UNIONS WHERE SUB-BORROWERS HAVE THE OPTION ALSO OF DEALING WITH A COAGRO AFFILIATED COOP. WHILE AT PRESENT THERE MAY BE GEOGRAPHIC SEPARATION OF INSTITUTIONS WHICH MINIMIZES THIS PROBLEM, IT IS UNREALISTIC TO EXPECT THAT THIS SITUATION CAN CONTINUE. FINALLY, THE INTEREST RATE STRUCTURE SHOULD NOT DISCOURAGE COOPERATIVE AFFILIATION WITH FEDERATIONS BY PERMITTING NON-AFFILIATED COOPERATIVES TO OBTAIN LOWER INTEREST RATES ON SUB-LOANS FROM BOA THAN FROM THE FEDERATIONS.

Interest rates to end-borrowers from FEDPA affiliates and COAGRO affiliates will both be 12%. (See Section II C 3a).

B. ASSUMING AN ADEQUATE INTEREST RATE STRUCTURE, IT WOULD APPEAR THEN THAT FEDPA AND COAGRO COULD PROVIDE MUTUAL SUPPORT IN A NUMBER OF WAYS (E.G., AN INDIVIDUAL FARMER MIGHT BORROW FROM A FEDPA MEMBER COOP CREDIT UNION AND PURCHASE SEED AT A COAGRO MEMBER COOP STORE). THE INTENSIVE REVIEW SHOULD EXAMINE THIS POTENTIAL RELATIONSHIP CLOSELY AND DEMONSTRATE HOW IT COULD BE FURTHERED:

1. ONE POSSIBILITY WOULD BE TO ENCOURAGE CO-LOCATION OF FEDPA AND COAGRO FACILITIES IN SOME OR ALL RURAL AREAS.

2. A MORE DRASTIC SOLUTION MIGHT BE MERGER TO THE TWO FEDERATIONS IN WHOLE OR IN PART.

3. IF, INSTEAD, IT WERE FOUND MORE DESIRABLE TO HAVE COAGRO OR ITS MEMBER COOPS PROVIDE CREDIT FOR PURCHASES AT ITS MEMBER COOP STORES, AN ANALYSIS WOULD BE REQUIRED TO DEMONSTRATE HOW COAGRO COULD BE BROUGHT TO THE POINT WHERE IT HAS THE CAPABILITY OF THEN FURNISHING CREDIT.

Cooperation among the federations is acknowledged as a necessary operating principle. MIDA has agreed with this principle and has proposed a confederation of all of the federations to assure this cooperation. (See Sections I and III C 4).

C. INCLUSION OF FECOPAN; WITH ALL ITS RAMIFICATIONS, SHOULD BE CAREFULLY EXAMINED IN THE INTENSIVE REVIEW. IN GENERAL, CONSUMER COOPERATIVES HAVE BEEN SUCCESSFUL ONLY WHERE OUTSTANDING MANAGEMENT HAS

BEEN AVAILABLE. THE ULTIMATE TEST HAS BEEN THEIR ABILITY TO COMPETE WITH PRIVATELY OPERATED STORES WITHOUT GOVERNMENT SUBSIDY. IN THE ABSENCE OF GOOD MANAGEMENT AND SOUND FINANCING, CONSUMER COOPERATIVES REQUIRE INCREASING GOVERNMENT SUBSIDY WHICH IS NOT SOMETHING WE WOULD WANT TO ENCOURAGE. THUS, WE CONCLUDE THAT

THE BEST APPROACH TO HANDLING THE CONSUMER COOP ASPECT OF THIS PROPOSAL WOULD BE TO REDUCE THE SCOPE OF THE INITIAL INPUTS, WITH AID FUNDS BEING CONCENTRATED ON THE T.A. ASPECTS (WHICH WILL BE VITAL) INCLUDING PERHAPS REDUCED FOREIGN PROCUREMENT REQUIREMENTS. THE GOP IN TURN WOULD INCREASE ITS CONTRIBUTION TO THE PROJECT BY PROVIDING WORKING CAPITAL FOR FECOPAN. THE CONCEPT HERE IS TO BEGIN ON A LESS AMBITIOUS SCALE, CONCENTRATING ON MANAGEMENT TRAINING AND ADVICE, WITH THE IDEA OF SEEING HOW THE COOPERATIVES DEVELOP, NOT ONLY FINANCIALLY, BUT IN TERMS OF REACHING THE TARGET GROUP AS WELL. TO THE EXTENT THAT FECOPAN IS INCLUDED IN THE PROJECT, THE FOLLOWING SHOULD BE ADDRESSED:
1. IT SHOULD BE DETERMINED WHETHER FECOPAN IS POTENTIALLY VIABLE WITHIN THE TIME-FRAME ENVISIONED FOR THIS PROJECT. (UNLIKE THE CREDIT UNION AND AGRICULTURE COOPERATIVE FEDERATIONS, FECOPAN IS DESCRIBED IN THE IRR AS "EMBRYONIC").

The GOP has agreed to increase its input to the working capital for FECOPAN. The reduced AID loan component for infrastructure, the coordination with COAGRO and FRIGOMIDA give reasonable prospects for FECOPAN to perform a valuable service in rural Panama. (See Sections I and III C 3).

2. THERE SHOULD BE AN EXAMINATION REFLECTED IN THE CAP AS TO WHETHER THE PROBLEM TO BE ADDRESSED BY FECOPAN IS A SERIOUS ONE OF ABSOLUTE SHORTAGE OF SUPPLY IN THE RURAL AREAS AND/OR INADEQUATE COMPETITION AMONG PRIVATE RETAIL MERCHANTS.

The problem to be addressed by FECOPAN is the reduction of the costs of consumer items and basic foodstuffs in rural areas. (See Section III C 3).

3. IT SHOULD BE DEMONSTRATED HOW FECOPAN, AS A COOP FOR CONSUMERS OF FOODSTUFFS, WILL REACH THE TARGET GROUP WHO APPEAR TO BE EXISTING NOW IN A BARTER ECONOMY.

The rural membership of FECOPAN affiliates are clearly in the target group - 60% have a per capita income of less than \$300, 85% less than \$400. (See Section III C 3).

4. THE QUESTION AS TO WHY, IN ITS MARKETING ASPECT, THIS PARTLY URBAN AND PARTLY RURAL FEDERATION WILL NOT TEND TO FAVOR URBAN FOOD CONSUMERS OVER RURAL FOOD PRODUCERS SHOULD BE TREATED.

FECOPAN's membership is currently 58% rural and its basic reason for creation and its basis for GOP support is its rural motivation. The loan will be used exclusively for strengthening FECOPAN's rural delivery ability. (See Section III C 3).

5. FECOPAN'S NATURE AS A TRUE COOPERATIVE MOVEMENT (RATHER THAN MERELY SOME MERCHANTS ADOPTING A COOPERATIVE FRONT) SHOULD BE EXAMINED, ALONG WITH THE QUESTION OF POTENTIAL RISK OF "UNFAIR", GOP/AID SUBSIDIZED COMPETITION WITH THE PRIVATE SECTOR.

FECOPAN's origins are in support of genuinely cooperative stores. (See Section III C 3).

D. THE MATTER OF WHETHER OR NOT A.I.D.'S LOW-INCOME "TARGET MAN" IS GOING TO BE REACHED DIRECTLY THROUGH THIS PROJECT OR, PERHAPS, ONLY INDIRECTLY THROUGH STRENGTHENING INSTITUTIONS THAT MAY EVENTUALLY REACH HIM, SHOULD BE CAREFULLY EXAMINED IN THE INTENSIVE REVIEW. IT WAS NOTED IN THE IRR THAT HALF OF THE COOP MEMBERS HAVE GROSS ANNUAL FAMILY INCOME OVER DOLS 1,000 OR A GROUP WORTH OF OVER DOLS 10,000 AND THAT THE PROJECT ENVISIONS REACHING LESS THAN HALF OF THE COOP MEMBERS. EXPERIENCE TENDS TO SHOW THAT THE MORE AFFLUENT/SOPHISTICATED MEMBERS ARE BEST ABLE TO AVAIL THEMSELVES OF COOP SERVICES. TO THIS END, THE POLICIES OF EDA AND THE COOPS, INCLUDING THE REQUIREMENTS OF SECURITY FOR END-BORROWER LOANS, SHOULD BE EXAMINED CAREFULLY TO AVOID POTENTIAL FREEZING OUT OF POOR BUT OTHERWISE SATISFACTORY BORROWERS.

Per capita annual income of the target group of the loan is \$250. The cooperative movement appears to be the most practical source of credit to the poor farmer. (See Section II B 3).

E. CERTAIN OTHER ASPECTS OF THE SUB-LENDING POLICIES OF PRIVATE BORROWERS LIKEWISE REQUIRE FURTHER EXAMINATION:

1. USAID SHOULD INVESTIGATE THE FEASIBILITY OF REQUIRING THAT NONE OF THE FEDERATIONS BE PERMITTED TO USE A.I.D.-FINANCED RESOURCES DIRECTLY FOR THE BENEFIT OF THEIR URBAN MEMBER COOPS.

None of the federations will be permitted to use the loan for resources directly benefitting their urban member coops. (See Section I).

2. ARRANGEMENTS FOR THE FINANCING BY THE FEDERATIONS OF ACQUISITION BY INDIVIDUALS OF SHARES IN COOPS SHOULD BE CLARIFIED. THIS DOES NOT APPEAR TO BE AN APPROPRIATE USE OF LOAN FUNDS.

Loan funds will not be used for acquisition by individuals of shares in coops. (See Section II C 2).

3. BOARD SHOULD ENSURE THAT AID FUNDS WILL NOT BE USED TO FINANCE THE LOANS SIMPLY FOR THE PURCHASE OF GROCERIES AT THE CONSUMER COOPS.

Loan funds will not be used to finance consumer grocery purchase. (See Section II C 2).

F. SEVERAL ASPECTS OF THE OVERALL PROJECT STRUCTURE WILL REQUIRE ATTENTION DURING THE INTENSIVE REVIEW:

1. THE FINANCIAL PLAN CALLS FOR 60 AGRONOMISTS. IT SHOULD BE DETERMINED WHETHER THESE WILL BE INCREMENTAL TO THE PANAMA AGRICULTURAL SECTOR OR MERELY TRANSFERRED FROM OTHER POSITIONS. THE MECHANISM FOR MAKING THEIR ASSISTANCE AVAILABLE TO END USERS SHOULD BE MADE CLEAR, WHETHER DIRECTLY TO INDIVIDUAL FARMERS OR THROUGH THE COOPS ON A GROUP BASIS.

The 60 agronomists will be incremental to the extent feasible. Some agronomists currently assigned to lower priority efforts will be reassigned to the cooperative effort. All will be assigned to the Federations. (See Sections I and III B 1).

2. THE LOAN SHOULD NOT PROVIDE FOR FINANCING OF GOP EXTENSION SERVICE SALARIES. *Should not pay for extension salaries*

The loan does not pay for GOP extension service salaries. (See Section II C 2).

3. THE INTENSIVE REVIEW SHOULD INCLUDE A THOROUGH FINANCIAL ANALYSIS OF THE FEDERATIONS AND LDA INCLUDING TEN YEAR CASH FLOW PROJECTIONS. ASSUMPTIONS UNDERLYING THE FINANCIAL PROJECTIONS SHOULD BE DESCRIBED IN THE CAP.

Financial analyses are included as Section III F.

4. A MECHANISM FOR GATHERING BASELINE DATA AND EVALUATING THE DESIGN AND FINANCING OF THE PROJECT SHOULD BE BUILT-IN FROM THE INCEPTION.

A PART OF THE EVALUATION PROCESS SHOULD BE AN ANNUAL PROJECT REVIEW INCLUDING THE GOP AGENCIES, COOPERATIVE FEDERATIONS AND REPRESENTATIVE INDIVIDUAL COOPS.

A mechanism for the collection of baseline data and evaluation is included as Section IV B 5.

G. THE USAID SHOULD ATTEMPT TO OBTAIN A GREATER LOCAL DIRECT CONTRIBUTION WITHOUT CAUSING WITHDRAWAL OF THE GOP OFFER TO CAPITALIZE THE SYSTEM INDIRECTLY BY MAKING PRINCIPAL REPAYMENTS OUT OF GENERAL REVENUES. THIS ADDITIONAL HOST COUNTRY INPUT MIGHT TAKE THE FORM OF A GOP CASH CONTRIBUTION TO THE LENDING FUND PERHAPS LINKED TO FECOPAN'S WORKING CAPITAL REQUIREMENTS DISCUSSED EARLIER. ALSO, ANY GOP ADMINISTRATIVE EXPENSES CLAIMED AS PART OF THEIR CONTRIBUTION MUST BE SHOWN TO BE RELATED TO PROJECT.

GOP contribution has been increased in the area of cash for FECOPAN working capital. (See Sections I and II C).

H. IN VIEW OF THE FACT THIS LOAN WILL GREATLY STRENGTHEN THE ENTIRE PANAMANIAN COOPERATIVE MOVEMENT, INCLUDING THE THREE FEDERATIONS, THE GOP SHOULD BE ASKED TO GUARANTY THE PREVIOUS FEDPA LOAN (037), AID WOULD BE WILLING TO TWO-STEP LOAN 037 IF THE GOP SO DESIRES.

Despite efforts to obtain a guaranty of the fully disbursed 037 loan, the GOP has not agreed.

I. THE CAP SHOULD CONTAIN USAID'S COMMENTS ON THE EXTENT AND EVIDENCE OF GOP COMMITMENT TO EACH ELEMENT OF THE PROPOSED PROGRAM.

The GOP has repeatedly evidenced its support of each of the loan segments. (See Section II A 2).

J. PLEASE DESCRIBE IN THE CAP RELATIONSHIP BETWEEN PROPOSED LOAN PROJECT AND EXISTING OR CONTEMPLATED GRANT TA PROJECTS.

Only a small portion of the TA contemplated in the project will be financed by grant. (See sections II C 3 and III C 1, and Annex).

131

AGRICULTURAL DEVELOPMENT BANK
BALANCE SHEET
(In Thousands of \$)

	ACTUAL		PROJECTED									
	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983
Assets												
Current Assets:												
Cash	2,174	3,055	2,618	2,514	2,557	2,563	2,570	2,028	2,639	2,660	2,687	2,753
Receivables	18,327	20,582	25,751	30,094	32,322	34,714	32,616	31,929	32,170	30,495	31,145	31,418
Less: Reserve for Bad Debts	(1,306)	(1,329)	(1,232)	(1,572)	(1,342)	(1,378)	(1,325)	(1,327)	(1,348)	(1,360)	(1,364)	(1,410)
Inventories	17	13	15	1	13	13	13	17	13	13	13	13
	<u>19,212</u>	<u>22,321</u>	<u>28,152</u>	<u>31,052</u>	<u>33,550</u>	<u>35,912</u>	<u>33,874</u>	<u>33,247</u>	<u>33,474</u>	<u>31,808</u>	<u>32,481</u>	<u>32,774</u>
Other Assets:												
Plant Property & Equipment	3,143	3,233	3,140	2,985	2,827	2,671	2,905	2,749	2,593	2,437	2,281	2,125
Investments	1,949	1,693	120	131	139	139	139	139	139	139	139	139
Others	252	104	232	232	237	238	238	242	244	243	243	249
	<u>5,344</u>	<u>5,030</u>	<u>3,511</u>	<u>3,351</u>	<u>3,203</u>	<u>3,048</u>	<u>3,282</u>	<u>3,128</u>	<u>2,976</u>	<u>2,819</u>	<u>2,663</u>	<u>2,513</u>
Total Assets	<u>24,556</u>	<u>27,351</u>	<u>31,663</u>	<u>34,403</u>	<u>36,753</u>	<u>38,960</u>	<u>37,156</u>	<u>36,375</u>	<u>36,450</u>	<u>34,627</u>	<u>35,144</u>	<u>35,287</u>
Liabilities & Capital												
Current Liabilities:												
Loans Payable - Current	542	382	550	821	833	943	1,229	764	953	289	291	163
Interest Payable	105	112	49	49	49	49	49	49	49	49	49	49
Bonds Payable	208	253	209	209	209	209	209	209	209	209	209	209
Other Payables	207	187	162	136	137	136	138	136	136	136	134	136
	<u>1,062</u>	<u>889</u>	<u>970</u>	<u>1,215</u>	<u>1,228</u>	<u>1,337</u>	<u>1,625</u>	<u>1,158</u>	<u>1,347</u>	<u>683</u>	<u>683</u>	<u>557</u>
Long Term Liabilities:												
Deposits	107	97	732	625	639	678	707	685	682	720	706	710
Loans Payable - Long Term	7,759	7,767	-	-	-	-	-	-	-	-	-	-
Bonds Payable	2,585	2,395	2,167	1,958	1,748	1,539	1,330	1,121	911	762	493	284
Due To Other Government Agencies	2,028	4,517	4,059	3,466	2,859	2,175	1,184	675	-	-	-	-
Other Liabilities	-	1,872	-	-	-	-	-	-	-	-	-	-
	<u>12,479</u>	<u>16,648</u>	<u>6,958</u>	<u>6,047</u>	<u>5,246</u>	<u>4,392</u>	<u>3,221</u>	<u>2,481</u>	<u>1,593</u>	<u>1,422</u>	<u>1,199</u>	<u>994</u>
Total Liabilities	<u>13,541</u>	<u>17,537</u>	<u>7,928</u>	<u>7,262</u>	<u>6,474</u>	<u>5,729</u>	<u>4,846</u>	<u>3,639</u>	<u>2,940</u>	<u>2,105</u>	<u>1,882</u>	<u>1,551</u>
Capital:												
Capital	9,633	9,247	22,384	22,384	22,384	22,334	22,384	22,384	22,384	22,384	22,384	22,384
Reserves	1,275	650	1,250	2,775	3,119	2,453	1,483	1,157	2,650	1,656	2,364	2,773
Charges or Credits to prior years	-	-	-	-	-	-	-	-	-	-	-	-
Profit or (Loss) for period	107	(83)	(434)	227	389	609	658	610	691	657	729	794
Contribution From MIDA	-	-	535	535	535	535	535	535	535	535	535	535
Contribution from GOP - Coop. Loan Fund	-	-	-	1,724	3,852	7,250	7,250	7,250	7,250	7,250	7,250	7,250
	<u>11,015</u>	<u>9,814</u>	<u>23,735</u>	<u>27,145</u>	<u>30,279</u>	<u>33,231</u>	<u>32,310</u>	<u>32,736</u>	<u>33,510</u>	<u>32,522</u>	<u>33,262</u>	<u>33,736</u>
Total Liabilities & Capital	<u>24,556</u>	<u>27,351</u>	<u>31,663</u>	<u>34,403</u>	<u>36,753</u>	<u>38,960</u>	<u>37,156</u>	<u>36,375</u>	<u>36,450</u>	<u>34,627</u>	<u>35,144</u>	<u>35,287</u>

AGRICULTURAL DEVELOPMENT BANK
INCOME STATEMENT

(In Thousands of \$)

	ACTUAL		PROJECTED									
	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983
Income:												
Interest Received	601	570	1,383	1,556	1,707	1,918	1,931	1,945	2,061	2,073	2,185	2,307
Other Income	60	31	130	78	86	95	106	118	131	140	152	160
	<u>\$ 661</u>	<u>601</u>	<u>1,513</u>	<u>1,634</u>	<u>1,793</u>	<u>2,013</u>	<u>2,037</u>	<u>2,063</u>	<u>2,192</u>	<u>2,213</u>	<u>2,337</u>	<u>2,467</u>
Expenses:												
Salaries	646	787	1,837	1,961	1,999	2,057	2,100	2,163	2,258	2,337	2,431	2,528
Interest Expense	121	113	314	283	226	227	203	211	219	213	201	206
Depreciation and Amortization	85	107	220	22	22	22	22	22	22	22	22	22
General Operating Expenses	202	232	660	726	798	805	814	820	828	836	842	841
Other Expenses	26	33	49	15	19	13	20	17	14	12	12	12
	<u>1,080</u>	<u>1,272</u>	<u>3,080</u>	<u>3,007</u>	<u>3,064</u>	<u>3,124</u>	<u>3,159</u>	<u>3,233</u>	<u>3,341</u>	<u>3,420</u>	<u>3,508</u>	<u>3,609</u>
Income (Loss) from Operations	<u>(419)</u>	<u>(671)</u>	<u>(1,567)</u>	<u>(1,373)</u>	<u>(1,271)</u>	<u>(1,111)</u>	<u>(1,122)</u>	<u>(1,170)</u>	<u>(1,149)</u>	<u>(1,207)</u>	<u>(1,171)</u>	<u>(1,142)</u>
Other Income and Expenses:												
Import Differential	-	401	-	-	-	-	-	-	-	-	-	-
Rental Income	229	214	75	-	-	-	-	-	-	-	-	-
Less: Real Estate Costs	(71)	(55)	(99)	-	-	-	-	-	-	-	-	-
Sales of Land and Houses	187	141	325	-	-	-	-	-	-	-	-	-
Less: Cost of Sales	(169)	(113)	(260)	-	-	-	-	-	-	-	-	-
Income from Transfer of Property	-	-	-	400	400	400	400	400	400	400	400	400
	<u>176</u>	<u>588</u>	<u>41</u>	<u>400</u>	<u>400</u>	<u>400</u>	<u>400</u>	<u>400</u>	<u>400</u>	<u>400</u>	<u>400</u>	<u>400</u>
Net Income (Loss)	<u>(243)</u>	<u>(83)</u>	<u>(1,526)</u>	<u>(973)</u>	<u>(871)</u>	<u>(711)</u>	<u>(722)</u>	<u>(770)</u>	<u>(749)</u>	<u>(807)</u>	<u>(771)</u>	<u>(742)</u>
Central Government Subsidy	<u>350</u>		<u>1,092</u>	<u>1,200</u>	<u>1,260</u>	<u>1,320</u>	<u>1,380</u>	<u>1,380</u>	<u>1,440</u>	<u>1,464</u>	<u>1,500</u>	<u>1,530</u>
Net	<u>107</u>	<u>(33)</u>	<u>(434)</u>	<u>227</u>	<u>389</u>	<u>609</u>	<u>658</u>	<u>610</u>	<u>691</u>	<u>657</u>	<u>729</u>	<u>788</u>

AGRICULTURE DEVELOPMENT BANK
CASH FLOW
(In Thousands of \$)

	ACTUAL	PROJECTED									
	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983
Cash (Beginning)	<u>2,174</u>	<u>3,055</u>	<u>2,618</u>	<u>2,516</u>	<u>2,557</u>	<u>2,563</u>	<u>2,570</u>	<u>2,628</u>	<u>2,639</u>	<u>2,650</u>	<u>2,667</u>
Net Income (Loss)	(83)	(434)	227	389	609	658	610	691	657	729	794
Add: Depreciation	107	220	22	22	22	22	22	22	22	22	22
Increase In Accrued Expenses	7	(63)	-	-	-	-	-	-	-	-	-
Cash Available From Operations	<u>31</u>	<u>277</u>	<u>249</u>	<u>411</u>	<u>631</u>	<u>680</u>	<u>632</u>	<u>713</u>	<u>679</u>	<u>751</u>	<u>816</u>
Sub-total	<u>2,205</u>	<u>2,778</u>	<u>2,867</u>	<u>2,927</u>	<u>3,188</u>	<u>3,243</u>	<u>3,202</u>	<u>3,341</u>	<u>3,318</u>	<u>3,411</u>	<u>3,503</u>
Contributions From MIDA	-	535	-	-	-	-	-	-	-	-	-
Contributions From GOP Coop. Loan Fund	-	-	1,224	2,628	3,398	-	-	-	-	-	-
Increase in Capital	-	13,137	-	-	-	-	-	-	-	-	-
Sale of Investments	256	1,554	-	-	-	-	-	-	-	-	-
Disposal of Other Assets	152	-	138	134	134	2,045	823	138	1,822	134	134
Increase In Debts to Other Agencies	2,489	-	-	-	-	-	-	-	-	-	-
Increase In Other Liabilities	1,872	1	270	15	110	288	-	189	-	2	2
Increase In Deposits	-	635	-	10	39	29	-	-	38	-	4
Total Cash Available	<u>6,974</u>	<u>18,640</u>	<u>4,499</u>	<u>5,714</u>	<u>6,359</u>	<u>5,605</u>	<u>4,025</u>	<u>3,668</u>	<u>5,178</u>	<u>3,547</u>	<u>3,643</u>
Cash Applied											
Payment of Loans Payable	152	7,599	-	-	-	-	465	-	664	-	128
Refund of Deposits	10	-	103	-	-	-	22	3	-	14	-
Payment of Bonds Due	190	227	210	210	209	209	209	210	209	209	209
Reduction In Capital	386	-	-	-	-	-	-	-	-	-	-
Reserve Transfers	732	(683)	(1,959)	(117)	1,055	1,579	184	(83)	1,645	(11)	320
Increase In Receivables	2,232	6,266	3,003	2,458	2,356	-	-	220	-	646	227
Purchase of Property & Equipment	197	127	-	-	-	256	-	-	-	-	-
Payment of Debts to Other Agencies	-	458	599	601	684	991	509	675	-	-	-
Payment of Other Liabilities	-	1,872	27	-	-	-	-	-	-	-	-
Increase In Other Assets	20	156	-	5	2	-	8	4	-	2	6
Total Cash Applied	<u>3,919</u>	<u>16,022</u>	<u>1,983</u>	<u>3,157</u>	<u>4,306</u>	<u>3,035</u>	<u>1,397</u>	<u>1,029</u>	<u>2,518</u>	<u>860</u>	<u>890</u>
Cash (Ending)	<u>3,055</u>	<u>2,618</u>	<u>2,516</u>	<u>2,557</u>	<u>2,563</u>	<u>2,570</u>	<u>2,628</u>	<u>2,639</u>	<u>2,660</u>	<u>2,687</u>	<u>2,753</u>

FEDERATION OF CREDIT COOPERATIVES OF PANAMA

BALANCE SHEET

(In Thousands of \$)

Assets	Actual			Projected									
	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983
Current Assets :													
Cash	127	601	1,030	238	93	333	435	224	268	321	200	288	340
Overdrafts - Centralized Credit Union Accounts	-	96	158	200	200	200	250	250	250	250	250	250	250
Loans Receivable - Net	345	627	511	524	952	1,235	1,614	1,527	1,871	1,760	1,751	1,859	1,907
Other Receivable	8	11	4	3	3	3	3	3	4	4	4	4	4
Inventories	3	2	3	3	3	4	4	4	5	5	6	6	6
Prepaid Expenses	1	1	1	3	3	3	3	3	3	3	3	3	3
Total Current Assets	<u>484</u>	<u>1,338</u>	<u>1,707</u>	<u>971</u>	<u>1,254</u>	<u>1,778</u>	<u>2,339</u>	<u>2,011</u>	<u>2,341</u>	<u>2,343</u>	<u>2,214</u>	<u>2,410</u>	<u>2,510</u>
Other Assets:													
Investments	1	12	13	13	15	15	17	17	18	19	21	22	23
Long Term Loans Receivable-Net	312	406	413	1,209	1,231	1,423	1,714	2,206	2,012	2,173	2,532	2,574	2,776
Accounts Receivable - Others	-	14	-	-	-	-	-	-	-	-	-	-	-
Deferred Assets - Net	-	-	5	5	4	4	3	3	2	2	1	1	-
Total Other Assets	<u>313</u>	<u>432</u>	<u>431</u>	<u>1,227</u>	<u>1,250</u>	<u>1,442</u>	<u>1,734</u>	<u>2,226</u>	<u>2,032</u>	<u>2,194</u>	<u>2,554</u>	<u>2,597</u>	<u>2,799</u>
Property, Plant & Equipment - Net	57	19	119	111	103	102	111	92	83	81	71	62	60
Total Assets	<u>854</u>	<u>1,789</u>	<u>2,257</u>	<u>2,309</u>	<u>2,607</u>	<u>3,322</u>	<u>4,134</u>	<u>4,329</u>	<u>4,456</u>	<u>4,618</u>	<u>4,839</u>	<u>5,069</u>	<u>5,369</u>
Liabilities & Members Equity													
Current Liabilities:													
Loan Payable - Current	51	-	-	-	-	-	51	103	103	103	186	186	186
Overdraft	30	-	-	-	-	-	-	-	-	-	-	-	-
Centralized Credit Union Deposits	138	79	86	94	99	104	107	109	110	111	112	113	114
Accounts Payable - Others	33	20	1	1	1	1	1	1	2	2	2	2	2
Accrued Liabilities	-	-	14	-	-	-	-	-	-	-	-	-	-
Total Current Liabilities	<u>252</u>	<u>99</u>	<u>101</u>	<u>95</u>	<u>100</u>	<u>105</u>	<u>159</u>	<u>213</u>	<u>215</u>	<u>216</u>	<u>300</u>	<u>301</u>	<u>302</u>
Other Liabilities:													
Legal Reserves	-	-	-	-	-	-	-	19	55	95	143	207	284
Loan Payable	500	1,522	1,900	1,900	2,100	2,700	3,349	3,246	3,143	3,040	2,854	2,668	2,482
Other Liabilities	5	5	5	-	-	-	-	-	-	-	-	-	-
Total Other Liabilities	<u>505</u>	<u>1,527</u>	<u>1,905</u>	<u>1,900</u>	<u>2,100</u>	<u>2,700</u>	<u>3,349</u>	<u>3,246</u>	<u>3,198</u>	<u>3,135</u>	<u>2,997</u>	<u>2,875</u>	<u>2,766</u>
Members Equity:													
Certificates of Membership	102	166	235	327	430	531	670	789	915	1,065	1,249	1,481	1,746
Donations AID	27	27	27	27	27	27	27	27	27	27	27	27	27
General Operating Fund	129	193	262	354	457	558	657	816	942	1,092	1,276	1,508	1,773
Total Members Equity	<u>(32)</u>	<u>(30)</u>	<u>(11)</u>	<u>(40)</u>	<u>(50)</u>	<u>(41)</u>	<u>(11)</u>	<u>35</u>	<u>101</u>	<u>175</u>	<u>265</u>	<u>385</u>	<u>528</u>
Total Liabilities & Members Equity	<u>854</u>	<u>1,789</u>	<u>2,257</u>	<u>2,309</u>	<u>2,607</u>	<u>3,322</u>	<u>4,134</u>	<u>4,329</u>	<u>4,456</u>	<u>4,618</u>	<u>4,839</u>	<u>5,069</u>	<u>5,369</u>

FEDERATION OF CREDIT COOPERATIVES OF PANAMA
INCOME STATEMENT
(IN THOUSANDS OF \$)

	ACTUAL					PROJECTED							
	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983
Gross Income From Operations:													
Interest Income	27	113	140	168	194	235	292	342	365	374	392	424	450
Annual Dues	14	15	20	27	30	36	43	50	68	78	90	100	113
Accounting Services	4	6	7	9	10	10	11	11	12	12	12	13	13
Other	2	4	3	16	29	23	31	34	37	37	39	42	44
Total Operating Income	<u>47</u>	<u>138</u>	<u>170</u>	<u>220</u>	<u>263</u>	<u>310</u>	<u>377</u>	<u>437</u>	<u>482</u>	<u>501</u>	<u>533</u>	<u>579</u>	<u>620</u>
Operating Expenses:													
Personnel Costs	44	58	73	102	107	122	128	134	141	148	156	163	172
Interest Expenses	11	27	34	38	43	63	105	130	127	124	121	114	107
Other	51	56	54	113	127	120	118	113	117	121	123	125	127
Total Operating Expenses	<u>106</u>	<u>141</u>	<u>161</u>	<u>253</u>	<u>277</u>	<u>305</u>	<u>351</u>	<u>377</u>	<u>385</u>	<u>393</u>	<u>400</u>	<u>402</u>	<u>406</u>
Income From Operations	<u>(59)</u>	<u>(3)</u>	<u>9</u>	<u>(33)</u>	<u>(14)</u>	<u>5</u>	<u>26</u>	<u>60</u>	<u>97</u>	<u>108</u>	<u>133</u>	<u>177</u>	<u>214</u>
Other Income:													
Subsidy AID	21	-	-	-	-	-	-	-	-	-	-	-	-
Subsidy MIDA	5	4	3	-	-	-	-	-	-	-	-	-	-
Miscellaneous Income	1	1	6	4	4	4	4	5	5	6	6	6	6
Total Other Income	<u>27</u>	<u>5</u>	<u>9</u>	<u>4</u>	<u>4</u>	<u>4</u>	<u>4</u>	<u>5</u>	<u>5</u>	<u>6</u>	<u>6</u>	<u>6</u>	<u>6</u>
NET INCOME (LOSS)	<u>(32)</u>	<u>2</u>	<u>18</u>	<u>(29)</u>	<u>(10)</u>	<u>9</u>	<u>30</u>	<u>65</u>	<u>102</u>	<u>114</u>	<u>139</u>	<u>183</u>	<u>220</u>

FEDERATION OF CREDIT COOPERATIVES OF PANAMA

CASH FLOW

(In Thousands of \$)

	ACTUAL		PROJECTED									
	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983
Cash(Beginning)	127	601	1,030	238	93	333	435	224	208	321	200	288
Net Income (Loss)	2	19	(29)	(10)	9	30	65	102	114	139	183	220
Add: Depreciation	4	3	8	8	9	9	9	9	10	10	10	10
Increase in Accrued Expenses	-	14	-	-	-	-	-	-	-	-	-	-
Cash Available from Operations	6	36	(21)	(2)	18	39	74	111	124	149	193	230
Sub-Total	133	637	1,009	236	111	372	509	335	332	470	353	518
Decrease in Other Receivables	-	-	1	1	-	1	-	2	-	1	-	-
Increase in Central Deposits	-	7	8	5	5	3	2	1	1	1	1	1
Proceeds A.I.D. Loan	1,022	378	-	200	600	700	-	-	-	-	-	-
Proceeds from Membership Certificates	64	69	92	103	101	139	119	126	150	184	232	265
Sales of Assets	34	-	-	-	-	-	-	-	-	-	-	-
Repayment of Loans Receivable	369	883	525	825	1,100	1,400	1,500	1,900	2,000	2,100	2,100	2,200
Total Cash Available	1,622	1,974	1,635	1,370	1,917	2,615	2,130	2,364	2,493	2,756	2,726	2,984
Cash Applied:												
Loans Made	745	774	1,334	1,275	1,575	2,120	1,855	2,050	2,050	2,450	2,250	2,450
Increase in Accts.	113	41	-	-	-	-	-	-	-	-	-	-
Investments	11	1	-	2	-	2	-	1	1	2	1	1
Other	(1)	6	-	-	-	-	-	-	-	-	-	-
Decrease in Central Deposits	59	-	-	-	-	-	-	2	-	1	-	-
Decrease in Accts. Payable	13	19	-	-	-	-	-	-	-	-	-	-
Loan Principle Repayments	81	-	-	-	-	-	-	-	-	-	-	-
Purchase of Assets	-	103	-	-	9	8	51	103	103	103	185	186
Increase in Overdrafts	-	-	42	-	-	50	-	-	8	-	2	7
Increase in Prepaid Expenses	-	-	2	-	-	-	-	-	-	-	-	-
Decrease in Other Liabilities	-	-	19	-	-	-	-	-	-	-	-	-
Total Cash Applied	1,021	1,944	1,397	1,277	1,584	2,180	1,906	2,155	2,162	2,536	2,438	2,644
Cash(Ending)	601	1,030	238	93	333	435	224	208	321	200	288	340

FEDERATION OF AGRICULTURE COOPERATIVES

BALANCE SHEET

(In Thousands of \$)

Assets	Actual			Projected									
	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983
Current Assets													
Cash	8	11	35	173	610	464	370	376	959	656	1,202	1,511	1,068
Notes Receivable	200	91	7	-	-	-	-	-	-	-	-	-	-
Accounts Receivable	19	106	716	1,320	1,570	1,550	1,730	1,820	1,910	2,000	2,110	2,210	2,320
Accounts Receivable Saving Certif.	-	10	20	25	30	35	40	45	50	55	60	65	70
Interest Receivable	8	4	8	42	-	-	-	-	-	-	-	-	-
Inventory	68	118	1,855	1,750	2,010	2,110	2,220	2,320	2,440	2,570	2,700	2,830	2,970
Total Current Assets	303	340	2,641	3,310	4,220	4,359	4,280	4,571	5,359	5,281	6,072	6,616	6,448
Property Plant & Equipment	11	12	256	256	356	556	556	530	498	498	698	698	698
Less Depreciation	-	1	3	30	60	92	124	144	146	156	206	256	306
Net	11	11	248	226	296	464	432	386	352	342	492	442	392
Other Assets:													
Time and Security Deposits	201	201	400	400	500	750	850	950	500	750	1,000	2,000	4,000
Prepaid Expenses	-	-	5	5	5	5	5	5	5	5	5	5	5
Total Other Assets	201	201	405	405	505	755	855	955	505	755	1,005	2,005	4,005
Total Assets	515	552	3,294	3,941	5,021	5,478	5,647	5,912	6,216	6,378	7,569	9,063	10,845
Liabilities, Reserves & Capital													
Current Liabilities													
Bank Overdraft	-	-	8	-	-	-	-	-	-	-	-	-	-
Notes Payable	-	193	1,176	1,764	3,000	2,500	2,000	1,500	900	-	-	-	-
Discounted Accounts Receivable	107	69	-	-	-	-	-	-	-	-	-	-	-
Loans Payable	-	25	976	781	-	-	-	-	-	-	-	-	-
Accounts Payable	185	153	751	700	670	700	740	780	820	860	900	940	990
Interest Payable	-	14	31	15	11	8	4	-	-	-	-	-	-
Total Current Liabilities	292	454	2,942	3,260	3,681	3,208	2,744	2,280	1,720	860	900	940	990
Other Liabilities													
Deferred Dividends Payable*	-	-	-	52	156	263	392	543	715	911	1,126	1,363	1,636
Loans Payable	200	175	400	300	400	500	675	570	465	360	238	221	204
Other Liabilities	2	2	1	5	5	5	5	5	5	5	5	5	5
Total Other Liabilities	202	177	401	357	561	768	1,072	1,118	1,185	1,276	1,369	1,589	1,845
Total Liabilities	494	631	3,343	3,617	4,242	3,976	3,816	3,398	2,905	2,136	2,269	2,529	2,835
Capital													
Certificates of Membership	1	17	28	145	375	616	916	1,273	1,698	2,206	2,801	3,525	4,412
Legal Reserves	2	2	2	115	340	572	851	1,177	1,549	1,972	2,435	2,945	3,534
Donations	9	8	32	64	64	64	64	64	64	64	64	64	64
Retained Earnings (Deficit)	9	(106)	(111)	-	-	-	-	-	-	-	-	-	-
Total Capital	21	(79)	(49)	324	779	1,252	1,831	2,514	3,311	4,242	5,300	6,534	8,010
Total Liabilities, Reserves & Capital	515	552	3,294	3,941	5,021	5,478	5,647	5,912	6,216	6,378	7,569	9,063	10,845

* To be paid after 10 years.

132

FEDERATION OF AGRICULTURAL COOPERATIVES

INCOME STATEMENT

(In Thousands of \$)

	Actual			Projected									
	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983
Gross Income From Operations													
Sales	345	300	1,830	8,612	9,253	9,716	10,202	10,712	11,247	11,810	12,400	13,020	13,671
Less Cost of Goods Sold	<u>314</u>	<u>307</u>	<u>1,696</u>	<u>7,666</u>	<u>8,050</u>	<u>8,453</u>	<u>8,876</u>	<u>9,319</u>	<u>9,785</u>	<u>10,275</u>	<u>10,788</u>	<u>11,327</u>	<u>11,894</u>
Net Profit from Sales	<u>31</u>	<u>(7)</u>	<u>134</u>	<u>1,146</u>	<u>1,203</u>	<u>1,263</u>	<u>1,326</u>	<u>1,393</u>	<u>1,462</u>	<u>1,535</u>	<u>1,612</u>	<u>1,693</u>	<u>1,777</u>
Operating Expenses													
Salaries & Other Personnel Costs	12	24	40	142	142	145	149	152	155	158	160	165	171
Building Expenses	4	9	17	33	36	39	39	41	41	44	44	47	49
Interest Expense	6	19	79	429	292	342	282	222	155	68	12	11	10
Depreciation & Amortization	-	1	7	22	30	32	32	32	14	10	50	50	50
Administrative Expenses	<u>20</u>	<u>77</u>	<u>66</u>	<u>127</u>	<u>104</u>	<u>105</u>	<u>106</u>	<u>106</u>	<u>108</u>	<u>109</u>	<u>110</u>	<u>112</u>	<u>114</u>
Total Operating Expenses	<u>42</u>	<u>130</u>	<u>209</u>	<u>753</u>	<u>604</u>	<u>663</u>	<u>608</u>	<u>553</u>	<u>473</u>	<u>389</u>	<u>376</u>	<u>385</u>	<u>394</u>
Income from Operations	<u>(11)</u>	<u>(137)</u>	<u>(75)</u>	<u>393</u>	<u>599</u>	<u>600</u>	<u>718</u>	<u>840</u>	<u>989</u>	<u>1,146</u>	<u>1,235</u>	<u>1,308</u>	<u>1,383</u>
Other Income													
Interest Income	1	15	33	40	45	63	80	90	73	63	87	150	300
Contributions from International Donors	14	2	(4)	-	-	-	-	-	-	-	-	-	-
Other Income	<u>4</u>	<u>2</u>	<u>41</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Other Income	<u>19</u>	<u>19</u>	<u>70</u>	<u>40</u>	<u>45</u>	<u>63</u>	<u>80</u>	<u>90</u>	<u>73</u>	<u>63</u>	<u>87</u>	<u>150</u>	<u>300</u>
Net Income (Loss)	<u>8</u>	<u>(118)</u>	<u>(5)</u>	<u>433</u>	<u>644</u>	<u>663</u>	<u>798</u>	<u>930</u>	<u>1,062</u>	<u>1,209</u>	<u>1,323</u>	<u>1,458</u>	<u>1,683</u>
Less Legal Reserves				<u>113</u>	<u>225</u>	<u>232</u>	<u>279</u>	<u>326</u>	<u>372</u>	<u>423</u>	<u>463</u>	<u>510</u>	<u>589</u>
Available for Distribution				320	419	431	519	604	690	786	860	948	1,094
Less Prior Year Deficits				<u>111</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Available				<u>209</u>	<u>419</u>	<u>431</u>	<u>519</u>	<u>604</u>	<u>690</u>	<u>786</u>	<u>860</u>	<u>948</u>	<u>1,094</u>
Certificates of Memberships Distributed				(105)	(210)	(216)	(260)	(302)	(345)	(393)	(430)	(474)	(547)
Cash Dividends Paid				(52)	(105)	(108)	(130)	(151)	(173)	(197)	(215)	(237)	(274)
Deferred Dividends				(52)	(104)	(107)	(129)	(151)	(172)	(196)	(215)	(237)	(273)
Undistributed				<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>

FEDERATION OF AGRICULTURAL COOPERATIVES

CASH FLOW

(In Thousands of \$)

	ACTUAL		P R O J E C T E D									
	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983
Cash (Beginning)	8	11	35	173	610	464	370	376	959	656	1,202	1,511
Net Income (Loss)	(118)	(5)	433	644	663	798	930	1,062	1,209	1,323	1,458	1,683
Add: Adjustment to Prior Year Income	2	-	-	-	-	-	-	-	-	-	-	-
Depreciation	1	7	22	30	32	32	32	14	10	50	50	50
Cash Available from Operations	(115)	2	455	674	695	830	962	1,076	1,219	1,373	1,508	1,733
Sub-Total	(107)	13	490	847	1,305	1,294	1,332	1,452	2,178	2,029	2,710	3,244
Decrease in Inventory	-	-	105	-	-	-	-	-	2,178	2,029	2,710	3,244
Decrease in Notes Receivable	109	84	7	-	-	-	-	-	-	-	-	-
Bank Overdraft	-	8	-	-	-	-	-	-	-	-	-	-
Increase in Notes Payable	193	983	588	1,236	-	-	-	-	-	-	-	-
Increase in Loans Payable	-	1,176	-	-	350	-	-	-	-	-	-	-
Increase in Accounts Payable	-	598	-	-	30	40	40	40	40	40	40	50
Increase in Interest Payable	14	17	-	-	-	-	-	-	-	-	-	-
Increase in Members Certificates (Paid:In)	16	11	12	20	25	40	55	80	115	165	250	340
Increase in Donations	-	24	32	-	-	-	-	-	-	-	-	-
Increase in Interest Receivable	4	-	-	42	-	-	-	-	-	-	-	-
Decrease in Time & Security Deposits	-	-	-	-	-	-	-	-	-	-	-	-
Sale of Other Assets	5	-	-	-	-	-	14	20	-	-	-	-
Total Cash Available	234	2,914	1,234	2,145	1,710	1,374	1,441	2,042	2,333	2,234	3,000	3,634
Cash Applied												
Payment of Notes Payable	-	-	-	-	500	500	500	600	900	-	-	-
Increase in Misc. Accounts Receivable	97	624	643	255	85	85	95	95	115	115	105	115
Increase in Inventory	50	1,737	-	260	100	110	110	110	130	130	130	140
Increase in Property Plant & Equip.	3	226	-	100	200	-	-	-	-	200	-	-
Increase in Other Assets	2	18	-	-	-	-	-	-	-	-	-	-
Decrease in Misc. Accounts Payable	70	70	71	34	3	4	4	-	-	-	-	-
Decrease in Loans Payable	-	-	295	681	-	75	105	105	105	122	17	17
Increase in Time & Security Deposits	-	199	-	100	250	100	100	-	250	250	1,000	2,000
Decrease in Prepaid Expenses	-	5	-	-	-	-	-	-	-	-	-	-
Decrease in Donations	1	-	-	-	-	-	-	-	-	-	-	-
Dividends Paid	-	-	52	105	108	130	151	173	197	215	237	274
Total Cash Applied	223	2,879	1,061	1,535	1,246	1,004	1,065	1,083	1,677	1,032	1,489	2,546
Cash (Ending)	11	35	173	610	464	370	376	959	656	1,202	1,511	1,668

1980

FEDERATIONS OF CONSUMER COOPERATIVES OF PANAMA

BALANCE SHEET

(In Thousands of Dollars)

	<u>Actual</u> As of March 31, 1974	<u>PROJECTED</u>									
		<u>1974</u>	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>
<u>Assets</u>											
Current Assets:											
Cash	1	12	33	187	335	315	296	285	287	290	362
Accounts Receivable	6	19	94	98	103	109	114	120	125	131	138
Inventory	8	25	244	257	270	283	297	312	327	344	361
Total Current Assets	15	56	371	542	708	707	707	717	739	755	861
Fixed Assets:											
Property, Buildings & Equipment	-	-	17	211	211	211	211	211	211	211	211
Less: De preciation	-	-	1	7	20	33	46	59	72	85	98
Net Fixed Assets	-	-	16	204	191	178	165	152	139	126	113
Total Assets	15	56	387	746	899	885	872	869	878	881	974
<u>Liabilities</u>											
Current Liabilities:											
Accounts Payable	1	33	163	171	180	188	158	208	219	229	241
Saving Certificates	2	10	10	10	10	10	10	10	10	10	10
Notes Payable	-	-	-	-	77	77	77	77	84	6	6
Total Current Liabilities	3	43	173	181	267	275	285	295	313	245	257
Long-Term Liabilities:											
Notes Payable	-	-	124	418	434	357	280	203	119	113	107
Deferred Dividends Payable	-	1	27	46	63	81	99	121	146	172	201
Total Long-Term Liabilities	-	1	151	464	497	438	379	324	265	285	308
Total Liabilities	3	44	324	645	764	713	664	619	578	530	565
<u>Capital</u>											
Capital	10	12	63	101	135	172	208	250	300	351	409
Retained Earnings	2	-	-	-	-	-	-	-	-	-	-
Total Capital	12	12	63	101	135	172	208	250	300	351	409
Total Liabilities & Capital	15	56	387	746	899	885	872	869	878	881	974

141

FEDERATIONS OF CONSUMER COOPERATIVES OF PANAMA

CASH FLOW

(In Thousands)

	4/1 To 12/31 1974	1975	1976	1977	1978	1979	1980	1981	1982	1983
	P R O J E C T E D									
Cash Beginning	<u>1</u>	<u>12</u>	<u>33</u>	<u>187</u>	<u>335</u>	<u>315</u>	<u>296</u>	<u>285</u>	<u>287</u>	<u>280</u>
Net income	3	103	76	68	73	72	85	99	102	116
Add: Depreciation	-	1	6	13	13	13	13	13	13	13
Cash Available from Operations	<u>3</u>	<u>104</u>	<u>82</u>	<u>81</u>	<u>86</u>	<u>85</u>	<u>98</u>	<u>112</u>	<u>115</u>	<u>129</u>
Sub-Total	4	116	115	268	421	400	394	397	402	409
Increase in Accounts Payable	32	130	8	9	8	10	10	11	10	12
Increase in Saving Certificates	8	-	-	-	-	-	-	-	-	-
Increase in Notes Payable	-	124	294	93	-	-	-	-	-	-
Total Cash Available	<u>44</u>	<u>370</u>	<u>417</u>	<u>370</u>	<u>429</u>	<u>410</u>	<u>404</u>	<u>408</u>	<u>412</u>	<u>421</u>
Cash Applied										
Increase in Accounts Receivable	13	75	4	5	6	5	6	5	6	7
Increase in Inventory	17	219	13	13	13	14	15	15	17	17
Increase in Property Building & Equipment	-	17	194	-	-	-	-	-	-	-
Increase in Retained Earnings	2	-	-	-	-	-	-	-	-	-
Cash Dividends Paid	-	26	19	17	18	18	21	24	25	29
Payment of Notes Payable	-	-	-	-	77	77	77	77	84	6
Total Cash Applied	<u>32</u>	<u>337</u>	<u>230</u>	<u>35</u>	<u>114</u>	<u>114</u>	<u>119</u>	<u>121</u>	<u>132</u>	<u>59</u>
Cash (Ending)	<u>12</u>	<u>33</u>	<u>187</u>	<u>335</u>	<u>315</u>	<u>296</u>	<u>285</u>	<u>287</u>	<u>280</u>	<u>362</u>

ANNEX B
1 of 7 pagesILLUSTRATIVE
DESCRIPTION OF TECHNICAL ASSISTANCE
REQUIREMENTS

The technical cooperation under this project will be carried out through institutional contracts or directly by individual consultants. MIDA will select the specialists and directly contract for the technical assistance pursuant to established A.I.D. loan funded technical assistance guidelines. The consultants and contract periods are proposed as follows:

A. Grant Funded Assistance to COAGRO

1. Financial Management. (One technician for 12 months). A Resident Advisor will work at both the Federation level and through COAGRO staff with the local cooperatives. The technician will advise on administrative/financial needs including systems and procedures for mechanized accounting, purchasing, credit, cash flow and budgeting. He will also train Federation staff, cooperative managers and accountants.

The project also provides commodity assistance for a radio communications network and financial support for a Panamanian counterpart team. These funds are already obligated.

2. Institutional Development. (One technician for 12 months). An Advisor strong in member relations and education who thoroughly understands cooperative organization and the linkage necessary between the local affiliates and the Federation. An important part of the technical assistance must be directed towards the improvement of the economic advantages of membership in the Federation. The primary cooperatives should also have enough at stake in COAGRO - through paid-in capital and Vital services received - to support it loyally because it belongs to them. AFRPROP amendment will be submitted early in FY 75 to provide funds for this activity.

- b. Grant Funded Assistance to FEDPA. The credit union federation is a considerably more mature institution than the two other sister federations. It has received, over the last ten years, a substantial amount of specialized technical assistance. However, the preceding statement does not imply that FEDPA is technically self-sufficient, it only implies that its needs are specialized and short-term.

The Latin American Credit Union Confederation (COLAC), based in Panama and financially assisted by AID/Washington, is planning to meet the technical assistance requirements currently identified by FEDPA in:

- a. Utilization of electronic data processing by-product information for management reporting;
- b. Design of a statistical reporting system permitting quantitative analysis of the movement's growth; and
- c. Preparation of a membership drive and savings mobilization campaign.

c. Loan Funded Assistance

1. Evaluation Specialist (one technician for 12 man-months) to design a project evaluation plan, develop a system for the gathering of baseline data and progress indicators and assist in subsequent evaluations.
2. General Cooperative Administration (Two technicians, for 51 man-months). Assistance inputs to provide some or all of the following:
 - a. Administrative/financial training of MIDA field staff and mobile team instructors, FECOPAN, FEDPA and COAGRO personnel;

- b. Assistance in the concepts and preparation of feasibility studies;
 - c. Personnel administration including policy articulation, job descriptions, wage and salary scales, etc.;
 - d. Management reports and financial statement analysis; and
 - e. Policy and operating procedures guidance for board of directors, executive staff and general membership.
2. Rural Administration and Farm Management. (One technician for 18 months). The introduction of farm management work is designed to assist the production agents and managers of pre-cooperatives and cooperatives to:
- a. Identify the crop and livestock activities which are appropriate for the small farmers in his area;
 - b. Measure the profitability and resource requirements of recommended technological changes;
 - c. Identify the major constraints which are slowing the development process, such as the lack of technical information, credit, supplies, etc.;
 - d. Be able to use farm management techniques to evaluate the effects of price and technological changes on the most profitable use of resources at the farm level; and
 - e. Increase small farmer incomes through the intensification of the use of the available resources for production using techniques of farm management.
3. Agricultural Credit and Financial Systems. (One technician for 18 months). The specialist will assist in:
- a. The design of a credit system tailor-made for agricultural cooperatives. The system will include, among other things:
 - i. Preparation of the loan application;
 - ii. Description of functions of the different intermediate credit institutions;

- iii. Training in loan analysis, approval and end-use controls; and
 - iv. Collection procedures, rescheduling and refinancing.
- b. The automation of loan portfolios with adequate audit trail;
 - c. The design of a system which will assist the managers in the analysis of the financial situation of their respective cooperatives' operations;
 - d. Assist in the organization, at the federation level, of a service for analysis and advice to the affiliated cooperatives in their financial needs; and
 - e. Assist in organizing and developing a credit mechanism which will include a rediscount source.
4. Farm Supplies Procurement and Distribution Systems. (Two technicians for 34 man-months).
- a. Assist in the design, or improve the existing basic structure, for the sale of farm supplies;
 - b. Perfect procurement procedures;
 - c. Rationalize inventories so as to maximize turnover;
 - d. Improve distribution methods so as to minimize handling;
 - e. Mechanize accounting procedures where feasible to assure prompt ordering and billing.
5. Farm Production Marketing System. (One technician for 12 months). In the marketing area it is anticipated that the following technical assistance inputs will be required:
- a. Identify products most advantageous to market within the system of government regulation and price controls;
 - b. Survey of cooperatives to determine present and potential production by specific product line;
 - c. Determine domestic and export markets for products; and
 - d. Recommend guidelines for a comprehensive cooperative marketing program.

6. Cooperative Credit System. (One technician for 12 months). This expert will work exclusively with BDA as an advisor to their newly established Cooperative Credit Department. The objective of this assistance is not only to help the Bank adopt efficient and effective procedures for handling cooperative credit but should look beyond to the ultimate objective of the GOP, namely, spinning off the BDA Cooperative Credit Department as the seed capital for a cooperative bank owned and controlled by the cooperatives themselves.
7. Short-Term Consulting Services. (12 man-months). A reserve of resources for sui generis expertise to be utilized as needed.
8. Financial and Management Auditing. (One technician for 36 months). The advisor will help institutionalize the Audit Section of MIDA's Department of Cooperatives. The principal functions that will require rationalization are:
 - a. Establish auditing standards appropriate for each type of cooperative;
 - b. Develop (train) auditing personnel necessary to meet required standards;
 - c. Design quantity and type of audit reports needed for presentation of statistical information;
 - d. Advise and assist in the design of printed, uniform accounting procedures for cooperatives;
 - e. Prepare an audit procedure check-list to serve as a guide for more comprehensive and uniform audits;
 - f. Design a training program for:
 - i. Auditors for standards of auditing and instruction on bookkeeping procedures;
 - ii. Department of Cooperatives central office and field staff;
 - iii. Federation and local cooperatives personnel designated to keep records; and
 - iv. Other agency personnel who work regularly with cooperatives.

- g. Carry out a feasibility study for a national electronic system that would ultimately centralize the accounting records of all cooperatives in one central processing office.
9. Institutional Development of FECOPAN. (Two to three technicians for up to three man-months). An institutional growth projection should at least cover the three year disbursement period of the loan and attempt to identify among other factors:
- a. The target clientele;
 - b. The membership promotional and educational needs;
 - c. Volume of operations necessary for a viable institutional development;
 - d. The necessary capital base and infrastructure investment;
 - e. Estimated budget at different levels of operations and anticipated cash-flow;
 - f. The personnel requirements for effective management;
 - g. Sales mix, pricing and credit policy;
 - h. Services to be offered to affiliates; and
 - i. Marketing dimensions of agricultural products.

EXHIBIT 1

UNCLASSIFIED

ANNEX B

Page 7 of 7

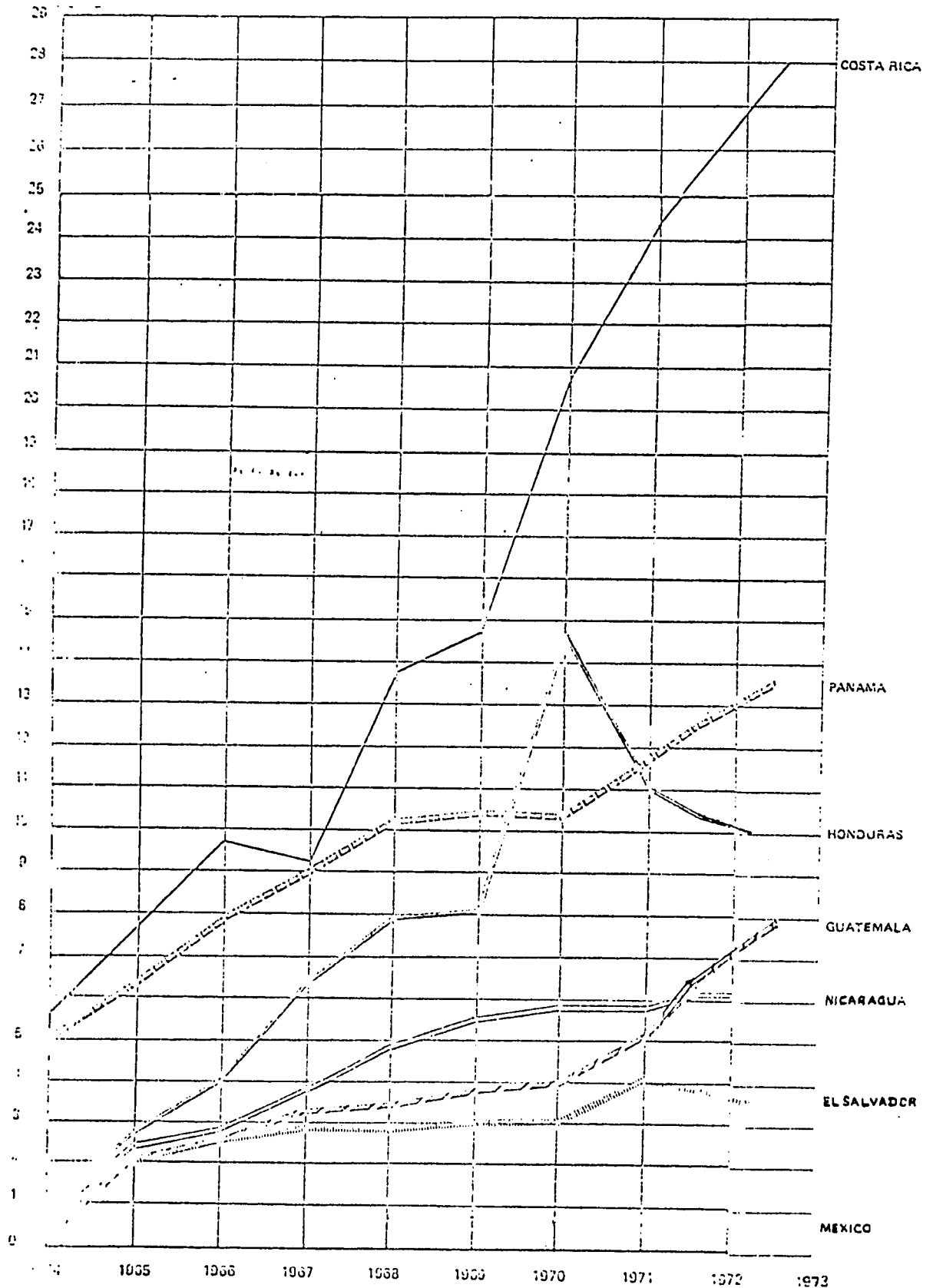
Institutional Development - Financial Summary

	<u>AID</u>	<u>GOP</u>	<u>COOPS</u>	<u>TOTAL</u>
	(Amounts in \$ 000)			
A. <u>External Technical Assistance</u>				
1. MIDA Dept. of Cooperatives				
18 man/months - Agricultural credit & Fin'l Systems				
18 man/months - Rural Administration & Farm Mgt.				
36 man/months - Fin'l & Mgt. Auditing				
12 man/months - Short term Consultants	\$ 302.0	\$ 220.0		\$ 522.0
2. BDA				
12 man/months - Cooperative Credit	36.0	-	-	36.0
3. COAGRO				
15 man/months - Gen'l Coop. Admin.				
10 man/months - Procurement & Distribution				
12 man/months - Production Mkts.	112.0	-	-	112.0
4. FECOPAN				
36 man/months - Coop Admin./ Fin'l Systems				
24 man/months - Procurement, Inventory Control & Distr.	180.0	-	-	180.0
5. Supporting Equipment for MIDA	<u>10.0</u>	<u>-</u>	<u>-</u>	<u>10.0</u>
	\$ 640.0	\$ 220.0		\$ 860.0
B. <u>Regulatory Functions</u>				
MIDA Audit Section	\$ 160.0	\$ 45.0	-	\$ 205.0
C. <u>Agronomic & Credit Assistance</u>				
1. MIDA 60 Production Agents	-	440.0	110.0	550.0
2. Supporting Equipment	<u>175.0</u>	<u>-</u>	<u>-</u>	<u>175.0</u>
	\$ 175.0	\$ 440.0	\$ 110.0	\$ 725.0
D. <u>Mobile Education Teams</u>				
1. MIDA Team Staff	\$ -	\$ 200.0	-	\$ 200.0
2. Supporting Equipment	25.0	-	-	25.0
3. Courses and Seminars	<u>-</u>	<u>175.0</u>	<u>175.0</u>	<u>350.0</u>
	\$ 25.0	\$ 375.0	\$ 175.0	\$ 575.0
E. <u>Manager Trainee's Subsidy</u>				
MIDA Decreasing Salary Subsidy to local managers and accountants trainees	<u>350.0</u>	<u>-</u>	<u>215.0</u>	<u>565.0</u>
GRAND TOTAL	<u>\$ 1,350.0</u>	<u>\$ 1,080.0</u>	<u>\$ 500.0</u>	<u>2,930.0</u>

150-

PENETRATION OF SAVINGS AND LOANS COOPERATIVES
INTO THE POPULATION OF CENTRAL AMERICAN COUNTRIES
1964 - 1972

No. of coop
members per
1000 inhabitants



157

SCALE OF COOPERATIVE OPERATIONS BY TYPES AND REGIONS, 1967 AND 1973*

	Number Coops				Number Members			
	1967	% Total	1973	% Total	1967	% Total	1973	% Total
<u>FEDERATIONS: Affiliated Coops</u>								
<u>Credit Unions (FEDPA)</u>								
Urban (Panama-Colon)	44	51.%	43	54%	4,326	42.%	8,861	47%
Rural	43	49.%	36	46%	5,885	58.%	9,778	53%
Total	<u>87</u>	<u>100.0%</u>	<u>79</u>	<u>100%</u>	<u>10,211</u>	<u>100 %</u>	<u>18,639</u>	<u>100%</u>
<u>Consumer Cooperatives (FECOPAN)**</u>								
Urban	3	10.%	7	42%	6,160	42.%	2,730	42%
Rural	27	90.%	10	58%	1,589	58.%	3,770	58%
Total	<u>30</u>	<u>100.0%</u>	<u>17</u>	<u>100%</u>	<u>2,749</u>	<u>100.0%</u>	<u>6,500</u>	<u>100%</u>
<u>Agricultural Cooperatives (COAGRO)**</u>								
Urban	4	24.%	-	-	259	11.%	-	-
Rural	13	76.%	21	100%	2,021	89.%	5,000	100%
Total	<u>17</u>	<u>100.0%</u>	<u>21</u>	<u>100%</u>	<u>2,280</u>	<u>100.0%</u>	<u>5,000</u>	<u>100%</u>
<u>Total Federation Affiliated Cooperatives</u>								
Urban	51	38.0%	50	43%	5,745	44.%	11,591	38%
Rural	83	62.0%	67	57%	7,304	56.%	18,548	62%
Total	<u>134</u>	<u>100.0%</u>	<u>117</u>	<u>100%</u>	<u>13,049</u>	<u>100.0%</u>	<u>30,139</u>	<u>100%</u>

Note: 1973, FECOPAN & COAGRO calculations based on national total percentages page 20 GOP "Financiamiento para el Desarrollo del Cooperativismo en Panamá", November, 1973.

* Calculated by Rural and Urban membership using standard percentages of cooperative locations of affiliated cooperatives/MIDA/Nov. 1973
** 1967 Figures are total cooperatives in movement, since COAGRO was created December 2, 1969, and FECOPAN was created October 6, 1972.

DOCUMENT
 NUMBER 2
 FEBRUARY 2 1973

158

UNCLASSIFIED

ANNEX C
EXHIBIT 3COOPERATIVE MOVEMENT IN PANAMA AS RELATED TO CREDIT UNIONS, CONSUMER COOPERATIVES AND AGRICULTURAL COOPERATIVES

Total Cooperatives Affiliated & Non Affil- iated By Year <u>1963-1973</u>	<u>1963</u>		<u>1967</u>		<u>1968</u>		<u>1969</u>		<u>1971</u>		<u>1972</u>		<u>1973</u>	
	No. Coops.	No. Members	No. Coops.	No. Members	No. Coops.	No. Members	No. Coops.	No. Members	No. Coops.	No. Members	No. Coops.	No. Members	No. Coops.	No. Members
Credit Unions	54	5,366	87	10,211	106	12,825	115	13,626	133	17,820	137	21,429	141	22,432
Consumer Cooperatives	4	42	30	2,749	29	2,778	28	2,881			24	6,500	24	6,500
Agricultural Cooperatives	9	373	17	2,280	23	2,685	22	3,379			31	5,879	31	5,000
Total . . .	<u>67</u>	<u>5,781</u>	<u>134*</u>	<u>15,240*</u>	<u>158</u>	<u>18,288</u>	<u>165</u>	<u>19,886</u>			<u>192</u>	<u>33,808</u>	<u>196</u>	<u>33,932</u>

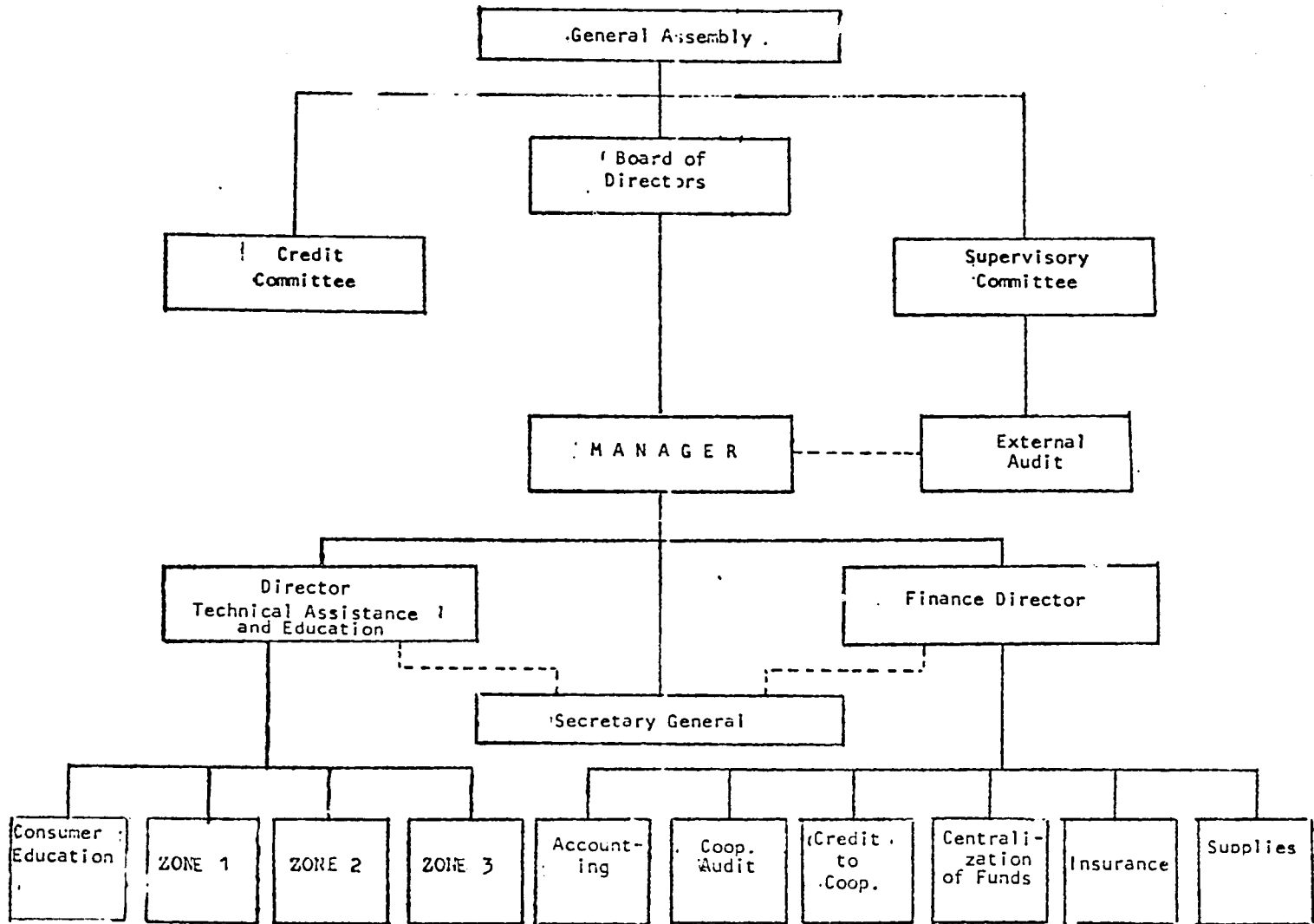
MIDA Statistics for year included 9 other cooperatives, with 481 individual members types of

Sources: MIDA, Ministry of Agricultural Development
FEDPA, Federation of Credit Unions of Panama.

EXHIBIT C
ANNEX 3
COOPERATIVE MOVEMENT
IN PANAMA

160

FEDERACION DE COOPERATIVAS DE CREDITO DE PANAMA, R. L.



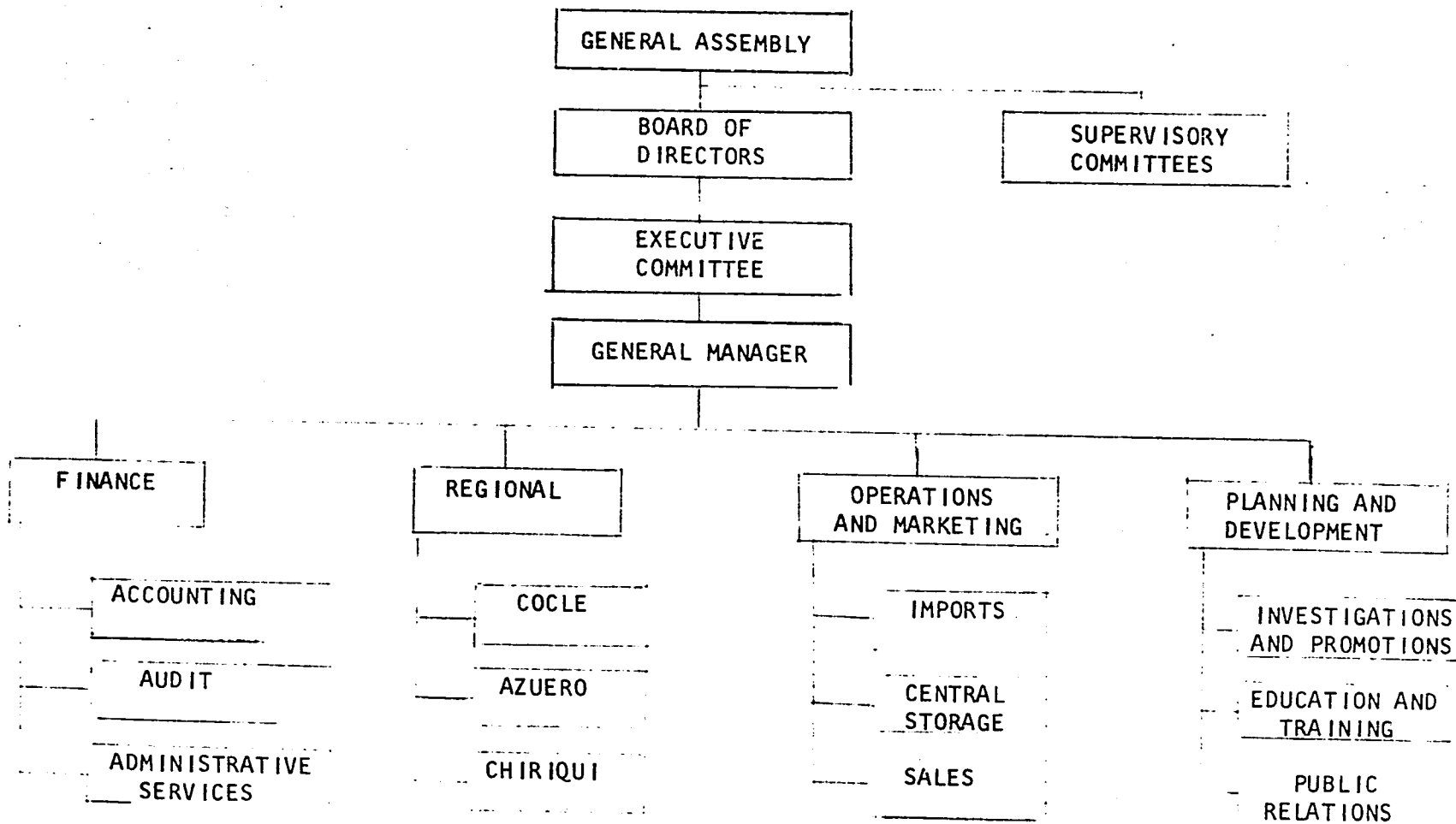
ANNEX D

UNCLASSIFIED

PROCESSED
ANNEX D
EXHIBIT 1 OF 1

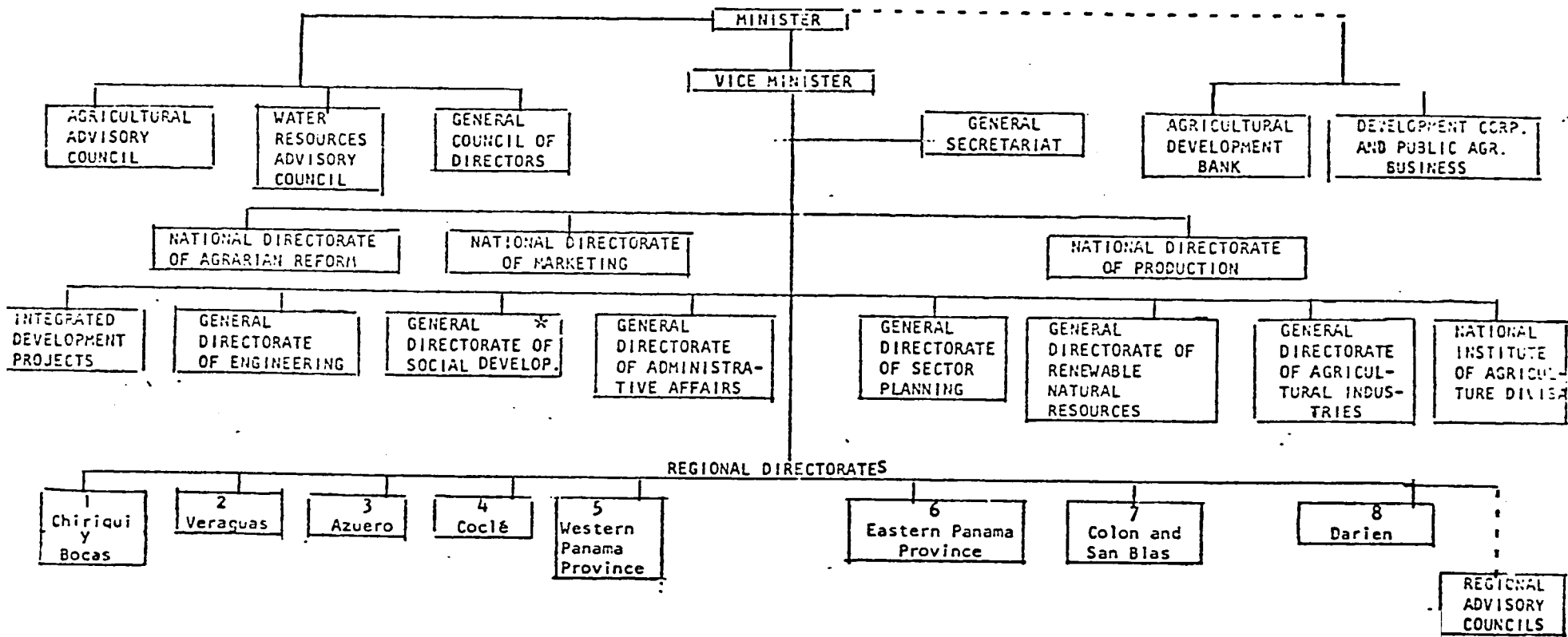
154

FEDERATION OF AGRICULTURAL COOPERATIVES OF PANAMA, R. L. (COAGRO)



153

GOVERNMENT OF THE REPUBLIC OF PANAMA
MINISTRY OF AGRICULTURAL DEVELOPMENT



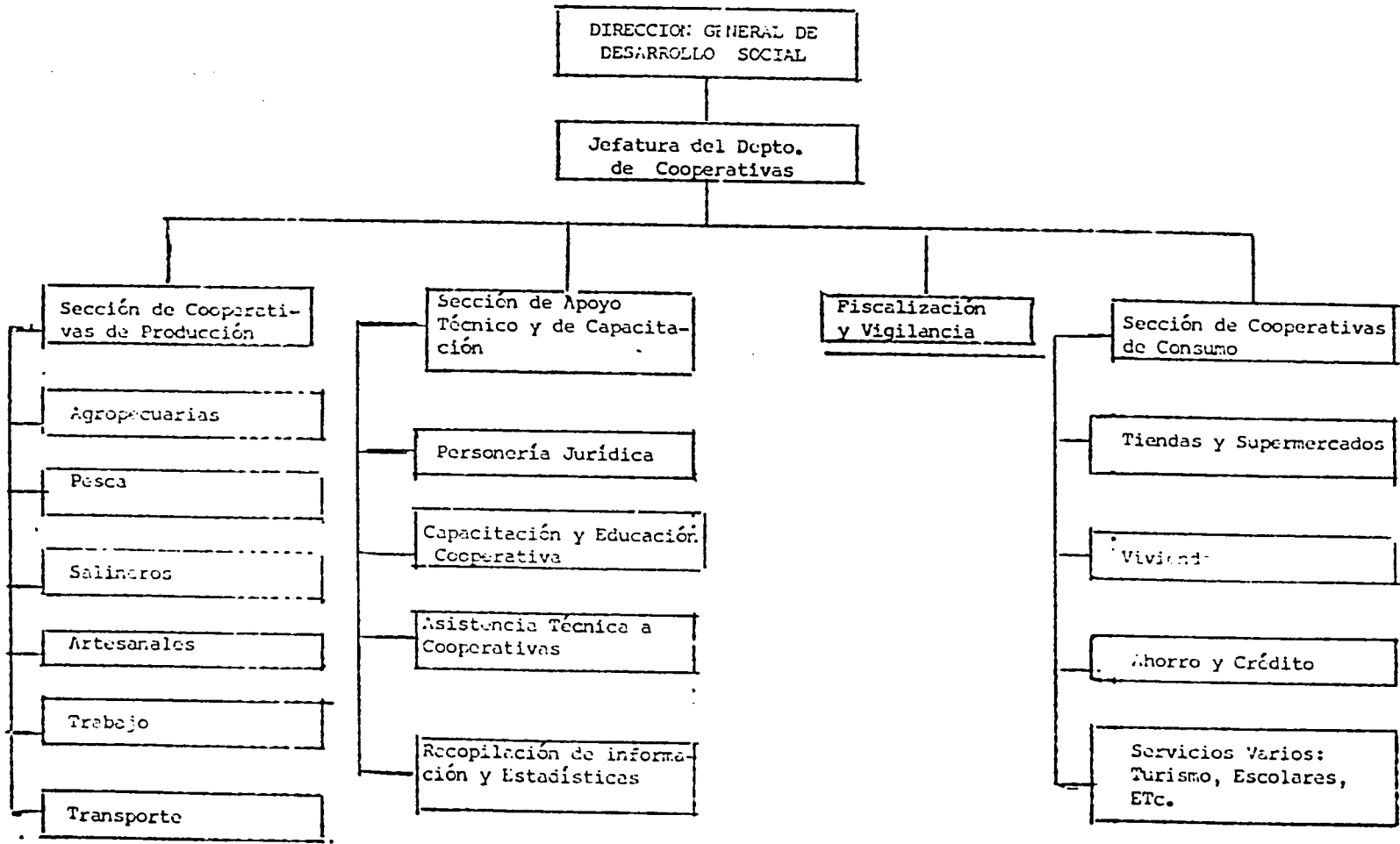
* See Annex F-2 for details of the Department of Cooperatives.

UNOFFICIAL

June 19, 1973

UNCLASSIFIED

ORGANIZATIONAL CHART OF THE DEPARTMENT OF COOPERATIVES
DIRECTORATE GENERAL OF SOCIAL DEVELOPMENT



ANNEX F-251.2
UNCLASSIFIED

151

BENEFIT - COST ANALYSIS

ESTIMATED AVERAGE PRODUCTION COSTS AND BENEFITS PER HECTARE
FOR RICE, CORN AND BEANS

	RICE			CORN			BEANS		
	Amt.	Unit Price	Value	Amt.	Unit Price	Value	Amt.	Unit Price	Value
Land									
Preparation (Mechanization) (Mas.)	6	6.25	<u>37.50</u>	6	6.25	<u>37.50</u>	6	6.25	<u>37.50</u>
Supplies			<u>143.46</u>			<u>103.25</u>			<u>110.75</u>
Seed (cwt)	2.5	14.00	35.00	0.5	15.00	7.50	1.0	30.00	30.00
Mixed Fertilizer (cwt)	4.0	10.25	41.00	5.0	10.25	51.25	6.0	10.25	61.50
Urea (cwt)	2.0	14.25	28.50	2.0	14.25	28.50	-	-	-
Endrin (Insecticide) (gal.)	0.22	8.00	1.76	-	-	-	-	-	-
Malation (Insecticide) (gal.)	-	-	-	-	-	-	0.22	9.15	2.00
Sevin (Insecticide) (lbs.)	-	-	-	-	-	-	4.0	1.35	5.40
Aldrin (Insecticide) (lb.)	-	-	-	5.0	0.75	3.75	-	-	-
Cerezán (fungicide) (lb.)	0.5	10.80	5.40	-	-	-	-	-	-
2-4D (herbicide) (gal.)	0.44	7.95	3.50	-	-	-	-	-	-
Amibem (herbicide) (gal.)	-	-	-	-	-	-	0.44	15.00	6.60
Stam F-34 (herbicide) (gal.)	0.77	9.50	7.30	-	-	-	-	-	-
Sacks (ea.)	60	0.35	21.00	35	0.35	12.25	15	0.35	5.25
Other			<u>61.53</u>			<u>41.73</u>			<u>32.48</u>
Transportation (cwt)	60	0.45	27.00	35	0.45	15.75	15	0.45	6.75
10% Contingency	-	-	20.80	-	-	15.65	-	-	15.50
12% Interest on Operation Capital (6 months)	-	-	13.73	-	-	10.33	-	-	10.23
Total Costs (Current)			<u>242.49</u>			<u>182.48</u>			<u>180.73</u>
1. Assuming 25% increase in fertilizer costs	-	-	259.87	-	-	197.16	-	-	196.10
2. Assuming 50% increase in fertilizer costs	-	-	277.24	-	-	211.85	-	-	211.48
3. Assuming 100% increase in fertilizer costs	-	-	311.99	-	-	241.23	-	-	242.23
Gross Benefits (Estimated yields per Hectare) (cwt)	60	9.50	<u>570.00</u>	35	7.00^{1/}	<u>245.00</u>	15	20.00^{1/}	<u>300.00</u>
Returns to Labor (Benefits-Costs)			<u>327.51</u>			<u>62.52</u>			<u>119.27</u>
1. Assuming 25% increase in fertilizer cost	-	-	310.13	-	-	47.84	-	-	103.90
2. Assuming 50% increase in fertilizer costs	-	-	292.76	-	-	33.15	-	-	88.52
3. Assuming 100% increase in fertilizer costs	-	-	258.01	-	-	3.77	-	-	57.77

^{1/} The GOP announced new producers support prices for corn and beans on May 21, 1974. The new support price for corn at \$7.50 per cwt. will result in moderate increases in the return to labor, while the new price for beans at \$30.00 will result in substantial increases.

158

UNCLASSIFIED

BENEFIT - COST ANALYSIS

Estimated Average Production Costs and Benefits
Per Hectare for Rice, Corn and Beans

The assumptions underlying the estimates of average production costs and benefits are as follows:

1. The farmer controls 5 ha. of land or less. He owns the land, has possessory rights or is squatting on government land and therefore does not have to rent the land.
2. The farm is run by the farmer with the help of his family only and that all returns are for labor performed by him and his family.
3. He is engaged primarily in growing one of the three basic grains or a combination of thereof.
4. The land is suitable for preparation by hand or machine.
5. He has access to adequate technical assistance and credit; the latter at a reasonable cost.
6. Further increases in the prices for agro-chemicals, other than fertilizers, are minimal.
7. Further increases in fertilizers range up to 100%.
8. The average yields, assuming good agronomic practices, would be at least double the national averages. The national average yields for the last three crop years for rice, corn and beans were 30 cwt/ha., 17.5 cwt/ha., and 6 cwt/ha., respectively.

FEDERATION OF CREDIT UNIONS (FEDPA)

<u>Cooperative</u>	<u>Town</u>
<u>Province: PANAMA</u>	
1. Balboa, R. L.	Panamá
2. Cenit, R. L.	Panama
3. Cynos, R. L.	Panama
4. San Antonio de Padua, R. L.	Panama
5. Francisco Arias Paredes, R. L.	Panama
6. Empleados de Sears, R. L.	Panama
7. Empleados Ministerio de Salud	Panama
8. Barberos y Afines, R. L.	Panama
9. Empleados del USAID/Panama, R. L.	Panama
10. Empleados Terminales Panama, R. L.	Panama
11. Villa Cáceres, R. L.	Panama
12. Empleados Hotel La Siesta, R. L.	Panama
13. Chame, R. L.	Chame
14. La Nueva Concepción, R. L.	Panama
15. Empleados Tropical Radio, R. L.	Panama
16. Santa Rosa de Panama, R. L.	Panama
17. Farmacéutica, R. L.	Panama
18. Empletex, R. L.	Panama
19. Empleados Hotel Internacional	Panama
20. Profesionales, R. L.	Panama
21. Empleados Ministerio de Hacienda y Tesoro, R. L.	Panama
22. Pan Aéreas, R. L.	Panama
23. Empleados de la Lotería, R. L.	Panama
24. Empleados Empresas Novey, R. L.	Panama
25. Empleados Industria Nacional de Confecciones, R. L.	Panama
26. Empleados Ministerio de la Presidencia, R. L.	Panama
27. San Fernando, R. L.	Panama
28. Lady Mallet, R. L.	Panama
29. Empleados Cervecería Nacional, R.L.	Panama
30. Empleados Caja de Seguro Social	Panama
31. Empleados de Créditos y Servicios y sus Compañías Afiliadas, R.L.	Panama
32. Adelyta, R. L.	Panama
33. ANDET Progresá, R. L.	Panama
34. INAIR, R. L.	Panama
35. Empleados de la Industria del Vestido, R. L.	Panama
36. Prosperidad, R. L.	Panama
37. Empleados de IBM de Panama, R. L.	Panama

UNCLASSIFIED

160

UNCLASSIFIED

<u>Cooperative</u>	<u>Town</u>
<u>Province:</u> COLON	
38. Exalumnas, S.M.A., R. L.	Colón
39. Pfizer, R. L.	Colón
40. Parke Davis, R. L.	Colón
41. Oro Negro, R. L.	Colón
<u>Province:</u> LOS SANTOS	
83. Gladys B. de Ducasa, R. L.	Las Tablas
84. José del Carmen Domínguez, R. L.	Guararé
85. Santa Elena, R. L.	Pedasí
86. Santa Catalina, R. L.	Pedasí
87. El Educador Santeño, R. L.	Las Tablas
88. Miras del Progreso Tonosieño, R.L.	Tonosí
89. Purieños Unidos, R. L.	Pedasí
90. Empleados del Comercio, R. L.	Las Tablas
91. Unión de Clubes Agrícolas Santeños, R. L.	Las Tablas
92. Santa Bárbara, R. L.	Macaracas
<u>Province:</u> COCLE	
93. Eric Delvalle, R. L.	Aguadulce
94. Ofelina, R. L.	Natá
95. Natariegos Unidos, R. L.	Natá
96. De Educadores Coclesanos, R. L.	Penonomé
97. Nomé, R. L.	Penonomé
<u>Province:</u> HERRERA	
98. Nueva Unión, R. L.	Chitré
99. San Sebastián, R. L.	Ocú
100. Amigos Unidos, R. L.	Chitré
101. Monagrillo, R. L.	Chitré
102. Unificación Minera, R. L.	Las Minas
103. Santiago Apóstol, R. L.	Santa María
<u>Province:</u> VERAGUAS	
104. El Porvenir de Guarumal, R. L.	Soná
105. El Educador Veraguense, R. L.	Santiago

UNCLASSIFIED

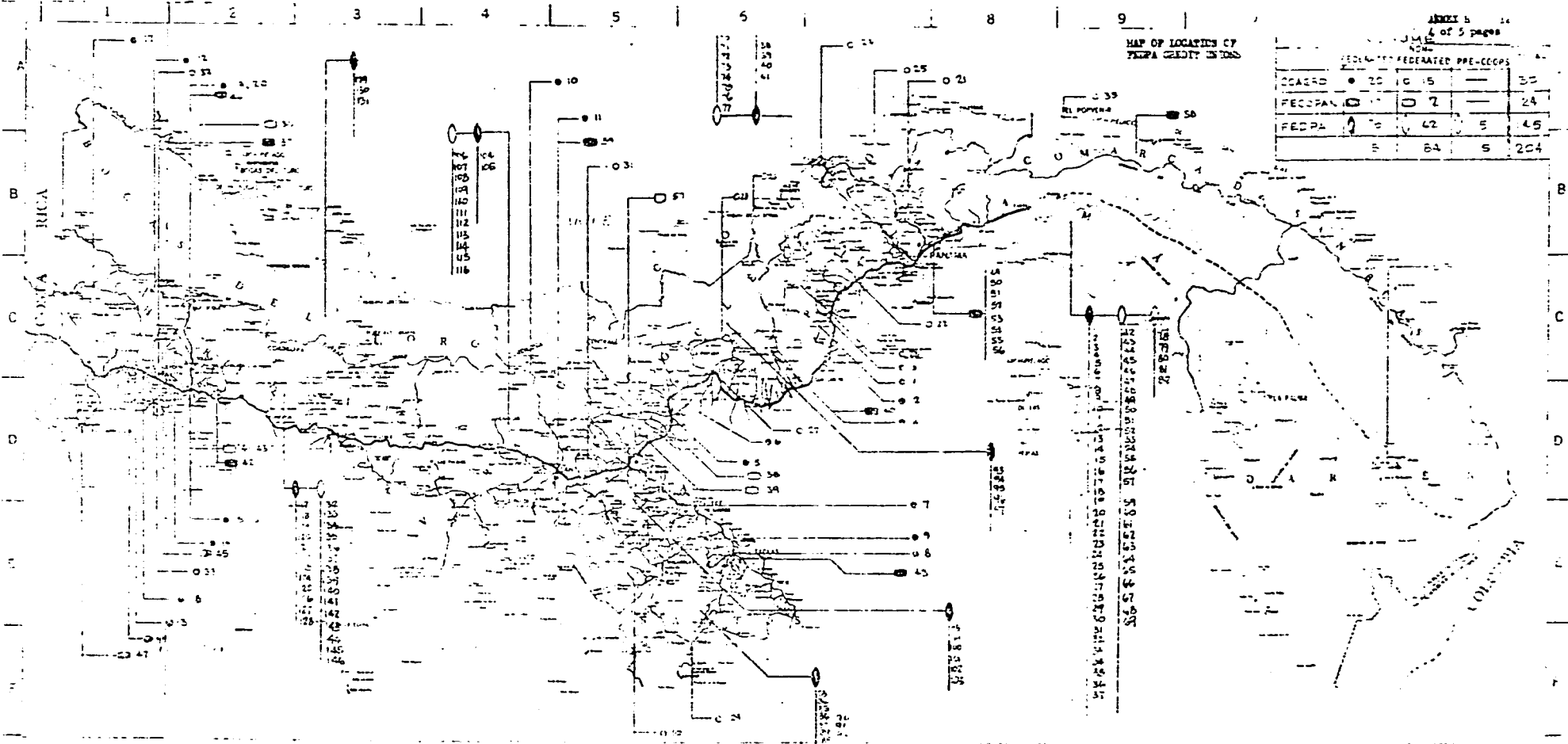
161

UNCLASSIFIED

<u>Cooperative</u>	<u>Town</u>
<u>Province: CHIRIQUI</u>	
117. Doraces, R. L.	David
118. San Antonio, R. L.	Barú
119. San Benito, R. L.	Bugaba
120. Barú, R. L.	Boquerón
121. CERA, R. L.	David
122. Chiriquí, R. L.	David
123. Empleados Ministerio de Agricultura, R. L.	David
124. EMBA, R. L.	David
125. Majagua, R. L.	Dolega
126. ECASESO, R. L.	David
127. ELECOM, R. L.	David
128. Victoriano Lorenzo, R. L.	David
<u>Province: BOCAS DEL TORO</u>	
129. Almirante, R. L.	Changuinola
130. Nuestra Señora del Carmen, R. L.	Bocas del Toro
131. Santa Isabel, R. L.	Changuinola

UNCLASSIFIED

162



MAP OF LOCATIONS OF
FINRA CREDIT UNIONS

ANNEX H
4 of 5 pages

	FEDERATED PPE-CCOPS			
COASERD	20	15	—	35
FECOPAN	7	—	—	24
FEDPA	62	5	—	45
	84	5	—	204

103

COAGRO - SHORT RANGE PLAN

I. Objectives

- A. Increase COAGRO's capacity to serve its members
 - 1. Management training for managers of its affiliates.
 - 2. Financing, accounting services, etc.
 - 3. Relations with affiliates, education, information.
 - 4. Supply of agricultural inputs.

II. Special Projects - Cooperative Affiliates

- A. MIDA budget of guarantees for cooperative development (B/.719,000).
 - 1. Select the most feasible projects from among the cooperatives supporting COAGRO.
 - 2. Utilize the financing offered by MIDA in the form of guarantees to acquire/build the goods (buildings, equipment, etc.) necessary for the growth of the cooperatives.
 - 3. Utilize the special projects as a means of demonstration and management training.
 - 4. Use successful projects as a means of demonstrating the feasibility of our financial programs and to attract additional resources for this activity.

III. COAGRO Projects

A. Immediate priority

- 1. Fertilizers - importation and storage in bulk; mixing and packaging.
- 2. Animal feeds
 - a) Feed ingredients - bulk handling (including grains), importation, storage and distribution.
 - b) Preparation of concentrated feeds.

-2-

- c) Other feeds: baled rice hulls, molasses, bagasse, bran, meat and bone meal, fish meal.
3. Local general warehouses: distribution of inputs, assembling and storage of agricultural products.

IV. Objectives of COAGRO

A. Short Range Objectives

1. Consolidate the financial position of COAGRO by means of:
 - a) Reducing payment period (delinquent accounts) of the receivables of cooperative affiliates.
 - b) Increasing the acquisition of share capital by affiliates.
 - c) Increasing the sales volume and turnover of inventory.
 - d) Eliminating the operating deficit for prior periods by means of a contribution from MIDA for this purpose.

B. Long Range Objectives

1. Convert COAGRO into a leader in promoting the expansion of food production in Panama.
2. Support food production by:
 - a) Inputs and better services
 - b) Supplying information to farmers on new production techniques.
 - c) Increasing the producer's income by improving product marketing.

166

TRANSLATION OF SUBMISSION BY FEDERATION OF CREDIT UNIONS, R.L. (FEDPA)

The Panamanian Federation of Credit Unions, R.L., (FEDPA), with the new AID/BDA loan, desires to achieve the following goals:

- a) Increase the number of affiliated cooperatives.
- b) Increase the number of members in these cooperatives.
- c) Increase the Federation's own capital.
- d) Accelerate the development of affiliated cooperatives through the granting of more and larger loans.
- e) Provide to members of the affiliated cooperatives who are not eligible for credit from other credit institutions a sure source of financing for the development of their projects.
- f) Create new sources of employment:
 - 1) At the Federation level, by employing more staff to provide technical assistance, training, supervision, etc.
 - 2) At primary cooperative level by creating more full-time managerial positions in order to provide more services to the members and to more easily and rapidly develop the cooperatives.
 - 3) At the level of the members, by increasing employment of labor as they augment their agricultural, industrial and commercial projects.

It is our desired intention to develop the following special programs:

I. TEAM OF MANAGERS:

The idea consists of employing in the Federations 5 or 6 persons with proper background who can, after intensive training, become efficient cooperative managers.

These managers will be utilized in:

- a) Replacing the managers of the various cooperatives in the country during vacations.

- b) Training new cooperative managers for periods of 1 to 3 months.
- c) Working for short periods with local managers when serious problems appear in their cooperatives, such as a sharp increase in delinquency.

We believe that this program might have to be subsidized by the Federation for a period of no less than 6 months, but that after a year it would be self-financing.

2. TECHNICAL ASSISTANCE:

Emphasize technical assistance for the cooperatives which have not requested loans in order that they might become eligible for credit and promote in the most effective form this service of the Federation, to help the cooperatives and their members to prepare good projects for the effective utilization of this assistance.

3. CREATING A MARKETING COOPERATIVE:

The idea is that the members of the Credit Unions Purieños Unidos, R.L., Unión de Clubes Agrícolas Santeños, R.L., Gladys B. de Ducasa, R.L., José del Carmen Domínguez, R.L., Nueva Unión, R.L., San Sebastian, R.L., Miras del Progreso Tonosieño, R.L., and any other cooperatives in the region which are interested, buy shares for approximately \$250,000.00 and that the Federation lend an equal sum so that in a central and suitable place a marketing cooperative can be set up which will be in charge of buying for cash products which its member cooperatives offer to it for sale, and which it will undertake to sell in the national or international markets, whichever is appropriate. This will assure a market for the products and better prices for the producer.

4. ACCELERATE AN AGREEMENT WITH COAGRO TO SUPPLY INPUTS FOR THE PRODUCTION CREDIT PROGRAMS:

The credit cooperatives would buy for cash from COAGRO all of the inputs that its members need and would advance them in the form of credit on the basis of need. This would have the advantage for COAGRO of guarantying larger sales without corresponding risks because they are for cash, and for the member, because he can acquire the inputs at lowest cost, in the quantity he needs and at the right time, thus avoiding the risk of spending cash received on loan from his cooperative for other purposes.

5. STRENGTHENING THE PRODUCTION CREDIT PROGRAM IN THE AZUERO REGION:

At this time we have in the Azuero Region 7 cooperatives with production programs which have 2,083 members of which only 1,142, representing 55%, have loans for a total of \$631,312.34 making an overall ratio of loans per member of \$552.81 and the combined capital of these 7 cooperatives equals only \$326,821.00.

We propose to achieve an increase over the next two years of 1,260 members, making an annual average increase of 90 members per cooperative which is very easy to reach if one takes into account that the number of members in these cooperatives represent only 6.73% of the adult population (over 21 years old) in this region.

Moreover, we hope to reach at least 90% of the total members with loans that will produce an increase in this category approximately 1,868 additional members with loans. Taking as a base the present ratio of loans per member which is \$552.81, this will produce total loans by only these 7 cooperatives of \$1,663,958.00, representing an increase of \$1,032,646.00.

For the increase in share capital of cooperative members, we have projected an increase of 50% over the next two years which we believe to be feasible taking into account that one of the more effective methods of reaching this goal is through the required capitalization as a condition for loan that each of these has established in its Credit Rules at 10% of the money to be loaned. This would make the capital of these cooperatives increase to \$490,232.00 which amount, if deducted from the balance of loans projected at \$1,663,958.00, would show a lack of external capital of \$1,173,726.00 which amount will have to be supplied by the Federation, for these 7 cooperatives only.

CURRENT STATUS OF COOPERATIVES WITH PRODUCTION CREDIT PROGRAMS

<u>Name of Cooperative</u>	<u>No. of Members</u>	<u>Members with Loans</u>	<u>% of Members with Loans</u>	<u>Current Balance of Loans</u>	<u>Average Loans per Member</u>	<u>Capital 2/13/74</u>
Puricños Unidos, R.L.	130	92	71	33,750.34	366.85	24,350.00
Unión de Clubes Agrícolas Santeños, R.L.	216	113	52	86,103.33	761.97	43,612.00
Gladys B. de Ducasa, R.L.	497	228	46	198,951.38	872.59	98,600.00
José del Carmen Domínguez, R.L.	339	146	43	110,043.24	753.72	53,880.00
Nueva Unión, R.L.	322	166	52	92,903.98	559.66	35,700.00
San Sebastián, R.L.	212	125	59	25,610.71	204.88	19,029.00
Miras del Progreso Tonosicño, R.L.	367	272	74	83,949.36	308.63	51,650.00
TOTAL	2,083	1,142	55	631,312.34	552.81	325,821.00

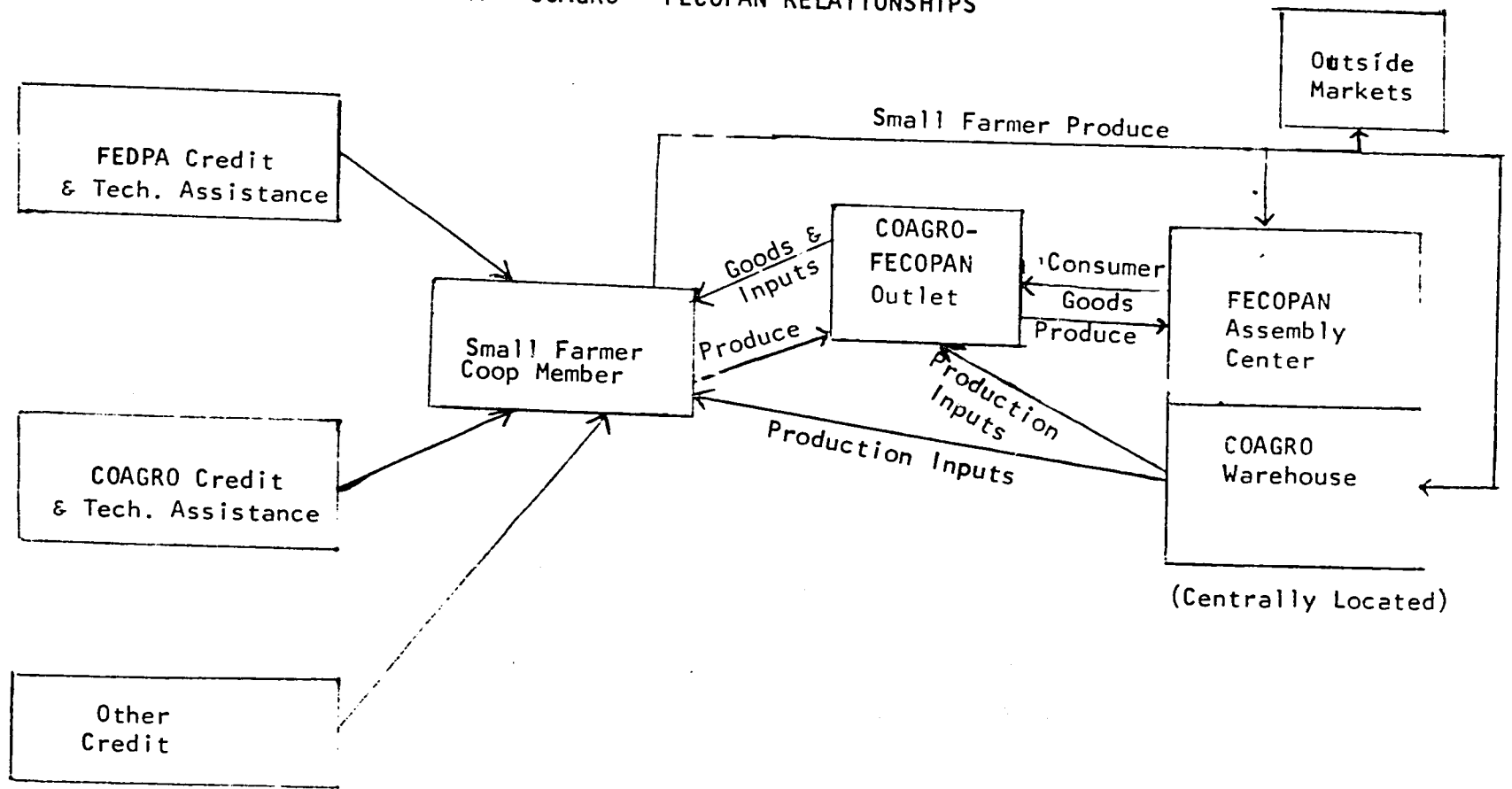
PROJECTIONS FOR THESE COOPERATIVES
TO JUNE 1976

Puricños Unidos, R.L.	210	189	90	104,481.00	552.81	36,525.00
Unión de Clubes Agrícolas Santeños, R.L.	350	315	90	174,135.00	552.81	65,418.00
Gladys B. de Ducasa, R.L.	795	716	90	395,812.00	552.81	147,900.00
José del Carmen Domínguez, R.L.	545	490	90	270,877.00	552.81	80,820.00
Nueva Unión, R.L.	515	464	90	256,504.00	552.81	53,550.00
San Sebastián, R.L.	340	306	90	169,160.00	552.81	28,544.00
Miras del Progreso Tonosicño, R.L.	590	530	90	292,989.00	552.81	77,475.00
TOTAL	3,345	3,010	90	1,663,958.00	552.81	499,232.00
<u>Increases projected for the 2 years</u>	<u>1,262</u>	<u>1,868</u>		<u>1,032,646.00</u>		<u>153,411.00</u>

170

EXHIBIT I

PROPOSED
FEDPA - COAGRO - FECOPAN RELATIONSHIPS



171

EXPERIENCE WITH LOAN No. 525-L-037 TO THE
FEDERATION OF CREDIT UNIONS OF PANAMA (FEDPA)

Date Authorized: April 30, 1971
Date Signed: June 26, 1971
Borrower: Federation of Credit Unions of Panama (FEDPA). (A private cooperative intermediate credit institution).
Loan Amount: \$1,900,000
Disbursed: \$1,900,000
Initial Disbursement: September 1, 1971
Final Disbursement: August 1973

The purpose of the loan as described in the CAP was "to be seed capital which will assure self-sustaining growth of the Federation and of the credit union system in Panama. The benefits to be derived are: (a) increased savings and investment; (b) an increase in the real income of credit union members; (c) increased capacity of lower income groups to participate in capital markets; (d) social development."

Annex I of the loan agreement estimated that agricultural sub-loans would utilize 28.3% of the loan funds, industry 14.0% and supplemental working capital 57.5%. Actual sub-loan utilization was: agriculture 24.7%, small industry 28.1%, and working capital 47.2%. The loan was fully disbursed within two years after first disbursement, one year earlier than originally planned.

It had been hoped that the loan would direct the availability of credit away from urban areas and into the poorer rural areas of the country. This was decisively accomplished. By October 31, 1973, 38 (48%) of the 79 affiliated credit unions were located in rural Panama. Of the total 18,629 members, 10,647 (57%) belonged to rural credit unions. Also by the end of October 1973, savings of rural members had soared to \$2.1 million. These achievements by far exceed the projections made in the capital assistance paper. The following selected statistics are illustrative.

	<u>12/31/70</u>	<u>8/31/73</u>	<u>% Increase</u>
Member Credit Unions	75	79	5
Individual Membership	12,162	18,629	53
Savings	1,958,000	3,628,000	85
Loans Outstanding to Individuals	1,879,000	4,573,000	143
Loans Outstanding from FEDPA to Credit Unions	70,639	971,272	1275

The FEDPA member unions vary in strength and skills. They do, however, show a common characteristic - a strong sense of responsible stewardship for their mutual savings and a desire for the skills to invest these prudently. The member unions have been quick to avail themselves of the training and technical assistance FEDPA can provide. They are a key agency to helping change the lives of small farmers.

173

FUNCTIONS WHICH AGRICULTURAL SECTOR INSTITUTIONS ARE LEGALLY AUTHORIZED TO PERFORM																
Functions Performed	Institutions & Organizations	Census Bureau	MIDA Marketing	BDA Marketing	Banco Nacional de Panamá	Private Banks	Private Sup.	Private Proces.	Price Control Office	Ministry Commerce & Industry	Com. Ref. Agr.	FEDPA	COAGRO	FECOPAN	Other Cooperative Farmer Org. Church Group Asentamientos, Etc.	Tech. Schools of Agriculture & University
		1. Credit			⊗	⊗	⊗						⊗			
2. Technical Assistance		⊗	⊗	⊗	⊗						⊗	⊗				⊗
3. Ag. Research		⊗													⊗	⊗
4. Marketing		⊗					⊗	⊗		⊗		⊗	⊗			
a) Outputs		⊗					⊗	⊗		⊗		○	⊗		⊗	
b) Inputs							⊗	⊗				⊗			⊗	
5. Market News		⊗														
6. Crop Reports		⊗	⊗													
7. Prices		⊗							⊗							
a) Farm level		⊗														
b) Wholesale/Retail		⊗							⊗							
8. Grain Stabilization Price Policy		⊗							⊗							
9. Formal Ag. Education																⊗
10. Special Edu. Prog.																⊗
11. Planning (Sectorial)		⊗														
12. Publications/Information		⊗	⊗	⊗	⊗	⊗			⊗	⊗	⊗	⊗		⊗		⊗
13. Ag. Statistics		⊗	⊗									⊗				⊗
14. Land Reform (tenure)											⊗					
15. Cooperative Dev.		⊗														
a) Production		⊗										x				
b) Marketing		⊗										x	x			
c) Credit		⊗										x				

NOTE: x = indicates performance

○ = legal authority

⊗ = indicates both performance of the authority
only a ○ indicates authority but no performance

174