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**PANAMA**

**IMPROVING THE COMPETITIVENESS OF PANAMANIAN HANDICRAFTS**

**(TC-00-10-00-8-PN)**

**DONORS MEMORANDUM**

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Terms of reference for the AIC technical specialists.

Draft AIC Implementation Manual

Project organizational charts

Itemized project budget

Project Performance Monitoring Report (PPMR)

## **ABBREVIATIONS**

AIC	Agencia Intermediaria Comercial [Business Intermediary Agency]
AMPYME	Autoridad de la Micro, Pequeña y Mediana Empresa [Microenterprise and Small- and Medium-sized Business Authority]
BDS	Business development services
CAT	Certificado de Ahorro Tributario [tax savings certificate]
CESI	Committee on Environment and Social Impact
FUNDARTE	Fundación Nacional de Artesanías de Panamá [Panamanian Handicraft Foundation]
IPAT	Instituto Panameño de Turismo [Panamanian Tourism Institute]
MIC	Ministerio de Industria y Comercio [Ministry of Industry and Commerce]
MIF	Multilateral Investment Fund
MSBS	Microenterprises and small businesses
PSC	Project steering committee
SWOT	Strengths, weaknesses, opportunities and threats

## IMPROVING THE COMPETITIVENESS OF PANAMANIAN HANDICRAFTS

(TC-00-10-00-8-PN)

### EXECUTIVE SUMMARY

<b>Executing agency:</b>	Fundación Nacional de Artesanías de Panamá [Panamanian Handicraft Foundation] (FUNDARTE)	
<b>Beneficiaries:</b>	Panama's micro- and small-scale artisan entrepreneurs	
<b>Objectives:</b>	The project's general objective is to help make Panama's artisans more competitive. Its specific objectives are twofold: (i) to introduce a system that will help artisans gain access to and establish commercial ties with international markets and penetrate the local market; and (ii) implement a system to provide <i>specialized</i> technical assistance to design and produce handicrafts that meet local and international market demands.	
<b>Description:</b>	The project will introduce a business intermediary agency (AIC) that will be responsible for identifying international and local markets interested in purchasing handicrafts and link them to the Panamanian handicrafts sector. The project will also provide technical assistance and training resources to assist artisans with the design, development and production of handcrafted articles that meet market requirements in terms of quality, quantity, pricing and delivery times.	
<b>Amount and source of financing:</b>	MIF (Window III)	US\$440,000
	Local counterpart:	<u>US\$193,000</u>
	Total:	US\$633,000
<b>Terms:</b>	Execution period:	36 months
	Disbursement period:	42 months
<b>Exceptions to Bank policy:</b>	None	

**Special contractual clauses:**

As a condition precedent to the first disbursement of up to US\$6,000, the following documentation must be submitted to the satisfaction of the Bank: (i) the draft by-laws of the AIC; and (ii) the final version of the project implementation manual approved by the project steering committee. The first disbursement of up to US\$6,000 will be used to hire a consultant to support FUNDARTE in the preparation of a business plan for the AIC and a legal adviser for legal establishment of the AIC.

As a condition precedent to disbursement of the balance of the IDB/MIF contribution, the following documentation must be submitted to the satisfaction of the Bank: (i) the AIC business plan; (ii) evidence that the AIC has been legally established; and (iii) the agreement for the transfer of resources and responsibilities from FUNDARTE to the AIC.

**Environmental and social review:**

The Committee on Environment and Social Impact reviewed and approved the project on 9 February 2001.

## I. ELIGIBILITY FOR THE COUNTRY AND OF THE PROJECT

- 1.1 Panama was declared eligible for all modalities of Multilateral Investment Fund (MIF) financing on February 9, 1995. The project is consistent with MIF standards for support to microenterprises and small businesses, as it will be instrumental in developing a new service intended to solve product-marketing problems.

## II. BACKGROUND

- 2.1 The macroeconomic and structural reforms that the Government of Panama (GOP) has introduced since the early 1990s have shaped a free-market model for economic development, where the State has a new role and the private sector is the engine driving economic growth. These policies have kept the economy stable and fostered economic growth, while strengthening Panama's foothold on the international scene. However, the economic improvements have neither raised the quality of life in non-urban areas of the country nor corrected the uneven distribution of income.<sup>1</sup>
- 2.2 To spread economic growth more evenly among the population, programs to enhance the equity of public policy and reduce poverty will have to be matched by the creation of an enabling environment that makes the economy more competitive and encourages private investment. To do this, Panama needs to put together incentives plans calculated to help strengthen priority chains of production, marketing and exportation, and related programs to upgrade the productive capacity of microenterprises and small- and medium-sized businesses.
- 2.3 **The handcrafted products sector in Panama.** Most Panamanian artisans live in rural areas; many belong to indigenous groups, in which case the majority are women. The average annual income of Panamanian artisans varies from US\$150 to US\$800. Some of the groups in question and their handicrafts are: (i) the Kuna, who mainly produce embroidery, primarily molas, as well as silverwork, weaving (hammocks), basketry, wood carving, pottery, and modern crafts; (ii) the Emberá, who primarily produce fine basketry, along with silverwork, semiprecious wood carving, tagua<sup>2</sup> carving, and simple weaving; (iii) the Teribe, who mainly do wood carving; and (iv) the Ngobe-Buglé, who specialize in fiber weaving (chácaras<sup>3</sup> and hats) and also produce embroidery (Nawa and Chaquira), modern crafts, apparel, bags, belts, and tablecloths.
- 2.4 Up until the start of 2000, the presence of seven United States military bases and the Panama Canal Commission gave artisans a permanent captive foreign market

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<sup>1</sup> Country Paper for Panama (CP-1136-6). Inter-American Development Bank. September 2000.

<sup>2</sup> Also known as ivory nut or vegetable ivory.

<sup>3</sup> Bags made out of pita fiber.



for their products. The buying public that the military bases and Commission represented were very enthusiastic about Panama's handcrafted products, and their purchasing power was a permanent revenue base for the country's handcrafted products sector. This market gradually began to dry up as far back as the early 1990s and was completely gone by late 1999.<sup>4</sup>

- 2.5 Having a captive market affected the competitiveness of the Panamanian handicraft sector, which must now address two main problems. First, it has no system through which to access and establish ties with international markets or to further penetrate the local market. And second, Panamanian artisans have limited access to *specialized* technical assistance to design and produce products that meet market demand in terms of quality, quantity, pricing, and delivery times.
- 2.6 Despite the weaknesses in Panama's handcrafted products sector, described in the preceding paragraph, this very same sector has the potential to tap into the marketing and sales opportunities that globalization is creating for these products on the international market, especially in the market niches for gifts and decorative and utilitarian articles (the United States, Europe and Japan are among the markets with the most potential). Panama's tourism promotion strategy is an opportunity to increase demand for Panama's handcrafted products on the local market.<sup>5</sup> In order for Panama's microenterprises and small businesses that produce handcrafted products to be able to take advantage of these opportunities, measures must be taken to adapt their product to what the market demands and give them an efficient and sustainable mechanism for marketing their wares.
- 2.7 Wanting to promote the crafts sector, the Government of Panama introduced a bill to protect, promote, develop and market Panama's handcrafted products so as to effectively integrate that sector into the country's socioeconomic system. The Legislative Assembly passed the bill in 1997 (Act No. 27, of July 24, 1997). This law provides the legal framework for this project to support Panama's handcrafted products sector.
- 2.8 As part of its tourism promotion strategy, the Government of Panama has launched a program to export handcrafted products, called *Exportarte*. The program, which got under way in September 2000, consists of a multi-institutional support system for marketing handcrafted products and involves the Ministry of Industry and Commerce (MIC), the Ministry of Foreign Relations, the Ministry of the Economy

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<sup>4</sup> Witness the financial reports of the Molas Cooperative, which showed a 30% drop in sales between 1998 and 1999. This cooperative for the production, marketing and sale of molas was founded 35 years ago and has 1500 Kuna members from the Kuna Yala region.

<sup>5</sup> As part of the tourism promotion strategy, ports are now under construction where cruise ships crossing through the Panama Canal can drop anchor. New hotels are also under construction. The emphasis is on eco-tourism and remodeling of historic areas like Panamá Viejo and the Casco Viejo.

and Finance, the Panamanian Tourism Institute [Instituto Panameño de Turismo-IPAT] and FUNDARTE. The program, however, does not include any activities aimed at improving the quality of production or tailoring the products to what the international markets demand. It has no marketing mechanisms that result in actual sales, with an equitable distribution of the profits realized.

- 2.9 For the last ten years FUNDARTE, a nongovernmental organization, has helped develop micro- and small-scale artisan entrepreneurs in Panama and manages the principal market for handcrafted products in Panamá Viejo, while also promoting the development of the sector elsewhere in the country. While FUNDARTE has helped artisans market their products on the domestic market and with the local tourism business, it does not have a strategy that helps artisans adapt their products for sale on foreign markets. Nor does it have the marketing instrument that would enable it to find a niche for those handcrafted products on foreign markets.
- 2.10 Panama has mechanisms to provide institutional, financial and organizational development services to microenterprises and small businesses through training vouchers and a Guarantee Fund administrated by the Microenterprise and Small and Medium-sized Business Authority (AMPYME). However, it offers very little in the way of *specialized* services to microenterprises and small businesses in the handcrafted products sector.
- 2.11 The project is consistent with the MIF's general purpose in that it will provide specialized services for microenterprises and small businesses in the handicraft sector to help them address specific problems in marketing and to obtain the technical assistance they need to base production on market demand. The MIF has financed a number of operations directly involving development of the handicraft sector,<sup>6</sup> but since those projects are still at the initial stages of implementation, it has no information on performance or lessons learned on which to draw for the proposed operation. However, certain factors were considered in the project design: the need to help improve the supply of handicrafts in such areas as quality and design, in conjunction with development of an efficient marketing system. In the proposed operation in particular, the system is an integral, inseparable part of the project.
- 2.12 The project is also consistent with the Bank's strategies and priorities in Panama, as it promotes measures that will improve competitiveness and increase economic growth and help to raise the income levels of micro- and small-scale artisan entrepreneurs. This project also complements and will be coordinated with the measures undertaken as part of the project to improve the business climate for microenterprise and small business (ATN/MT-7301-PN).

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<sup>6</sup> Development and marketing of cultural and historic handicrafts (MIF/AT-297-BO); e-marketing of handicrafts (MIF/AT-226-RG); and e-commerce for small-scale artisans and farmers (MIF/AT-388-EC).

### III. THE PROJECT

#### A. Objective

- 3.1 The project's general objective is to be instrumental in making Panamanian handcrafted products more competitive. Its specific objectives are twofold: (i) to introduce a system that will help artisans gain access to and establish commercial ties with international markets and penetrate the local market; and (ii) implement a system to provide *specialized* technical assistance to design and produce handicrafts that meet local and international market demands.

#### B. Description

- 3.2 The project will introduce a business intermediary agency (AIC) that will be responsible for identifying international and local markets interested in purchasing handicrafts and link them to the Panamanian handicrafts sector. The project will also provide technical assistance and training resources to assist artisans with the design, development and production of handcrafted articles that meet market requirements in terms of quality, quantity, pricing and delivery times.

##### **1. Efficient operation of a business intermediary agency (AIC) for the sale of handicrafts (MIF: US\$167,500; local counterpart: US\$115,000)**

- 3.3 The purpose of this component is to introduce a business intermediary agency to identify and manage international and local markets interested in purchasing handicrafts and linking them with Panamanian suppliers of such products that can meet the market requirements. The AIC will be legally established as an open corporation and will operate with its own organizational structure independently of FUNDARTE. With this autonomy, the firm can be run as a business, with a business management approach.
- 3.4 Project resources will go toward the following activities: (i) contracting of specialized technicians to run the AIC: a general manager, marketing manager, production and purchasing supervisor, and accounting and finance assistant; (ii) legal services to advise on AIC organization and operation; (iii) technical advisory services to design and implement a business plan and business intermediation strategy locally and abroad; (iv) hiring of marketing experts to develop the logotype, advertising and sales materials (catalogues, web sites); (v) technical advisory services to create a system for tracking inventories and an operating system for processing orders for purchases, warehousing, load consolidation, packing, coding, and processing of export-related papers; (vi) training of the AIC staff in promotion, marketing, procurement and inventory management; and (vii) two visits to fairs and international clients to lay the groundwork for market linkage.

- 3.5 The AIC will perform the following activities: (i) research potential markets for Panamanian handcrafted products; (ii) participate in international crafts fairs; (iii) establish commercial ties with clients; (iv) coordinate systems for seed-capital financing for artisans with product orders with lending institutions in Panama; (v) with FUNDARTE and other purveyors of BDSs, coordinate the technical assistance and training activities aimed at making handcrafted products more competitive by adapting them to meet market demands (activities like the design and development of new products and increased productivity).
- 3.6 To ensure that the AIC develops the necessary technical capacity, over a three-year period the MIF will provide the funding (100% the first year, 75% the second year and 50% the third) to pay for the technical specialists who will serve as: (i) general manager; (ii) marketing manager; and (iii) production and purchasing supervisor. This support is essential to ensure that the AIC gets off to a good start and is able to sustain itself in the future. These specialists will organize and implement the firm's business and financial strategy, with a view to maximizing placement of orders and sales, identifying markets, and making certain that the products are up to standard and are thus able to compete with the supply of such products in other countries. The terms of reference for these specialists are in the project's technical files.
- 3.7 Execution of this component is expected to result in the following: (i) establishment of the AIC, which must be able to establish commercial ties between the supply of and demand for handcrafted products; (ii) long-term commercial ties with at least six buyers; and (iii) diversification and penetration of at least three new markets.

**2. Improvement of the supply of handcrafted products (MIF: US\$204,000; local counterpart: US\$18,000)**

- 3.8 The training and *specialized* technical assistance are designed to provide the artisans with the skills and tools they need to meet market demand in terms of quality, quantity, pricing, and delivery times. The objective of these activities is first to improve the supply of Panamanian handicrafts, tailoring product design to market demand, to which end emphasis will be placed on designing and developing new products. Second, this component will also work to increase the workshops' productivity so as to be able to form a product pool that is competitive both in terms of volume and pricing. And third, the component will upgrade the organizational, productive and administrative capability of the artisans. By the end of the program, more than 1,000 artisans are expected to have had the benefit of these services.
- 3.9 The project will hire *specialized* consultants to provide training courses and technical assistance to the micro- and small-scale artisan entrepreneurs that will enable them to improve their production, marketing and sales of their products. As demand dictates, the training activities will focus on specific issues that can come up when moving into markets, whether locally or abroad. The following are among the training areas identified: (i) design and development of new products;

- (ii) technologies, organization and flows that will increase efficiency and improve product quality; (iii) supply of raw material; (iv) cost-cutting; (v) packing, and (vi) quality standards. For these areas of training and technical assistance, the “business-to-business” learning method will be promoted by funding 16 internships at the local level and 8 at the regional level that will enable Panamanian artisans to share experiences with artisans from the region. FUNDARTE will coordinate all these activities with the AIC management and the artisans participating in the project.
- 3.10 From the start of the project, the beneficiaries will pay a portion of the costs of the BDS for new product design and development, the technical assistance and the internships. The project will look for creative and innovative ways to recoup costs, such as an in-kind charge (exchange value), a percentage of the receipts from products that were designed with advisory assistance provided by FUNDARTE. All the training courses will charge a fee, bearing in mind that the beneficiary co-financing will increase gradually. It will start out at 20% of the total cost of the training received. In the case of the program for new product design and development, the course fees can be paid partly in kind (in the form of handcrafted products that the AIC can then use as samples to show at crafts fairs and to mount catalogues) and partly as a percentage of amounts billed for those products, which would be the equivalent of a design commission. The costs recovered through the BDS provided will be re-invested in training and technical assistance for artisans.
- 3.11 As a result of these activities, the micro- and small-scale artisan entrepreneurs who participate in the project should acquire the business and technical skills that will enable them to meet the standards needed to enter new markets and increase their sales, either through the AIC or by their own means.

#### **IV. PROGRAM EXECUTION**

##### **A. Executing agency**

- 4.1 The project executing agency will be FUNDARTE, a nonprofit organization established in 1991 to assist Panama’s integral development by managing, promoting and marketing the country’s handcrafted products and integrating the handcrafted products sector. FUNDARTE has a comptrollership board representative of governmental and nongovernmental institutions and private enterprise. Its 11-member board of directors is elected every two years and steers the organization. FUNDARTE’s administration consists of one executive director and an 8-member team. It runs the Panamá Viejo market of handcrafted articles and conducts a number of training projects financed by a variety of institutions. As a member of Exportarte, FUNDARTE is in charge of administering the orders that are the product of this program.

**B. Execution mechanism**

- 4.2 FUNDARTE's board of directors will name a project steering committee (PSC) composed of three members plus FUNDARTE's executive director, who will serve as PSC secretary. The PSC will make project-related decisions, specifically with respect to: (i) approval of the project implementation handbook and any amendments thereto; (ii) submitting to FUNDARTE's board of directors, for its approval, the proposed by-laws for AIC incorporation and operation; (iii) oversight of the accomplishment of the project's objectives and goals; and (iv) approval of the project's annual plans of execution and monitoring for their fulfillment.
- 4.3 FUNDARTE's executive director will be responsible for seeing that the activities are carried out. The executive director's functions will be as follows: (i) supervise fulfillment of the project's performance indicators and objectives, as set out in the logical framework (Annex I); (ii) coordinate the necessary activities for implementation of the component for improving the supply of handicrafts; (iii) supervise implementation of the activities under the component for establishing the AIC to market handicrafts; (iv) prepare the project progress reports; and (v) disseminate the results obtained.
- 4.4 With regard to the first component of the operation, FUNDARTE will draw up an agreement for the transfer of resources and responsibilities to the AIC to be established for the AIC to implement the component activities. The transfer agreement will establish: (i) the institutional relations, obligations, and rights of FUNDARTE and the AIC with regard to the activities to be carried out by the AIC for this project; (ii) how involved FUNDARTE will be in the activities to be carried out by the AIC; (iii) mechanisms for supervision and oversight of the activities delegated to the AIC; and (iv) the procedures for hiring the specialists to be financed with project resources. Presentation of the agreement will be a condition precedent to the first disbursement of the Bank resources.
- 4.5 As for the second component, FUNDARTE will be responsible for its implementation and will coordinate and link its activities with the AIC to ensure timely, efficient provision of the *specialized* technical assistance and training services so that the artisans can meet the requirements set forth in the orders that are placed through the AIC on local and international markets. To ensure execution of the project in all its parts, FUNDARTE's executive director and the AIC manager will have to mutually coordinate so that decisions on training activities, technical assistance and internships are driven by the artisans' needs and meet the requirements set forth in the orders placed through the AIC on the market. Annex II contains the draft project implementation manual.
- 4.6 **Business Intermediary Agency (AIC).** The PSC will invite the artisan groups to become shareholders in the AIC and submit the draft by-laws to them. Any artisan group members or independent artisans who want to be involved in the business

may be stakeholders in the AIC provided they meet the following requirements: (i) they pay for the shares they represent; (ii) they are MIC-registered artisans; (iii) they demonstrate that they are experienced in crafting products on order; and (iv) they sign an agreement to abide by the bylaws, objectives and goals of the AIC. In theory there are 7 groups interested in a stake in the AIC: (i) the Asociación de Artesanos de Herrera; (ii) Cooperativa Wounaan; (iii) Cooperativa de Molas; (iv) Asociación de Artesanos de Panamá; (v) Mujeres Artesanas de Océ; (vi) Asociación de Artesanos de La Arena; and (vii) FUNDARTE. These groups would be the founding partners and elect the AIC board of directors.

- 4.7 The AIC will subscribe US\$125,000 in capital. FUNDARTE will pay in an initial amount of US\$10,000 to establish the corporation and the balance of US\$115,000 will be capitalized during the life of the project through local counterpart resources for implementation of the first component. FUNDARTE will retain 51% of the capital stock and will give the remainder to the artisan groups that are willing to pay at least 15% of the value of the shares. The AIC may not pay out dividends until the total MIF and FUNDARTE contributions have been capitalized for implementation of this component (US\$282,500).
- 4.8 The AIC board of directors will: (i) approve the selection and appointment of the AIC staff; (ii) approve the marketing firm's business plans and strategies; (iii) review and approve the monthly and annual financial statements; and (iv) approve the progress reports on the AIC project-related activities.
- 4.9 The operational structure of the AIC, described in Annex III, will be as follows: a general manager, a marketing and sales manager, and an operations manager. In principle, FUNDARTE's financial director will be in charge of administrative-financial matters, assisted by an accounting clerk. At the project's end, a decision will be made as to whether the AIC needs someone to manage the AIC's finances full time. FUNDARTE's staff will also be available to support the general startup of the AIC.
- 4.10 The AIC general manager will: (i) design and implement a competitive business intermediation strategy; (ii) oversee and supervise the AIC staff; (iii) prepare the AIC's strategies and plans of operations; (iv) prepare monthly, quarterly and annual reports on the marketing firm's activities; (v) put together the AIC budget, working with its management team.

### **C. Beneficiaries**

- 4.11 The beneficiaries of this project will be the micro- and small-scale artisan entrepreneurs whose primary or secondary source of household income are the handcrafted products he/she produces. The artisans associations, FUNDARTE member artisans and those artisans who qualify, independently of their link to FUNDARTE and/or the AIC, may participate in this project. What matters is their

willingness to introduce change in their production techniques that will enable them to diversify their product line and meet the standards of quality and design that the markets demand. Initially, some 1,270 families have been identified who are ready to begin working with the project: 63 families from the Asociación de Artesanos de Ocú; 56 families from the Asociación de Artesanos de Herrera; 46 families from the Asociación de Artesanos de Panamá; 105 families from the Cooperativa de Woonaan; 750 families from the Cooperativa de Molas, and 250 Kuna families. Other groups of artisans who meet the eligibility criteria may join the project.

- 4.12 The Gbobe-Buglé artisans from Bocas del Toro, Chiriquí and Veraguas will not be part of this project as other sources of financing and training are already available for groups from this region under a project that Panama's Social Investment Fund is funding for that region.

**D. Status of project preparation**

- 4.13 FUNDARTE is preparing the draft AIC by-laws and has invited groups interested in becoming partners in the AIC to review the draft before it is presented to the board of directors for consideration and before proceeding with the legal formalities to obtain a license to do business. FUNDARTE may not disburse more than 10% of the Bank resources for the project until evidence is submitted that the AIC has been legally established. A proposed "project implementation manual" has been prepared, and includes: (i) the basic rules for the project's administration, (ii) the selection and eligibility criteria for the microenterprises and small businesses that can participate in the project; (iii) the rules of procedure for the AIC services; (iv) the AIC organizational structure and organization chart; and (v) the terms of reference for the selection and hiring of the AIC general manager, operations manager, and marketing manager. One of the conditions precedent to the first disbursement will be presentation of the final version of the project implementation manual. FUNDARTE is working closely with the Bank on devising and formulating the project, which will facilitate the eventual signing of the agreement with the Bank.

**E. The project's relationship to the environment issue**

- 4.14 As the Committee on Environmental and Social Impact suggested (CESI), all the project's training and technical assistance activities are to take into account the promotion of activities and production techniques that are socially and environmentally sustainable. These include: (i) using gas or multi-combustion pottery ovens; (ii) using nontoxic dyes for textiles (with no amino acids); (iii) using timber from sustainable forests; and (iv) any other training and information on clean technologies and environmental regulations.



## V. PROGRAM COST AND FINANCING

- 5.1 The project will be executed through a non-reimbursable technical cooperation in the amount of US\$633,000; of that amount, the MIF will contribute US\$440,000 and FUNDARTE US\$193,000 as the local counterpart contribution. At least 50% of the local counterpart must be in cash, and the rest in kind. Annex IV includes an itemized budget for the project.

**Table Summarizing Project Costs, by Component (US\$)**

ACTIVITIES	MIF	%	LOCAL CONTRIBUTION	TOTAL	%
<b>Efficient operation of a new marketing mechanism</b>	<b>167,500</b>	<b>38%</b>	<b>115,000</b>	<b>282,500</b>	<b>44%</b>
1. Consulting fees and expenses associated with the design and startup of the firm	28,200		1,200	29,400	
2. Consulting fees and expenses associated with promotion and sales	82,800		33,800	116,600	
3. Consulting fees and AIC operating costs	56,500		80,000	136,500	
<b>Improvement of the supply of handcrafted products</b>	<b>204,000</b>	<b>46%</b>	<b>18,000</b>	<b>222,000</b>	<b>35%</b>
1. Training for artisans	50,000			50,000	
2. Consulting services for the design and development of new products	73,000		7,000	80,000	
3. Technical assistance to artisans	73,000		7,000	80,000	
4. Internships program	8,000		4,000	12,000	
<b>Project management</b>	<b>10,000</b>	<b>2%</b>	<b>67,000</b>	<b>77,000</b>	<b>12%</b>
1. Professional fees			48,000	48,000	
2. General project expenses			16,000	16,000	
3. Equipment	10,000		3,000	13,000	
<b>Evaluation</b>	<b>30,000</b>	<b>7%</b>	<b>0</b>	<b>30,000</b>	<b>5%</b>
<b>Auditing</b>	<b>5,000</b>	<b>1%</b>	<b>0</b>	<b>5,000</b>	<b>1%</b>
<b>Contingencies</b>	<b>23,500</b>	<b>5%</b>	<b>0</b>	<b>23,500</b>	<b>4%</b>
<b>TOTAL</b>	<b>440,000</b>	<b>100.00</b>	<b>193,000</b>	<b>633,000</b>	<b>100.00</b>
<b>%</b>	<b>69</b>		<b>31</b>	<b>100</b>	

### A. Periods of execution and disbursement

- 5.2 The project execution period will be 36 months and the disbursement period 42 months, both of which will start as of the effective date of the agreement. Based on the estimates of what the project's execution will require, a rolling account will be set up for 10% of the MIF's contribution. The fund will be managed under a separate account so that funds may be made available promptly to conduct the various activities planned.

- 5.3 **Accounting and auditing:** FUNDARTE will: (i) establish and maintain proper internal financial and accounting controls and records systems that will provide detailed information on the sources and uses of the program's funds. The program's records will: (a) identify the resources and their sources; (b) contain information on the program's expenses, differentiating between the MIF contributions and the funds from other sources; and (c) contain the details necessary to determine what goods have been procured and services contracted; (ii) open separate bank accounts to administer the MIF contribution separately from the local counterpart funds; (iii) process disbursement requests and the respective justifications of expenses, in accordance with the Bank's disbursement procedures, and (iv) prepare and submit to the Bank the program's final, audited financial statements and the biannual reports for the rolling account.
- 5.4 **Sustainability:** From the first, the project will operate with a view to sustainability. The factors taken into account to achieve the project's sustainability will be: (i) the value of the products sold; (ii) the marketing margin; and (iii) the recovery of the costs of the production-support services. In the case of the business development services associated with the activities to design and develop new products, the beneficiaries themselves will, from the very start of the project, pay a portion of the costs of the technical assistance and internships. The proceeds that the project receives from the AIC activities will be invested to supply more and better specialized services to the artisans. Because the artisans are accustomed to receiving these services free of charge, the project will have to find creative and innovative ways to recover costs, such as charging fees in kind (exchange value), a percentage of the billing on the products that were designed with the help of the advisory services provided under the project, and the like.

## VI. JUSTIFICATION, BENEFITS AND RISKS

- 6.1 **Justification.** Enhancing the competitiveness of the handcrafted products sector, while increasing its earnings by diversifying its local and international markets, is a strategic imperative. The Panamanian government, therefore, has lobbied for a series of initiatives such as the law on entrepreneurial protection, promotion and development, and the Exportarte program. With a framework in place enabling intervention in this sector, the project works from the angle of the private sector and production to build upon government efforts. This is an innovative operation because the artisans themselves will be handling the marketing of their products, affording them a timely and tested solution to this problem. The project will equip the artisans with the professional and technical know-how they will need to lay the groundwork of this marketing instrument, show them the directions in which it can be taken and its direct effects on their businesses.
- 6.2 With the AIC, in which the artisans themselves are part of the ownership structure, micro- and small-scale artisan entrepreneurs can be horizontally integrated and

linked up with businesses that import and export handcrafted products and household accessories on regional and international markets. The AIC will also be able to offer a larger volume of products that are more competitive in price and quality, which will increase sales in the handcrafted products sector.

- 6.3 **Benefits:** The project's chief benefit centers around the design and development of a marketing mechanism which, when combined with the demand-driven training and technical assistance, will enable the microenterprises and small businesses in the handcrafted products sector to diversify their markets and compete at the international level.
- 6.4 **Risks:** The first potential risk is that the project will not succeed in drumming up the anticipated demand among buyers because demand is shrinking with the onset of an economic recession on the potential markets for these products, a recession only exacerbated by the September 11 terrorist attacks on the United States. To mitigate this risk, the strategy devised to market these products targets markets not just in the United States, Europe and Japan, but also local and regional markets in Central and South America. A second potential risk is that the artisans will not live up to their professional duties and obligations once the AIC for handicrafts is up and operating. To mitigate this risk the project will have a team of professionals who will direct the AIC operations and work very closely with the suppliers of the handcrafted products. Under the project, activities are also planned to enable artisans to improve their product line and their business know-how.

## VII. PROJECT MONITORING AND EVALUATION

- 7.1 **Monitoring:** FUNDARTE will monitor the project and prepare the necessary reports. It will prepare progress reports every six months, following a format agreed upon with the Bank's country office. Those reports will document the activities conducted and the project's finances during the period in question. The reports will measure the project's accomplishments against the indicators and objectives shown in its logical framework. The first report must establish the baseline data so that project progress can be monitored through the performance indicators. A work program and disbursements timetable will be prepared for the following six-month period. Each progress report will be delivered to the Bank's country office for clearance, within 60 days following the close of the six-month period in question. A final report will be prepared and presented within 60 days following the last disbursement. The country office will use those reports to monitor the project and prepare an operations completion report within the three months following the last disbursement.
- 7.2 The progress reports will be particularly attentive to: (i) the quality and fulfillment of the project's objectives (logical framework); (ii) the status of execution of the AIC business plan and budget; (iii) the project's financial performance; (iv) the

AIC financial statements; (v) training and technical assistance programs for artisans, itemizing the events on schedule and those already conducted, their topics, the participating lecturers and the number of beneficiaries of these events; (vi) information on the relationship and coordination with the other institutions providing BDS that complement the project and with the AMPYME; (vii) the AIC financial statements and sales figures, highlighting new orders and customers added to the client base; (viii) size and type of businesses that are benefiting by the project; (ix) marketing activities conducted; (x) costs recovered as of the date of the report, and (xi) problems encountered and corrective measures taken.

- 7.3 **Evaluation:** Two reviews are planned for the project. They will be done by an international consultant specializing in the marketing of handcrafted products. The Bank will select and hire the consultant directly through its Panama country office. The first evaluation, done when 50% of the Bank's contribution has been disbursed, will evaluate the factors listed in paragraph 7.2.
- 7.4 The second evaluation will be done when 90% of the Bank's contribution has been disbursed and will examine the following: (i) the degree to which the project's specific objectives have been achieved; (ii) the quality of the services being offered in the training and technical assistance activities, as reflected in the quality of the new products developed; (iii) user satisfaction, determined by interviewing at least 20 beneficiaries selected at random; (iv) the AIC's sustainability, examining its financial statements, sales forecasts and financial ratios, and (v) success in recovering the costs of designing and developing new products.
- 7.5 If the Bank finds these evaluations to be satisfactory, it will authorize FUNDARTE to continue to commit funds. If not, FUNDARTE will have to make the adjustments needed for the Bank to authorize a resumption of disbursements.

## **VIII. EXCEPTIONS TO BANK POLICY**

- 8.1 No exceptions to the Bank's policies are planned.

## **IX. SPECIAL CONTRACTUAL CONDITIONS**

- 9.1 As a condition precedent to the first disbursement of up to US\$6,000, the following documentation must be submitted to the satisfaction of the Bank: (i) the draft by-laws of the AIC; and (ii) the final version of the project implementation manual approved by the project steering committee. The first disbursement of up to US\$6,000 will be used to hire a consultant to support FUNDARTE in the preparation of a business plan for the AIC and a legal adviser for legal establishment of the AIC.

- 9.2 As a condition precedent to disbursement of the balance of the IDB/MIF contribution, the following documentation must be submitted to the satisfaction of the Bank: (i) the AIC business plan; (ii) evidence that the AIC has been legally established; and (iii) the agreement for the transfer of resources and responsibilities from FUNDARTE to the AIC.

**IMPROVING THE COMPETITIVENESS OF PANAMANIAN HANDICRAFTS**  
**TC-00-10-00-8-PN**

**LOGICAL FRAMEWORK**

	Verifiable indicators	Means of verification	Assumptions
Panama's handcrafted products competitive.	* A 15% increase in Panama's formal exports after	* Single exportation window of the Ministry of Commerce and Industry	Demand for handcrafted products in international markets holds up
Marketing mechanism and technical assistance enabling handcrafted products to international markets and local market.	* By the program's end, 50% of the artisans benefited under the program will see their sales up 30%	* Final evaluation	The State keeps up its policy in the handcrafted products sector
Operation of a new marketing firm	* Sales of at least US\$150,000 * The marketing firm recovers at least 50% of its costs * Establishment of long-term relations with at least 6 customers * Diversification within the local market and penetration of at least 3 new markets.	* Project evaluation reports * Marketing firm's sales statistics * Business plan * Financial statements	
Improved handcrafted	* 100 new products improved	* Print and virtual catalogues	

	Verifiable indicators	Means of verification	Assumptions
<b>operation of a new marketing mechanism</b>			
ional layout, preparation and n of bylaws and logotype of zation.	<ul style="list-style-type: none"> <li>* Marketing firm's handbook of functions</li> <li>* Bylaws and logotype</li> </ul>	<ul style="list-style-type: none"> <li>* Program's accounting records</li> <li>* Legal registration</li> <li>* Brand name registration</li> <li>* Progress report</li> </ul>	<p>The new products (price and tailored to customer demands niches</p> <p>Staff are committed to the pro</p>
d implementation of a plan, marketing strategy. system and purchases	<ul style="list-style-type: none"> <li>* Business plan</li> <li>* Marketing strategy</li> <li>* Inventory systems devised and implemented</li> </ul>	<ul style="list-style-type: none"> <li>* Program's accounting records</li> </ul>	
f the marketing firm's staff.	<ul style="list-style-type: none"> <li>* 3 staff members trained</li> </ul>	<ul style="list-style-type: none"> <li>* Program's accounting records</li> </ul>	
n and marketing	<ul style="list-style-type: none"> <li>* Print and virtual catalogues</li> <li>* Subscriptions</li> <li>* Participation in international fairs</li> </ul>	<ul style="list-style-type: none"> <li>* Program's accounting records</li> </ul>	<p>Clients respond favorably to r offered and to the reporting re</p>
t	<ul style="list-style-type: none"> <li>* Equipment purchased</li> </ul>	<ul style="list-style-type: none"> <li>* Program's accounting records</li> </ul>	
<b>ement of the available handcrafted products</b>			
f the handcrafted products	<ul style="list-style-type: none"> <li>* Number of artisans trained, 1.000</li> </ul>	<ul style="list-style-type: none"> <li>* Program's accounting records</li> <li>* Progress report</li> </ul>	Artisans commit to the progra
d development of new	<ul style="list-style-type: none"> <li>* Number of new product lines designed: minimum of 20 new lines and 100 products</li> </ul>	<ul style="list-style-type: none"> <li>* Program's accounting records</li> </ul>	Artisans commit to the progra
assistance to artisans	<ul style="list-style-type: none"> <li>* Number of artisans who receive technical assistance</li> </ul>	<ul style="list-style-type: none"> <li>* Program's accounting records</li> </ul>	

	Verifiable indicators	Means of verification	Assumptions
s program	* Number of artisans with total internships each year	* Program's accounting records	Artisans commit to the progr
nt administration of the project			
contracting and monitoring l. regional and international S. activities (running of the nancial management. valuation and auditing	* Planning of activities * Financial reports and audits * Partial and full evaluations	* Program's accounting records * Progress reports * Balance sheet and monthly performance * Audits	



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## PROPOSED RESOLUTION

### PANAMA. NONREIMBURSABLE TECHNICAL COOPERATION FOR THE COMPETITIVENESS OF PANAMANIAN HANDICRAFTS

The Donors Committee of the Multilateral Investment Fund

#### RESOLVES:

1. That the President of the Inter-American Development Bank or such representative as he shall designate is authorized, in the name and on behalf of the Bank, as Administrator of the Multilateral Investment Fund, to enter into such agreements as may be necessary with the “Fundación Nacional de Artesanías de Panamá”, and to take such additional measures as may be pertinent for the execution of the donors’ memorandum referred to in Document MIF/AT-\_\_\_\_ with respect to a technical cooperation project for the competitiveness of Panamanian handicrafts.
2. That up to the amount of US\$440,000, or its equivalent in other convertible currencies, shall be authorized for the purpose of this resolution, chargeable to resources of the Small Enterprise Development Facility of the Multilateral Investment Fund.
3. That the above-mentioned sum is to be provided on a nonreimbursable basis.