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MULTILATERAL INVESTMENT FUND

PANAMA

**CREATING A VALUE PROPOSITION FOR WOMEN BUSINESS OWNERS AND
ENTREPRENEURS**

(PN-T1162)

DONORS MEMORANDUM

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PROJECT SUMMARY
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The problem this project seeks to address is the lack of access to financing for women business owners and entrepreneurs in Panama. To this end, it will support Banistmo in developing a value proposition to promote growth in women-led businesses. Banistmo is a leader in Panama's banking sector that has proposed, as one of its strategic initiatives, to strengthen its capacity to provide financial and nonfinancial services to women business owners and entrepreneurs. To do so, Banistmo will need support to develop a value proposition to overcome several challenges that currently limit its ability to: (i) better serve the needs of the women-led small and medium-sized enterprises (SMEs) currently in its loan portfolio, and (ii) reach women entrepreneurs and understand their particular needs. Banistmo has prepared a preliminary outline of the possible components of the value proposition following a round of conversations with the Multilateral Investment Fund (MIF) during the predesign stage for this project; the proposition combines loans, workshops, training program, digital tools, and strategic partnerships.

The project's objective is to promote growth for Banistmo's women entrepreneur and business owner clients by providing credit through the development of a holistic value proposition targeting women in that segment. The project's expected impact is increased sales and net jobs generated in women-led businesses. By supporting Banistmo's downscaling processes, the project's expected outcome is greater access to financial and business development products and services for women business owners and entrepreneurs.

The model to be tested to achieve the impact and expected outcome is "downscaling of commercial banks with a gender perspective." The detailed structure of the model to be established by this project will be based on the best practices and lessons learned from the member banks of the Global Banking Alliance for Women (GBA). When the MIF put Banistmo into contact with the GBA, Banistmo recognized the value that the GBA could bring to it for the design of a value proposition for the segment of women business owners and entrepreneurs; Banistmo officially became a member of the GBA in 2016.

In addition to the innovation contained in the "what" of this project, innovation is also present in terms of its "how." The project was designed within the framework of the women entrepreneurshipBanking (weB)¹ initiative. Under that initiative, the MIF and the Inter-American Investment Corporation (IIC) have designed projects to support a total of 16 commercial banks in the region to structure programs to meet the needs of women business owners and entrepreneurs. With the knowledge they have gained from sponsoring GBA activities (that have enabled the MIF and the IIC to share lessons and best practices with banks throughout the world), implementing several weB projects, and conducting thematic studies, the MIF and the IIC themselves can now advise banks on the basics of how to design their value proposition. This means it will not be necessary to include contracts for external consultants in project budgets. In addition, this will enable the MIF and the IIC to work more closely with the executing agency in the design stage, in the analysis of case studies (within and outside the region) and data, and in the design

¹ weB is a joint initiative of the Inter-American Investment Corporation (IIC) and the MIF. It was launched in 2012 in response to research findings and field experience that showed that women-led SMEs are part of a high-growth but underserved segment of economic activity in Latin America and the Caribbean.

and validation of the value proposition prototype. All of this will result in a more specific, targeted project structure, as well as savings of MIF resources.

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ABBREVIATIONS

GBA	Global Banking Alliance for Women
IIC	Inter-American Investment Corporation
MSMEs	Micro, small, and medium-sized enterprises
SBP	Superintendencia de Bancos de Panamá [Superintendency of Banks of Panama]
SMEs	Small and medium-sized enterprises
weB	women entrepreneurshipBanking

PANAMA
CREATING A VALUE PROPOSITION FOR WOMEN BUSINESS OWNERS AND ENTREPRENEURS
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EXECUTIVE SUMMARY

Country and geographical location:	Panama		
Executing agency:	Banistmo, S.A. (Banistmo)		
Focal area:	Legacy project		
Coordination with other donors/Bank operations:	IIC and PN-M1024 - Promotion of an Ecosystem Supportive of Women's Entrepreneurship and Businesses in Panama		
Beneficiaries:	<p>Direct beneficiaries: 700 women business owners and entrepreneurs in Panama will receive loans, 250 women business owners and entrepreneurs will receive face-to-face training, and 50 women business owners and entrepreneurs will receive advisory and/or mentorship services.</p> <p>Indirect beneficiaries: the employees of small and medium-sized enterprises (SMEs) that receive financing and support. The gender perspective is not limited to providing support to financial intermediaries so they help women business owners and entrepreneurs achieve their objectives; it also supports development of a business culture that promotes gender equality. Thus, the employees of Banistmo will be indirect beneficiaries of the project since they will receive gender-related training.</p>		
Financing:	Technical cooperation		
	MIF:	US\$238,750	44.6%
	Counterpart:	US\$296,250	55.4%
	TOTAL BUDGET:	US\$535,000	100%
Description:	The project's expected impact is increased sales and net jobs generated in women-led businesses in Panama. By supporting Banistmo's downscaling processes, the project's expected outcome is greater access to financial and business development products and services for women business owners and entrepreneurs. The model to tested to achieve the expected impact and outcome is the "downscaling of commercial banks with a gender perspective." The project was designed within the		

	framework of the women entrepreneurship Banking (weB) ² initiative. It has two components: (i) define the value proposition; and (ii) launch the value proposition and follow-up activities.
Execution and disbursement periods:	Execution: 18 months Disbursement: 24 months
Special contractual conditions:	As conditions precedent to the first disbursement of the nonreimbursable technical-cooperation resources, Banistmo will submit, to the satisfaction of the IDB/MIF: (i) a work plan for project implementation, and (ii) a procurement plan.
Risks:	The main risks of the project have to do with implementation, competition, and portfolio quality. These risks are described in detail in Section III of this document, along with the corresponding mitigation factors and considerations.
Environmental and social impact review:	Pursuant to Directive B.13 of the IDB's Environment and Safeguards Compliance Policy, this project cannot be classified according to its possible environmental and social impacts. Banistmo's main clients are SMEs engaged in economic activities involving commerce, manufacturing, and services that have minimal or no environmental impact.
Unit responsible for disbursement of MIF technical-cooperation resources:	IDB Country Office in Panama (MIF/CPN).

² weB is a joint initiative of the Inter-American Investment Corporation (IIC) and the MIF. It was launched in 2012 in response to research findings and field experience that showed that women-led SMEs are part of a high-growth but underserved segment of economic activity in Latin America and the Caribbean.

I. THE PROBLEM

A. Diagnostic assessment of the problem to be addressed by the project

- 1.1 **The problem** this project seeks to address is the lack of access to financing for women business owners and entrepreneurs in Panama. To this end, it will support Banistmo in developing a value proposition to promote growth in women-led businesses, addressing both the supply and demand sides of the problem. On the supply side, it will assist Banistmo in developing a value proposition that includes financial and nonfinancial products and services for the segment of women-led small and medium-sized enterprises (SMEs) and women entrepreneurs. On the demand side, it will develop the capabilities of women business owners and entrepreneurs so they can grow their businesses in collaboration with Banistmo and its strategic partners.
- 1.2 Although Panama's financial system is one of the most highly developed in the region, SMEs and new enterprises have limited access to bank financing for the development of their full growth potential.³ Regarding gender composition in the SME segment, the World Bank Group's Business Surveys found that women own 25% of small businesses and 25.8% of medium-sized businesses have female participation in their ownership (which is low, compared to the approximately 40% average for Latin America and the Caribbean, and about 35% for the world as a whole).⁴ The same surveys show that no woman-led company with a woman as lead manager reported having access to investment financing, indicating a less than enabling business environment for women entrepreneurs.
- 1.3 More specifically, according to the Women's Entrepreneurial Index⁵ of the Multilateral Investment Fund (MIF) and the Economist Intelligence Unit (EIU), which ranks Latin American and Caribbean countries according to the ecosystem for women entrepreneurs, Panama has significant room for improvement. Of the 20 countries listed in the report, Panama ranks 17th in terms of women entrepreneurs' access to financing. This category measures the degree to which women who own micro, small, and medium-sized enterprises (MSMEs) can access loans, savings, and checking accounts in formal financial institutions. As a result of this situation, women's business activities in Panama are insufficiently funded and undercapitalized, which constrains total global output and inhibits economic growth. There is a positive correlation between economies with enabling environments for

³ For example, according to the Superintendency of Banks of Panama, the loans offered by the national banking system to small business represent just 5.2% of the total portfolio. At March 2015, the national banking system's portfolio in the small business segment was US\$2.175 billion (Financial Studies Department of the Superintendency of Banks, "*Informe de Bancarización 2015*," September 2015). At the regional level, the last report on the credit gap for formal SMEs indicated that in Latin America and the Caribbean, the figure is about US\$235.3 billion, of which US\$85.6 billion pertains to women-led SMEs (International Finance Corporation, 2014. Women-owned SMEs: A Business Opportunity for Financial Institutions). For the credit gap calculation, women-owned SMEs are those companies in which at least one of the owners is a woman.

⁴ <http://espanol.enterprisesurveys.org/data/exploreeconomies/2010/panama#gender--size>

⁵ The Women's Entrepreneurship Index was launched in 2013, sponsored by the MIF and created by the Economist Intelligence Unit (EIU). It measures the business environment for women entrepreneurs in 20 Latin American and Caribbean countries. For more information, see: www.weventurescope.com.

businesswomen and national competitiveness, which suggests that a prosperous base of women entrepreneurs could contribute to overall growth in Panama.⁶

- 1.4 A MIF study⁷ noted that this scant access for women business owners and entrepreneurs is also associated with poor information channels on financial products, women's lack of familiarity with financing options, and their limited participation in business networks. This particularly affects women who wish to do business in high-growth sectors in Panama dominated by men-led companies, such as transportation and logistics, financial services, and tourism. More than 90% of women entrepreneurs or women wanting to do business interviewed for a study by Canal de Empresarias [Channel of Women Business Owners]⁸ stated that they need support in the form of training on business skills and competencies, cost transactions/processes, contacts and networks, and financing.
- 1.5 The characteristics of women-owned or women-led SMEs suggest that although they perform well, they are overlooked as clients by the traditional banking sector due to conscious and unconscious biases. Yet, evidence and anecdotes indicate that entrepreneurs, especially women entrepreneurs, tend to be loyal to the financial institution that granted them their first loan in the startup and/or growth stages and that they go on to purchase other financial products and services from the same institution. All of this represents a missed market opportunity for financial institutions to serve the segment of women business owners and entrepreneurs.⁹
- 1.6 Banistmo is a leader in Panama's banking sector and has proposed, as one of its strategic initiatives, to strengthen its capacities to provide financial and nonfinancial services to women business owners and entrepreneurs. As a first step in that direction, Banistmo conducted a gender analysis of its existing portfolio for the purpose of establishing a baseline. The findings showed that Banistmo currently has around 18,000 signatories in its SME portfolio, of which 6,800 (38%) are women. Banistmo needs support to develop a value proposition that will help it overcome several challenges that currently limit its ability to: (i) better serve the needs of women-led SMEs in its existing loan portfolio, and (ii) reach women entrepreneurs and understand their particular needs. Banistmo has prepared a preliminary outline of the possible components of the value proposition following a round of conversations with the MIF during the predesign stage for this project; the proposal combines loans, workshops, training program, digital tools, and strategic partnerships.

B. Beneficiaries

- 1.7 The direct beneficiaries of the project will be women business owners and entrepreneurs in Panama. Preliminary estimates suggest that the project will enable Banistmo to provide loans to 700 women business owners and entrepreneurs, face-to-face training to 250 women business owners and entrepreneurs, and advisory and/or mentorship services to 50 women business owners and entrepreneurs. The

⁶ Ibid. The following report also underscores this positive correlation, based on data from some emerging countries: Goldman Sachs – Global Markets Institute, “Giving credit where it is due: How closing the credit gap for women-owned SMES can drive global growth,” February 2014.

⁷ Jennifer Powers and Barbara Magnoni, “A business to call her own: Identifying, analyzing and overcoming constraints to women's small businesses in Latin America and the Caribbean,” April 2010.

⁸ <http://www.canalempresarias.org>

⁹ Multilateral Investment Fund, “equal potential, unequal paths: Sector choice and financing requests explain much of the gender gap in entrepreneurial success,” September 2015.

percentages broken down by sex will show an increase in Banistmo's portfolio of women business owners and entrepreneurs.

- 1.8 The project's indirect beneficiaries will be the employees of businesses that receive support. The gender perspective is not limited to providing support to financial intermediaries so they can help women business owners and entrepreneurs achieve their objectives; it also supports the development of a business culture that promotes gender equality. As a signatory of the United Nations Women's Empowerment Principles,¹⁰ Banistmo has already taken steps in this direction that will be strengthened by this project.

II. THE SOLUTION

A. Description of the project

- 2.1 The project objective is to promote growth for Banistmo's women entrepreneur and business owner clients by providing credit through the development of a holistic value proposition targeting women in that segment. The project's expected impact is increased sales and net jobs generated in women-led businesses. By supporting Banistmo's downscaling processes, the project's expected outcome is greater access to financial and business development products and services for women business owners and entrepreneurs.

B. Description of the model/solution/intervention

- 2.2 The model to be tested to achieve the expected impact and outcome is **"downscaling of commercial banks with a gender perspective."** Any knowledge generated by implementing a downscaling model with a gender perspective in the Latin American and Caribbean region has yet to be systematized. For that reason, the detailed structure of this model will be based on the best practices of, and lessons learned from, the member banks of the Global Banking Alliance for Women (GBA).¹¹ When the MIF put Banistmo in contact with the GBA, Banistmo recognized the value that the GBA could bring to it in designing a value proposition for the women business owners and entrepreneurs segment; it officially became a member of the GBA in 2016.
- 2.3 Taking into account the best practices and lessons learned as systematized by the GBA, as part of the project, the value proposition is expected to include business training and personalized advisory services in addition to financial products and services. The nonfinancial services will be the part of the project that targets women entrepreneurs who show great potential for growth and have specific needs, and the

¹⁰ The Women's Empowerment Principles offer businesses and the private sector practical guidelines on how to empower women in the workplace, in the market, and in the community. These principles were prepared in a partnership between the United Nations Entity for Gender Equality and the Empowerment of Women (UN Women) and the United Nations Global Compact. They were designed to help businesses examine their policies and practices—or create new ones—with a view to empowering women.

¹¹ <http://www.gbaforwomen.org>. The GBA is the worldwide leading consortium of financial institutions (mainly commercial banks) and other organizations interested in promoting access to financing for women-led businesses. It has more than 40 member banks, including the following in Latin America and the Caribbean: Banco Nacional de Costa Rica, Itaú Unibanco (Brazil), Banco BHD León (Dominican Republic), Banco Pichincha (Ecuador), Banco GyT Continental El Salvador, Banco Estado (Chile), Banco Económico (Bolivia), and BAC San José (Costa Rica). The IDB Group has been a sponsor of the GBA since 2013 and hosted the 2014 Annual GBA Summit in Washington, D.C.

project will forge strategic partnerships with business development service providers, among other things.

C. Innovation

- 2.4 Access to financing for women business owners and entrepreneurs is becoming one of the most highly discussed topics in a number of international forums. A number of pioneering commercial banks, including some in Latin America and the Caribbean, have addressed the issue and begun to put forth business cases for serving the segment in a profitable manner. Even so, the topic itself continues to be considered innovative because transforming the banking system to make it sensitive to the needs of half the population is not an event but a process.
- 2.5 In addition to the innovation contained in the “what” of this project, innovation is also present in terms of its “how.” The project was designed within the framework of the **women entrepreneurshipBanking (weB)** initiative. Under that initiative, the MIF has designed nine nonreimbursable technical-cooperation operations that support a total of 10 banks in the region to structure programs to meet the needs of women business owners and entrepreneurs. In the past, the MIF’s contribution averaged US\$500,000 for each weB project; with those funds, supplemented by counterpart resources, each executing agency hired external consultants to carry out project activities, with the ultimate goal of structuring a value proposition targeting women business owners and entrepreneurs.
- 2.6 With the knowledge it gained from sponsoring GBA activities (which enabled the MIF to share lessons and best practices with banks in other parts of the world), implementing several weB projects, and conducting thematic studies, the MIF itself can now provide banks with basic advice on how to design their value proposition. As a result, it will no longer be necessary to include contracts for external consultants in project budgets. This also makes it possible for the MIF to work more closely with the executing agency in the design stage, in the analysis of case studies (within and outside the region) and data analysis, and in the design and validation of the value proposition prototype. All of this will result in a more specific, targeted project structure, as well as savings of MIF resources. For example, because this project received a much larger knowledge contribution from the MIF in the design stage, as described above, the MIF contribution to the project is US\$238,750, almost half the average amount the MIF contributed to earlier weB projects. The IIC has provided resources in kind (staff time) to design the project.

D. Components

- 2.7 The MIF will provide Banistmo with nonreimbursable funding of up to a maximum of US\$238,750; Banistmo will contribute US\$296,250 in counterpart funding. The execution period will be 18 months and the disbursement period, 24 months. The funds will be used to finance the following subcomponents: (i) define the value proposition; and (ii) launch the value proposition and follow-up activities.

Component I: Define the value proposition (MIF: US\$24,750; counterpart: US\$69,050)

- 2.8 The objective of this component is to help Banistmo define its business value proposition for the segment of women business owners and entrepreneurs; the value proposition will include the design and delivery of financial and nonfinancial products and services. This objective will be achieved by means of market research and participation in the GBA. The market research will include an analysis of the

needs of women business owners and entrepreneurs (both existing and potential clients), using focus groups, studies, and the analysis of bank data. The IDB Group has determined that financial institutions that participate in the GBA's guidance and training activities design programs that achieve better results in increasing the portfolio of women-led companies; the partnership with the GBA is therefore of key importance.

- 2.9 The following activities are planned for this component: (i) focus groups and design-thinking research;¹² (ii) data mining, to include a breakdown of information from registered businesses by sex, and a differentiated analysis by sex;¹³ (iii) membership in the GBA and participation in knowledge activities with the GBA, in order to validate the development of the value proposition; and (iv) alliances with strategic partners.
- 2.10 In its search for strategic partners, Banistmo identified the City of Knowledge Foundation,¹⁴ with which it signed a memorandum of understanding on 10 June 2016. The aim of the partnership is to strengthen and advise women business owners and entrepreneurs with a view to increasing their empowerment and thereby contribute to consolidating economic development in Panama. To this end, they will: (i) undertake common actions to promote the consolidation of women-led businesses promoted by the Canal de Empresarias (a project of the City of Knowledge Foundation and the MIF), by strengthening their technical and financing capabilities and increasing their visibility both in the markets and in society; (ii) participate actively in all actions to strengthen gender inclusivity in Panama's business and entrepreneurship ecosystem and, more specifically, in the actions of the Red Emprise Igualdad of the City of Knowledge Foundation; and (iii) strengthen the knowledge and skills of Banistmo personnel in the area of gender and business, thereby contributing to fostering more inclusive and effective communication in the field.
- 2.11 According to the memorandum of understanding, the City of Knowledge Foundation agrees to: (i) provide training on the gender focus to Banistmo personnel who provide personal and SME banking services, introducing some key competencies with regard to gender equality and business; and (ii) hold an annual networking activity for women involved in the Canal de Empresarias, to which Banistmo's SME customers will be invited. For its part, Banistmo will launch a program of training workshops for Canal de Empresarias participants, specifically: (i) finance workshops for nonfinancial entities at the three project sites (Panama, Chiriquí, Veraguas);

¹² Design thinking is a very useful tool for bringing about innovation in organizations effectively and successfully. It offers important benefits for the design of solutions and enables companies to achieve better marketing outcomes. Design thinking is a methodology for developing people-centered innovation, offering a lens with which to observe challenges, detect needs, and then resolve them. Design thinking uses the designer's sensitivity and methods to solve problems in a way that meets people's needs in a technologically feasible and commercially viable way. Thus, design thinking focuses on the design process (with the end product in the background), and incorporates the approaches of different fields through the participation of multidisciplinary teams.

¹³ For example, Banistmo currently collects data regarding its clients' level of satisfaction to then calculate the "net promoter score," a very important variable in marketing that few banks in Latin America have.

¹⁴ The City of Knowledge Foundation is a nonprofit organization that works to fully incorporate women into Panama's social and economic development by promoting women's participation in entrepreneurship opportunities that Panama's business climate currently favors. It also promotes the changes (structural and cultural) necessary to create a more balanced, inclusive business ecosystem for women. The City of Knowledge Foundation is implementing MIF project PN-M1024, "Promotion of an Ecosystem Supportive of Women's Entrepreneurship and Businesses in Panama" (approved in 2013).

(ii) marketing workshops at the three project sites; and (iii) other workshops that might be of interest, to be determined during the course of project implementation. Banistmo will also provide some specialized female and/or male mentors to the mentorship community at Canal de Empresarias, especially in the fields of finance and marketing, and will participate actively in the working group of Red Empeñe Igualdad and in its activities.

- 2.12 In addition, the City of Knowledge Foundation and Banistmo will award an annual Banistmo/City of Knowledge prize. A joint committee will select the best initiatives from among those that complete the project's road map or itineraries. The prizes will consist of seed funding, networking with an important company in commercial banking to promote sales, and support for implementation and visibility in target markets.

Component 2: Launch the value proposition and follow-up activities (MIF: US\$143,000; counterpart: US\$201,200)

- 2.13 The objective of this component is to implement the value proposition in the market, in particular the strategy for marketing and scaling the new products and services developed under the new proposition as part of Component 1. A number of women business owners and entrepreneurs will receive technical support based on the best practices collected by the IDB Group from the women entrepreneurshipBanking projects.
- 2.14 This component is expected to involve the following activities: (i) implement the promotional strategy in order to inform the target client segment about the value proposition, starting in Panama City; (ii) provide training to Banistmo employees to raise their awareness regarding the business focus on gender and implement the value proposition; (iii) provide training for women business owners and entrepreneurs through face-to-face courses and coaching; and (iv) implement the advisory services/mentorship program among women entrepreneurs, in particular.

E. Project outcomes, impact, monitoring, and evaluation

- 2.15 The project outcome and impact will be measured by monitoring the following indicators (differentiated by sex):
- Number of companies that gain access to credit or other financial products
 - Total amount (value) of the portfolio of credit products offered by Banistmo to the target segment
 - Number of businesses that receive training through face-to-face seminars.
- 2.16 Baseline. Banistmo will gather information on the indicators to establish a baseline. To this end, the data mining activities of Component 1 will serve as a very important source of information because it will include information on registered enterprises broken down by sex and a differentiated analysis by sex.
- 2.17 Monitoring mechanisms. Banistmo will be responsible for compiling and analyzing the relevant information for ongoing monitoring of project implementation and the indicators set out in the results matrix (Annex I). As mentioned above, the "how" of the project is innovative, which not only made it possible to reduce the MIF's contribution to the project budget but also to shorten the execution period as compared to previous weB projects. Because of the short execution period, the MIF team will be involved intensively during the first six months so that it can continue to

contribute its know-how to defining and launching the value proposition and making any needed adjustments thereto.

- 2.18 Evaluation. The short execution period also means that the MIF will not conduct a midterm evaluation. A final evaluation will be performed at the end of the execution period and will include analysis of: (i) the project's immediate impact on beneficiaries; (ii) the outcomes as compared to original objectives; (iii) lessons learned; and (iv) the sustainability of the project's actions.

III. PROJECT ALIGNMENT WITH THE IDB GROUP, SCALABILITY, AND RISKS

A. Alignment with the IDB Group

- 3.1 The IDB document "Update to the Institutional Strategy 2010-2020: Partnering with Latin America and the Caribbean to Improve Lives" (document GN-2788-5) identifies gender and diversity as one of the Bank's main crosscutting topics. This operation is consistent with a focus on gender and diversity, which is also one of the four crosscutting areas of action established in the Country Strategy with Panama (2015-2019), approved in December 2015 (document GN-2838).
- 3.2 The 2016-2019 Business Plan of the Inter-American Investment Corporation (IIC) (document CII/GN-310) also targets gender equality and diversity as a crosscutting priority that should inform its work in all countries and sectors, and with all clients. Given the special emphasis on access to financing for women business owners and entrepreneurs, this operation was also designed within the framework of the weB initiative, a joint effort of the IIC and the MIF that provides support to lending institutions to implement financing models for women-led SMEs.¹⁵
- 3.3 Banistmo currently has a revolving line of credit with the IIC for up to US\$40 million (document CII/PR-786-1). Of that amount, up to US\$20 million is for subloans of up to US\$500,000 per eligible company, and at least US\$20 million for subloans of up to US\$150,000 per eligible company, to support Banistmo's downscaling process. The IIC is also executing the first GREENPYME technical assistance operation in Panama, primarily for Banistmo's MSME clients, to boost competitiveness through effective promotion of energy efficiency, by conducting three training workshops and 20 energy audits exclusively for Banistmo clients.

B. Scalability

- 3.4 Once this project has been successfully implemented, it is very likely to be sustainable and scaled up because Banistmo's management team has shown great commitment ever since the initial project proposal was submitted to the MIF. Banistmo's firm commitment is demonstrated by the fact that it became a member of the GBA following a recommendation from the MIF, is an active participant in GBA activities so as to capture international best practices, and developed a prototype of the value proposition during the conversations with the MIF to design this project.
- 3.5 Another factor behind the project's high potential for scalability is the IIC's longstanding and positive relationship with Banistmo and Bancolombia (Banistmo stockholder). When Banistmo scales up project outcomes to further expand its

¹⁵ The weB initiative was originally launched in 2012 as a joint effort between the then Structured and Corporate Finance Department (SCF) of the IDB and the MIF. The weB initiative has approved a set of projects to support 16 commercial banks in the region. A summary of the weB projects can be found in Annex VIII.

portfolio of women business owners and entrepreneurs, and if Banistmo transfers the knowledge it has acquired to Bancolombia so that it also implements the gender focus in its operations, the IIC will consider providing financial and technical support.

C. Project risks

- 3.6 Implementation risk. The project's objective is to support Banistmo's downscaling processes, with special emphasis on providing women business owners and entrepreneurs with greater access to financing. However, without a buy-in from Banistmo's board of directors and senior management, or if it lacks the basic "how-to with regard to the implementation of downscaling with a gender focus, project implementation will be at risk. Considerations and mitigation: Banistmo has clearly identified the segment of women business owners and entrepreneurs as an opportunity, and has demonstrated its strong commitment by undertaking to break down its current portfolio by sex and designing a prototype of the value proposition. Moreover, its membership in the GBA, the memorandum of understanding signed with the City of Knowledge Foundation, and the fact that it signed on to the Women's Empowerment Principles are additional evidence of Banistmo's high degree of institutional commitment.
- 3.7 Competition risk. The banking sector is very competitive in Panama and other banks may also be interested in working with the segment of women business owners and entrepreneurs. Moreover, some microfinance institutions in Panama have begun to explore opportunities to expand their operations toward the micro-top segment and small women-led businesses (e.g. Banco Delta).¹⁶ Consideration: A holistic value proposition with a gender focus can be a strong differentiating factor even if other banks begin to address this topic. Moreover, addressing this topic is not an event; it is a process that requires a strong buy-in by the board of directors and senior management and takes time. So, even if competition emerges, Banistmo will enjoy the "first-mover" advantage for a certain amount of time. Moreover, the micro-top and small business subsegment (the target subsegment of microfinance institutions) is entirely different from the one that commercial banks tend to target when they downscale. With respect to the Banco Delta initiative, another differentiating factor of this project is that Banistmo includes both women entrepreneurs and business owners in their target market.
- 3.8 Portfolio quality risk. Financial institutions always face this risk and Banistmo is no exception, especially as it undertakes to serve a new and more specific segment. Banistmo will be expanding its operations and loans to the segment of women business owners and entrepreneurs, which could increase its credit risk during the learning curve. Consideration and mitigation: With regard to access to financing for women and/or women-led SMEs, there are a number of business cases, especially among members of the GBA, showing that serving women and/or women-led SMEs is a profitable business for banks if international best practices are followed. These international practices will be included in the value proposition's design as a result of Banistmo's participation in GBA activities. In fact, its strategic partnership with the City of Knowledge Foundation is one best practice that has been incorporated.

¹⁶ For example, Banco Delta is executing MIF project PN-M1029 "Creating a Value Proposition for MSEs with a Focus on Women Entrepreneurs" (approved in 2015). The latter project is in its initial stage of execution and the lessons will be incorporated during execution of this project.

IV. INSTRUMENT AND PROPOSED BUDGET

- 4.1 The total cost of the project is US\$535,000, of which the MIF will contribute US\$238,750 (44.6%) in nonreimbursable technical-cooperation funding, and Banistmo US\$296,250 (55.4%) in counterpart funding.

(US\$)	MIF	Banistmo		Total
		Cash	In kind	
Component I: Define the value proposition	\$24,750	\$54,750	\$14,300	\$93,800
Component II: Launch the value proposition and follow-up activities	\$143,000	\$136,500	\$64,700	\$344,200
Baseline, monitoring, and computer system	\$10,000	-	\$10,000	\$20,000
Project coordinator	-	-	\$12,000	\$12,000
Final evaluation	\$26,000	-	\$4,000	\$30,000
Contingencies	\$35,000	-	-	\$35,000
Total	\$238,750	\$191,250	\$105,000	\$535,000
(%)	44.6%	35.7%	19.6%	100%

- 4.2 Retroactive recognition of counterpart funds. The MIF will recognize expenditures incurred by Banistmo as of 1 April 2016 as counterpart funding for the project.

V. EXECUTING AGENCY AND IMPLEMENTATION STRUCTURE

A. Description of the executing agency

- 5.1 Banistmo, S.A., will be the executing agency for this project and will sign the agreement with the IDB/MIF. Banistmo is an SBP-supervised Panamanian commercial bank that initiated operations in 1973 under the name of HSBC Bank (Panama), S.A. In October 2013, HSBC Bank (Panama) was acquired by Bancolombia, S.A., a Colombian financial institution and one of the largest private banks in Latin America and the Caribbean by volume of assets. After the acquisition, HSBC Bank (Panama) was renamed Banistmo by Bancolombia. Banistmo offers a wide range of financial services mainly to companies and individuals, directly and through its branch offices. In addition to business and consumer banking, its services include financial leasing, fiduciary asset management, payment agency, and security negotiation and brokerage.
- 5.2 Banistmo is the second largest private bank in Panama with 12% and 14% market shares as at March 2015, measured by deposits and loans, respectively. It is a diversified bank with 17% of its portfolio in the consumer sector, 27% in residential mortgage financing, and 56% in business loans. Banistmo has 455,000 clients, 55 branches, and more than 300 automatic teller machines. At December 2014, it employed 2,578 people, mostly women. SMEs represent 63% of the total number of businesses financed by Banistmo; the remaining businesses that receive financing are corporations. Banistmo has received an international rating of BBB- by S&P and BBB by Fitch Ratings.

- 5.3 Bancolombia is Banistmo's sole shareholder,¹⁷ and for this it has received all the necessary permits from the Superintendency of Banks of Panama (SBP). As a lending institution and issuer of securities, it is also subject to monitoring and control by the Finance Superintendency of Colombia. In addition, Bancolombia is a recurrent issuer of debt and equity securities on the New York Stock Exchange (NYSE), and therefore must also meet the standards of the United States Securities and Exchange Commission and other regulatory authorities.
- 5.4 In October 2016, Fitch Ratings affirmed Banistmo's long-term international rating at BBB and long-term national rating at AAA(pan), based on an evaluation of audited information to 30 June 2016. These ratings are supported by the backing of Bancolombia (international rating of BBB), should that be necessary. Banistmo is a subsidiary of key importance to Bancolombia because of its role in Bancolombia's strategy of expansion and diversification in the Central American region.
- 5.5 Banistmo's financial statements to 31 December 2015 were audited by PricewaterhouseCoopers (PwC), which issued an unqualified opinion. Its financial statements had been audited by KPMG until 2013, but this was changed because PwC is the firm that audits Bancolombia. Since 2010, Panama's regulations have required that banks change their audit firm or audit team every five fiscal years. Banistmo has complied with this by changing the team and partner that signs the opinion. Banistmo's audited financial statements for the past three fiscal years can be found in Annex VI.
- 5.6 According to the December 2015 audited financial statements, Banistmo's assets totaled US\$8,920,900,000, it had a net portfolio of loans of US\$6,754,300,000, total liabilities of US\$7,973,200,000 (US\$6,604,200 of which were clients' savings), and US\$947.8 million in equity. The gross loan portfolio grew by 12.2% in 2014 and by 8.8% in 2015, and the leverage ratio was kept under control (8.4 times owing to strong capitalization in 2015); the equity-to-assets ratio was 10.6%.

¹⁷ Bancolombia's stockholders are: Grupo de Inversiones Suramericana, S.A. (Colombia), 26.76%; American Depositary Receipt program (ADR) in the NYSE, 21.77%; Fondo de Pensiones Obligatorias Porvenir Moderado (Colombia), 8.57%; Fondo de Pensiones Obligatorias Protección Moderado (Colombia), 7.22%; Grupo Argos, S.A. (Colombia), 3.45%; Fondo de Pensiones Obligatorias Colfondos Moderado (Colombia), 2.62%; Emmerly Equity Corporation (Panama), 2.54%; Lorange Industrial Corporation (Panama), 2.14%; Cementos Argos, S.A. (Colombia), 2.12%; Fondo Bursatil Ishares Colcap (Colombia), 1.63%; Old Mutual Fondo de Pensiones Obligatorias Moderado (Colombia), 1.10%; and others totaling 22.2%. As an enterprise, Grupo de Inversiones Suramericana does not produce goods or services; it invests in the shares of companies that do. Its product is a solid portfolio of investments in Colombia. The shares of Grupo de Inversiones Suramericana are listed on the Colombian Stock Exchange (BVC). Its main shareholders are institutional investors, including Colombian pension funds. The shares of the ADR program are owned by 36 shareholders and have been listed on the NYSE since 1995 under the symbol CIB.

Banistmo: main indicators	Dec 2012	Dec 2013	Dec 2014	Dec 2015
Total assets (US\$ million)	9,634.6	8,062.0	8,317.5	8,920.9
Net credit portfolio (US\$ million)	5,616.5	5,534.5	6,212.7	6,754.3
Total liabilities (US\$ million)	8,712.4	7,250.6	7,439.7	7,973.2
Total deposits (US\$ million)	5,973.2	5,450.6	5,895.4	6,604.2
Equity (US\$ million)	775.0	664.2	730.6	947.8
Profits before taxes (US\$ million)	124.4	56.6	94.0	85.0
Portfolio at risk more than 90 days (PAR>90, %)	2.87	1.94	1.68	2.44
Leverage (liabilities/equity)	11.2	10.9	10.2	8.4
Return on average assets (%)	0.45	0.22	0.93	1.03
Return on average equity (%)	4.30	2.71	10.98	10.63

- 5.7 Although Banistmo's loan portfolio is diversified by economic sector and credit segment, the portfolio quality needs to be improved: the arrears indicator (the portfolio with arrears exceeding 90 days (PAR >90) of 2.44%) is higher than that of its Central American peers, and the reserves on the portfolio in arrears are lower, even though they are in compliance with local regulations and its calculations of estimated losses. Banistmo continues to optimize its risk control tools, its lending standards, and its collection processes.
- 5.8 Banistmo's funding is one of its strengths owing to its widespread deposit base and its high capacity to secure funds. Its extensive network of service points helps maintain its broad and stable deposit base. In addition, it secures long-term financing from other sources to manage its terms matching. Banistmo's capitalization indicators have also been improving. It has a solid capital base, and its regulatory capital indicators stood at 14.2% to December 2015, composed entirely of primary capital, which is well above the minimum required under local law (8%).
- 5.9 Banistmo's performance has been improving since it was acquired by Bancolombia, spurred by significant cuts in operating costs, maintaining a net interest margin higher than the industry average, and stable expenditures for loan loss provisions. In recent years, its operating return has benefited from improved operational efficiency.
- 5.10 Banistmo has an eight-member board of directors. To sit on the board, members must be approved by the supervisory authorities with regard to their professional activities and credit history. Annex VII shows the composition of Banistmo's board of directors and management team. Aimeé Sentmat de Grimaldo serves as Banistmo's executive president. She holds a bachelor's degree in finance from the Universidad Católica Santa María la Antigua and an MBA from Nova Southeastern University. She was vice president for commercial banking at the Latin American Export Bank from 1997 to 2002, after which she served as director of commercial banking at HSBC Bank (Panama). In 2013 she was appointed executive president of Banistmo. It is noteworthy that, among Panama's commercial banks, only two, including Banistmo, currently have a woman president/senior manager.
- 5.11 **Integrity review.** In accordance with IDB policy (document OP-474-1), the project team conducted an integrity review of the executive officers and shareholders of Banistmo, not finding any irregularities related to the entity.

VI. ENVIRONMENTAL AND SOCIAL EFFECTS

- 6.1 Pursuant to Directive B.13 of the IDB's Environment and Safeguards Compliance Policy, this project cannot be classified according to its possible environmental and social impacts. Banistmo's main clients are SMEs engaged in economic activities involving commerce, manufacturing, and services that have minimal or no impact on the environment.

VII. ATTAINMENT OF MILESTONES AND SPECIAL FIDUCIARY PROVISIONS

- 7.1 **Disbursement by results and fiduciary provisions.** In implementing this project, Banistmo will follow standard MIF provisions regarding disbursement by results, procurement, and financial management, as specified in Annex V.

VIII. INFORMATION DISCLOSURE AND INTELLECTUAL PROPERTY

- 8.1 **Information disclosure.** This document contains confidential information related to one or more of the 10 exceptions to the IDB's Access to Information Policy; therefore, it will not be disclosed to persons outside the IDB.