

PANAMA

AGRIBUSINESS SUPPORT SERVICES

(TC-95-07-09-9)

PROJECT MEMORANDUM

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ABBREVIATIONS

ANAPOR	Asociación Nacional de Porcinocultores
ANAVIP	Asociación Nacional de Avicultores de Panamá
GDP	gross domestic product
GOP	Government of Panama
IMA	Instituto de Mercadeo Agropecuario
IPCE	Instituto Panameño de Comercio Exterior
JAD	Junta Agroempresarial Dominicana
MIDA	Ministry of Agricultural Development
MIF	Multilateral Investment Fund
PMR	Programming Mission Report
UNPAP	Unión Nacional de Productores Agropecuarios de Panama
WTO	World Trade Organization

DONORS PROJECT MEMORANDUM

(TC-95-07-09-9)

EXECUTIVE SUMMARY

EXECUTING AGENCY: Unión Nacional de Productores Agropecuarios de Panamá (UNPAP)

OBJECTIVES: The general objective of this project is to provide access to a variety of support services and market information required by small and medium agro-entrepreneurs in order to increase the level of high quality, feasible, private sector investments in all areas of the agribusiness system (inputs, production, processing, storage, transportation, and distribution). Access to these services by small and medium producers and exporters will lead to higher production, productivity, competitiveness, export revenues, domestic food availability, and employment. The specific objectives of this project is to strengthen the Unión Nacional de Productores Agropecuarios de Panamá (UNPAP) to enable it to provide directly or through member associations these services, on a financially sustainable basis.

DESCRIPTION: The services to be provided will increase competitiveness and diversification of Panamanian agriculture and agribusiness by helping to identify new products, new markets and opportunities for improved productivity. It will support the dissemination of information, and offer training and consultation on managerial, technical and marketing strategies. UNPAP was selected as the implementing entity as it has emerged as the key national association representing the entire spectrum of commodity groups throughout Panama.

UNPAP through the assistance provided by the project will develop its capacity to provide four principal services. UNPAP will operate with an entrepreneurial spirit and the provision and development of the services described below will depend on demand. i) UNPAP will provide access to domestic and international market information and analysis of such information. ii) It will provide access to and adaptation of new production technology. iii) UNPAP will develop and have access to a capacity to prepare economic feasibility studies and develop business

plans for new investment opportunities, thus assisting entrepreneurs to gain access to financial resources business management advice. iv) UNPAP will help link Panamanian producers with strategic partners in markets abroad.

The services described above may be provided to both individuals or groups on a full fee basis. However, some members may not be able to pay the full costs and some activities may be seen as too risky from the point of view of the individual members of the group. In such cases UNPAP will want to share the cost with members. These are being termed "special development activities". It is anticipated that special development activities will usually be proposed by a group of members interested in the product or service in question.

FINANCING:	Modality:	Grant
	Recipient:	US\$ 535,000
	MIF:	US\$1,400,000
	Other donors:	US\$ 0
	Total:	US\$1,935,000

IMPLEMENTATION SCHEDULE:	Execution Period	36 months
	Time Limit for Disbursement	45 months

ENVIRONMENTAL CLASSIFICATION:	The Environmental Management Committee, at its meeting of December 7, 1994, classified this as a Category III operation, originally as a component of PN-0032.
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BENEFICIARIES:	The principal beneficiaries will be the agricultural producers and support enterprises which make up the agribusiness system of Panamá. UNPAP will work to strengthen the member associations thereby having a multiplier effect. Through the special development activities described above, many producers who would not be able to afford services will be able to avail themselves of market analyses, new technology and risk reducing feasibility studies. As UNPAP develops the capacity to provide services which are beneficial, it is expected that membership will increase in order to be able to participate in the activities offered. As UNPAP expands the membership base and revenue base, it will be able to benefit more producers and processors. UNPAP will provide services to non-members and members alike.
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**CONTRACTUAL
CONDITIONS**

1. Presentation of Operating Procedures
2. Agribusiness Advisor Selected
3. Executive Director hired
4. Letter of Commitment guaranteeing core operating budget
5. Establishment of Bank Account

PROJECT TEAM

John Horton (RE2/EN2); Team Leader; Enrique Torres (RE2/EN2); Fernando Villamizar (RE2/EN2); and Jorge Luis Lestani (COF/CPN).

I. COUNTRY ELIGIBILITY

- 1.1 The eligibility of Panama as a recipient country for resources from the Multilateral Investment Fund (MIF) was approved by the Donors Committee at its meeting on March 30, 1994 based on Country Eligibility Memorandum.

II. BACKGROUND

- 2.1 Panama has experienced an economic recovery with real GDP growth averaging 5 percent per year during the 1991-1995 period. The recovery is attributed in part to the boost in consumption and construction that followed the political crisis under the Government's National Economic Development and Modernization Program. New investments in residential and commercial construction, more trade at the Colon Free Zone and a recovery in financial services have been the driving force in the recovery. Also the Government has made progress in redefining the role of the public sector and enlarging the participation of the private sector in the economy, especially in infrastructure (ports, highways and telecommunications).
- 2.2 In 1994 the Government promulgated its new economic plan, "Public Policies for Integrated Development: Social Development with Economic Efficiency" which has two objectives: a) to reduce poverty and promote equitable distribution of income and b) to increase economic efficiency and international competitiveness in order to promote sustainable growth. The Ministry of Agricultural Development has issued a new agricultural policy framework for 1994-99 which echoes the macro-economic directions proposed in the plan such as removal of price controls, reduction of trade tariffs, removal of quantitative restrictions and revision of labor laws. The legislature approved a new more flexible labor code in 1995. In October 1996 Panama acceded the World Trade Organization (WTO). These reforms and their further deepening will be crucial in stimulating the investment required for the rapid expansion of competitive agricultural exports.
- 2.3 Further trade policy liberalization in Panama will require that agricultural producers become more competitive. These policy moves create new opportunities, but they also create new challenges. Agriculture in Panama contributes US\$655M to GDP (about 10 percent of total in 1995) and accounts for nearly three-quarters of merchandise exports. Output of the traditional cash crops (coffee and cocoa) have been falling from US\$ 22 M in 1988 to US\$ 13 M in 1993. The major agricultural export has been fruits (bananas) and vegetables accounting for over 70 percent of export receipts over the last 6 years.
- 2.4 The GOP is moving from a public sector driven economy to an economic strategy led by private sector investment. Part of this

strategy focuses on the ability of the agribusiness ^{1/} sector (agriculture, agro-industry, livestock, forestry, and fisheries) to respond to a new economic environment and make productive investments in new products, technologies and markets. While the sector represents about 10 percent of GDP it is an important source of export earnings and it employs 26 percent of the labor force. It is a sector which will be favorably affected in the medium-run as the Government moves away from quantitative import restrictions and as the tariff and non-tariff protection for this sector is reduced. The removal of price controls and revision of the labor code will also be beneficial to the creation of a favorable investment climate and the expansion of the agriculture sector.

III. PROJECT

A. Frame of reference

1. Rationale for support to agribusiness in Panama

- 3.1 Beginning with the launch of the Caribbean Basin Initiative in 1983 and the subsequent opening of the economy in many countries in Latin America, the agricultural sectors suddenly faced new challenges and opportunities. In some cases traditional products became more competitive and in many cases, non-traditional products became competitive. This phenomenon occurred because many countries had policies which made exports expensive and imports cheap, protected agriculture justified on the grounds of the higher inherent risk and controlled food prices to favor urban consumers who usually had more power than the dispersed rural population. With the removal of this anti-agriculture bias through structural adjustment, new opportunities and challenges have arisen for producers became available to producers in the sector.
- 3.2 Producers, processors and other agro-entrepreneurs were not prepared to take advantage of the opportunities presented. The main reason stems from the fact that under the old structures, agro-entrepreneurs did not need to access efficient production technology, access market information, analyze markets for existing or new products, or develop feasibility studies and business plans to obtain bank financing. Most producers obtained credit from a State-owned bank which did not require a business plan. Farmers produced those commodities which were protected by tariffs for the domestic market and the transnationals produced export products

^{1/} The term "agribusiness" is used throughout this document to refer to all of the value-added activities derived from the agro-based economy, as distinct from just the primary agricultural sector. In Spanish the term "agronegocio", as opposed to "agroindustria", captures this same distinction and as such should be used as the translation for "agribusiness".

under special concessions from the government. Other traditional export crops were traded under cartel-like marketing arrangements. Processors were also protected by tariffs and in many cases exercised oligopoly power in their product line. These structures made the search for efficient production technology and analysis of markets largely unnecessary.

- 3.3 The public sector is also ill-prepared to assist agro-entrepreneurs to make the transition from the past structures to the new. While the public sector redefines its role, producers and processors will need to join forces through private service organizations to help themselves. Existing private associations need to take proactive positions to strengthen the entrepreneurial capacity of the sector. This project is designed to provide financial and technical assistance to a private non-profit association to fulfill this role in Panama.

2. Summary of results from the Panama Agribusiness Survey

- 3.4 As part of the analysis to design the current project, a detailed evaluation of the sector was conducted. The major features of the sector are summarized in Annex 1 as the "Agribusiness Complex of Panama". As part of that effort, an Agribusiness Survey was conducted by an international consultant hired by the Bank to assess the nature and scope of the challenges currently faced by those in the sector and to gain a preliminary measurement of the demand for services in response to those challenges. The full report of the Survey, including all tabulations and a copy of the questionnaire is available from the task manager in RE2/EN2.

a. Background

- 3.5 The Panama Agribusiness Survey was undertaken in conjunction with the preparation of the Agricultural Modernization (PN-0032) program and the development of this proposal for MIF funding. The survey was designed by a consultant and conducted by the Ministry of Agricultural Development (MIDA) and the Instituto de Mercadeo Agropecuario (IMA). The sample size was limited by the time and resources available for this activity. The survey is intended to provide guidance to the design of programs to stimulate and assist the Panamanian agro-entrepreneurs adjust to the new sector policies and to increase production, productivity and exports.

b. Description of the firms interviewed

- 3.6 A total of 22 firms were interviewed. Of these, ten are engaged in production, seven in processing, two in agricultural input supply and three in the provision of services to the sector. Firms were distributed throughout the country. Of the ten production firms, five are engaged in the production of fruits and vegetables, with the remaining five producing flowers, cereals, livestock and sugarcane. The seven processing firms were concentrated in the processing of animal products (5 firms) with the others in fruits

and vegetables. One of the input supply firms is engaged in packaging of chemicals and the other in distribution. In the services sector, two firms provide financial services and the other technical advisory services. In terms of firm size, nine firms fall into the large category (more than US \$ 1.0 million in fixed assets), six are in the medium category (US \$ 100,000 to 1.0 million) and the remaining seven are small (less than US \$ 100,000). Of all firms, five are exporters.

c. Use of technical assistance

- 3.7 Only a couple of the firms interviewed had employed foreign technical assistance, but 70 percent of production firms have employed local technical assistance for technical/production problems and half have used technical assistance for the preparation of financial/business plans. Over half of the processing firms and all of the service providers have used assistance to prepare financial/business plans. All input suppliers had employed assistance for the acquisition of technology. Exporting firms report a high use of technical assistance for technical issues and financial planning. Two large firms reported using assistance with computers.

d. Access to market information and technology

- 3.8 Lack of access to market information is most acute for production and exporting firms. In the case of production firms, 60 percent report that they do not have access to local or international market information. For exporting firms, 60 percent report lack of access to local market information and 40 percent lack access to international market information. Many firms report the Instituto de Mercadeo Agropecuario (IMA) as well as the Ministry of Agricultural Development and the Ministry of Commerce as sources of market information. Most exporting firms report brokers as sources and many firms use print sources. Almost none rely on local associations and no firms are currently using computerized on-line services. Less than half of all firms report having adequate access to production technology .

e. Business Opportunities

- 3.9 A high percentage of firms indicate interest and plans to invest in new production technology, plant expansion, investigate new markets and training of personnel. This is an excellent indicator of the business climate. Fresh fruit and vegetable export and food processing for export were the highest ranked sub-sectors for investment indicating that firms are looking toward the export market.

f. Associations

- 3.10 Sixty-eight percent of all firms reported they belong to an association. All of the export firms and 80 percent of the production firms belong to an association. However, 80 percent of all firms, 75 percent of exporting firms and 100 percent of production firms reported that there is a need to create a new or strengthen an existing association, showing dissatisfaction with the type or quality of services currently being provided. Nearly all of these same firms indicate they would actively participate and would be willing to pay dues and fees to an association. When asked how much they would be willing to pay, responses ranged from US \$ 100 to US\$ 2,500 per year. The average of respondents was US \$ 1,575. As mentioned earlier, the number of firms interviewed was very small and the categories were highly varied, so these amounts are merely indicators. Most respondents reported a willingness to pay membership dues, fees for services and fees based on sales as preferences for financing an association.
- 3.11 In examining existing producer associations in Panama, it is apparent that most of them have operated in a reactive mode. That is to say the association becomes involved in an issue only when it becomes a problem for a number of the members and in this mode is generally in a defensive posture. Given the environment of the past, this operating strategy has proven beneficial. However, if an association is going to promote new crops, new markets and new technology and provide service to members it must adopt a proactive strategy. It must not wait for crises to develop, but must anticipate and continually develop information and services to assist members.

3. Summary of principal constraints affecting the agribusiness sector

- 3.12 Based on the assessment of the agribusiness sector of Panama summarized above (see Annex I for a more complete version) and the results of the survey, the principal constraints affecting the sector may be summarized as follows:
- a. Lack of capacity for adjustment to new economic environment among producers and processors
 - b. High cost of key agricultural inputs, transport and port charges
 - c. Lack of access to information on markets and technology
 - d. Lack of capacity to evaluate and analyze information leading to the discovery of new opportunities
 - e. Lack of capacity to adapt new technology to local conditions

- f. High cost of obtaining and evaluating information leading to new opportunities

B. The project concept

1. Objectives of the project

- 3.13 Both the assessment of the agribusiness complex and the Panama Agribusiness Survey conducted as part of the design of this project highlight the lack of information and support services as a principal constraint to expansion of business. This is particularly acute during this period of transition to a new policy environment. Businesses of all sizes, but particularly small and medium enterprises, lack access to information on markets, on availability and how to acquire new technology, feasibility of new crop or production possibilities and information on how to prepare for and to access credit resources. Often acquiring the necessary information is prohibitively expensive for one firm. The project will assist the Unión Nacional de Productores Agropecuarios de Panama (UNPAP), a national federation of agribusiness associations, to acquire information and provide needed services to the agribusiness community.

a. General objective

- 3.14 The general objective of this project is to provide access to a variety of support services and market information required by small and medium agro-entrepreneurs in order to increase the level of high quality, feasible, private sector investments in all areas of the agribusiness system (inputs, production, processing, storage, transportation, and distribution). Access to these services by small and medium producers and exporters will lead to higher production, productivity, competitiveness, export revenues, domestic food availability, and employment.

b. Specific objectives

- 3.15 The specific objectives of this project is to strengthen the Unión Nacional de Productores Agropecuarios de Panama (UNPAP) to enable it to provide directly or through member associations the services to members and non-members, enabling them to rapidly take advantage of the new opportunities presented by a more liberalized economic environment.

2. Description of the project

- 3.16 The services to be provided will be aimed at increasing competitiveness and diversification of Panamanian agriculture and agribusiness. This service will help businesses to identify new products, new markets and opportunities for improved productivity. It will support the dissemination of information, and offer consultation and hands-on assistance on managerial, technical and marketing strategies.

- 3.17 UNPAP was selected as the best suited implementing entity based on its increasing prominence as the one national association which has emerged to represent all of the diverse commodity-based groups in the country. Currently UNPAP is composed of 19 member associations. (See Annex III for detailed presentation). Although it has functioned since its establishment in 1986 primarily as a sector interest group, it has recently begun the process of conversion to a service organization linking members to private and public service providers. The greatest impetus to change has been the perceived challenges to the sector to compete under the new trade environment following entry to the WTO.
- 3.18 UNPAP is in the process of contracting a small staff of professionals to manage the day-to-day activities of the organization. Initially the professional staff will consist of the Executive Director and an experienced Administrative Assistant with computer skills supported by a part-time Accountant. Rather than staff field offices, UNPAP has opted to pay a lump-sum contribution to two existing member association offices to function as field offices in the Provinces of Veraguas and Chiriquí. All of this will be provided as part of the counter-part contribution. The only long-term staff support sought from the MIF will be the Agribusiness Advisor position to be hired for a three-year period according to the terms of reference already established with UNPAP. (Annexes III and IV provide more details on staffing). As demand and financial capacity increases, UNPAP may hire one or more agribusinesses specialists with its own resources.
- 3.19 UNPAP staff will work through the existing staff of member associations so as not to duplicate capacity already in place. UNPAP will seek out collaboration with Government technical staff who may be available to provide technical advice for free or relatively low cost. The staff will also establish contracts with local consulting firms who can provide assistance in key areas on an as-needed basis. UNPAP will require some technical assistance required as part of its own institutional development in order to deliver effectively the specific services described below. (See section 5, "Institutional Development").

3. Specific services

- 3.20 UNPAP through the assistance provided by the project will develop and provide four principal services. UNPAP will operate with an entrepreneurial spirit and the provision and development of the services described below will depend on demand.

a. Market information and feasibility services

- 3.21 The Panama Agribusiness Survey conducted as part of the design of this project found that most export firms have inadequate access to international market information. Domestic market information was also reported as an obstacle. As part of the Agricultural Modernization Project (924/OC-PN, PN-0032), the Instituto de

Mercadeo Agropecuario (IMA) is being converted into a public domain market information service. IMA will collect domestic price and volume data for more than 80 commodities from a number of markets throughout the country and maintain the data in an easy to use format on a central server. In addition, IMA will download and store on the server, international market information, especially prices and volumes in the U.S. market. This will be a valuable service for the members of UNPAP. UNPAP and interested member associations will have direct access to this information in the form of periodic publications, newspapers, fax and via their own computer-modem link to the IMA server.

- 3.22 The project will assist both UNPAP and member association in acquiring the hardware and software necessary, as well as the expertise to access these data. In addition, UNPAP staff will conduct analyses of the information for purposes of assisting members with the search for new market opportunities or widening current market windows to more weeks and more volume of product. Market information and access to new markets is the most important first step in the analysis of new crops or products for production. Prior to launching production trials on potential products, a thorough analysis of the market for those products must be completed. With access to the market information to be provided through the IMA service, UNPAP members will have available an inexpensive sources of information for initial identification of new and or expanding markets.

b. Technology identification and access services

- 3.23 The Agribusiness Survey found that many producers lack access to technology, particularly technology for the production of new commodities. Access to the most cost effective production technology will also be necessary in order for Panamanian producers to compete in the international market. Production technology is widely available from many sources and may only need adaptation to conditions in Panama. Technology is available from the research organizations throughout the Central American region as well from the those in other countries. In many cases the basic technology is nothing more than access to the appropriate seed or plant material. Testing varieties and determining the most effective cultural practices (spacing, fertilization, pest control, etc.) is a matter of local adaptation. Often this can be done by farmers with the guidance of an adaptive research specialist. The Agricultural Modernization Program (PN-0032) is providing assistance to the Ministry of Agricultural Development in the revamping of the public sector technology generation and transfer process to make it more responsive to the needs of the producers. As part of this effort, a fund is being created to finance private sector initiatives in adaptive research.
- 3.24 UNPAP staff will work with members to identify and locate new technology and prepare requests for such funding. UNPAP will also be instrumental in the dissemination of new technology once

developed. One way to accomplish this will be by organizing and hosting field days on farms where new technology is being used. Field days will provide an opportunity for producers to see first hand how a new technology is applied and will generate interest in moving to more competitive and higher value-added production activities.

c. Feasibility study services

- 3.25 Many respondents in the Panama Agribusiness Survey reported the need for assistance in analyzing the economic feasibility of new activities. The competitiveness of the post-GATT markets will mean that the economic feasibility of any new product will have to be tested. Banks and other financial intermediaries will insist on economic feasibility analysis as part of any business plan prior to approving loans for the development of new projects.
- 3.26 As part of the initial work plan of UNPAP, resources will be assigned to further evaluate the competitiveness of the most promising products for Panama. UNPAP will develop a capacity to assist member associations to conduct complete feasibility studies. UNPAP will charge fees for the preparation of feasibility studies and business plans. In addition, UNPAP will sign a contract with members which requires that members pay a success fee to UNPAP in those cases where financing is granted. These success fees will enable UNPAP to sustain activities of this nature in the future. Careful analysis will avoid investments in unproductive activities. These studies will then enable members to obtain financing for expansion of production or new activities. UNPAP staff will develop relationships with the most important sources of finance for the agricultural sector so as to be able to advise clients on the requirements and procedures followed by financial intermediaries. Commercial banks interviewed as part of the project design indicated they would welcome this kind of collaboration because one of their constraints is the lack of loan officers with sufficient understanding of agribusiness projects to conduct a proper analysis. The combination of competitiveness studies and a well prepared business plan will enable loan officers to make better decisions about financing.

d. International business linkages services

- 3.27 It is quite common today for export-oriented businesses to develop strategic partnerships in the countries where their primary markets are located. These partnerships reduce the risks inherent in export markets. This will be a new area for many agro-entrepreneurs of Panama so UNPAP staff will provide assistance in the development of these linkages.
- 3.28 Both the long and short-term technical assistance to be provided as part of this project will play a vital role in the establishment of these linkages. Some additional funds have been added to operating expenses to cover the costs of increased domestic or international

travel by the staff to facilitate these linkages with specific associations or agribusiness clients. Simultaneously, UNPAP staff will develop and maintain relationships with Instituto Panameño de Comercio Exterior (IPCE) and other export promotion agencies regarding business referrals and potential new market opportunities.

- 3.29 Once business ventures are established, UNPAP staff and the staff of member associations can maintain contact and have access to valuable information. These connections are important for obtaining additional market intelligence, technology, training and finance. Production usually needs to be tailored to the requirements of the buyer. The buyer may require a specific variety, certain minimum size, color and packaging standards and a specific supply schedule. Knowing and understanding these requirements can only be accomplished by strong linkages.

4. Special development activities

- 3.30 The services described above may be provided to both individuals or groups on a full fee basis. However, some members may not be able to pay the full costs and some activities may be seen as developmental from the point of view of the individual members of the group, so that UNPAP will want to share the cost with members. These are being termed "special development activities". It is anticipated that special development activities will usually be proposed by a group of members who are interested in the product or service in question. Special development activities may include the complete assessment of a new product, the assessment of market potential for an existing product or the provision of a new service such as a quality assurance program or pre-clearance inspection program. The cost of developing these activities will be shared between those making the proposal and UNPAP. UNPAP and the participants will agree at the outset to a royalty fee to be paid based on the value of production resulting from the intervention of UNPAP. This will enable UNPAP to recuperate the costs and build reserves for future activities of a similar nature.

a. Selection of activities

- 3.31 The analysis outlines a great many constraints and the number of products and interested producer associations is large and diverse. The project and UNPAP will have limited resources and will not be able to respond to every need. UNPAP will be faced with making choices in terms of defining its plan of work each year and in terms of which special development projects submitted by member associations to approve. The UNPAP Board of Directors are currently considering alternatives for establishing the priorities. In discussions with UNPAP it has been agreed that priority will be given to those activities where there is clear comparative advantage in an association approach to the activity as opposed to an individual approach. In addition, priority will be given to activities that focus on new products for existing markets or

existing products for new markets and activities designed to improve competitiveness. Prior to the execution of the Project Agreement, UNPAP will have submitted to the Bank a set of mutually agreed upon operating procedures which will outline the criteria for prioritizing activities and the procedures to be followed in the process of approval.

b. Criteria and selection process

3.32 The criteria for selection of special development projects will include the following:

- a. Must be subject to group action (i.e. there must be a clear comparative advantage to the involvement of UNPAP in the activity).
- b. Estimated benefit to the group (number of expected beneficiaries and magnitude of the benefits).
- c. Willingness and ability to share the costs on the part of the proponents.
- d. Objective (i.e. is expected to improve productivity, open a new market, adapt a new crop etc.).
- e. Potential for future revenue generation for UNPAP (royalty payments).
- f. Is consistent with current budget level of UNPAP

3.33 UNPAP's rules and guidelines will clearly set forth these criteria and will provide an outline for the presentation of special project development activity proposals. The application format will include a statement of the objective (what is the expected outcome of the activity); the justification (why the proponents believe the activity will be successful); criteria (will need to address each of the criteria in terms of the proposed activity); description (what will actually be done as the activity is implemented) and a detailed financial plan. UNPAP staff will need to hold a series of workshops with members to explain this program, the criteria and the application process. In addition, it is expected that UNPAP staff and UNPAP contractors will work closely with groups to prepare proposals.

3.34 In addition to the services described above, UNPAP will continue to represent the sector in policy fora before the government and will continue to keep both the membership and the public informed on issues of importance to the sector. UNPAP staff will also endeavor to use the power of the group to work on issues such as the high cost of agricultural inputs, port charges and transport costs. Other associations have been successful in negotiating more

favorable freight rates and volume discounts for inputs are common in other countries.

5. Institutional development

- 3.35 Since UNPAP has not been operating as a service providing entity, it will require some assistance during the course of the project implementation. Already the Bank and IICA arranged for UNPAP to obtain assistance earlier this year from the Junta Agroempresarial Dominicana (JAD). Specifically, the JAD Executive Director advised on the revision of the statutes, drew upon various "lessons learned" from the early years of JAD and played an active role in an intensive promotion campaign across the country.
- 3.36 A significant institutional development has been the recent decision by the Asociación Nacional de Avicultores de Panamá (ANAVIP) and the Asociación Nacional de Porcinocultores (ANAPOR) to close their current offices in order to sub-let office space and some support services from UNPAP. This is both a means to economize their own overhead expenses while contributing an important income stream to UNPAP. As part of the negotiation of this Technical Cooperation, the Presidents of ANAVIP, ANAPOR and UNPAP signed a plan which will assure covering core operating expenses until such time as UNPAP revenues enable them to reduce their fees to levels commensurate with direct services received. They will further formalize this agreement as part of a Letter of Commitment before first disbursement.
- 3.37 In addition to the MIF resources in support of the four principal service areas, modest resources have been programmed for short-term international consultants for various aspects of strengthening the Association. (Refer to Annex IV - Short-Term Technical Assistance cost table.) This will enable UNPAP to draw on candidates from successful associations such as those identified in Colombia, Mexico, Dominican Republic or from retired association executives available through the multi-national Senior Voluntary Advisory consortium. The key to the effective utilization of this assistance will be the confirmation of a highly motivated and competent Executive Director with ample previous familiarity with building associations and with the particulars of the sector.
- 3.38 The services to be provided by UNPAP will continue to be required after the three year period of the project. The long and short-term technical assistance being provided to UNPAP as part of this project will strengthen the human resources sufficiently so that they will be able to continue to provide services beyond the termination of the project. Only by developing a strong, effective staff in UNPAP and creating an entrepreneurial ethic within UNPAP and within the member associations will continuity be assured. By establishing the cost sharing and the income generating structures outlined above, UNPAP will be on firm financial footing by the third year of the project. Establishing a history of quality

performance and of solving critical problems for producers, will ensure a growing demand for the services UNPAP offers.

6. Financing the activities

- 3.39 The financial sustainability of UNPAP core functions has recently been attained following a successful promotion campaign just as the organization has emerged on the national scene as the most prominent private institution for agricultural producers. Membership fees will initially provide at least forty percent of the core revenue while the rest of the core expenses will be financed by the institutional support agreement reached to merge the office support of ANAVIP and ANAPOR under the UNPAP umbrella. The long-term sustainability of UNPAP however will depend on developing UNPAP's capacity to deliver services effectively thereby generating increased fee and membership income sufficient to sustain the organization at a permanently higher level of service.
- 3.40 Fees for services will include those for training courses, fees for specific technical assistance rendered to a client, fees for publications, access to information and data banks and fees for analysis of data for the purpose of identifying new markets, technology and for preparation of feasibility and business plans. During the project, it is anticipated that these fees will not cover the full operating costs under the program. The amount of training and technical assistance required during the initial years is anticipated to be higher than later years. During these initial years much of the training and technical assistance may be provided by short-term expatriate personnel. As UNPAP develops its own staff capacity as well as that of its member associations, and locates local sources of assistance, the cost of providing these services will be reduced. Income generated by royalties and success fees will also be used to cover costs not entirely reimbursed through direct charges by UNPAP.
- 3.41 Annex IV presents a detailed financial plan for the project including projections of income generation by UNPAP. UNPAP is considering extending its campaign to generate some additional capital from corporate and government donations. Since this program is complementary to the GOP's Agricultural Modernization Program, discussions are underway regarding the possibility of a government donation (or sale at a nominal price) of a facility which might serve as an office for UNPAP, thereby saving on operating expense. (See Annex IV, "Projected Income" table for more details on revenue).

C. Executing agency

- 3.42 The Agribusiness Support Service project will be executed by the Unión Nacional de Productores Agropecuarios de Panama (UNPAP). UNPAP is a private, not-for-profit federation of producer associations. The member associations are organized along commodity lines (Annex III contains a more detailed description of

UNPAP and contains a list of the current members). UNPAP is dedicated to the maintenance of an economy driven by market forces. UNPAP is the only national organization which is not commodity specific. It was organized in 1986 to represent the interests of the agricultural sector in policy fora before the government and to inform the membership and the public on issues of importance to the sector. While still relatively new, UNPAP has established itself as an important force as a result of its effective participation in the negotiations leading to Panama's accession to the WTO. UNPAP is now in the process of reforming the objectives and organizational structure to become a service provider and competitiveness promoter.

- 3.43 Beneficiaries: The principal beneficiaries will be the agricultural producers and greater agribusiness community of Panama. UNPAP will not have the capacity to assist very large numbers of producers. However, working to strengthen the commodity associations which are members of UNPAP will have a multiplier effect. Through the special development activities described above, many producers who would not be able to afford services will be able to avail themselves of market analyses, new technology and risk reducing feasibility studies. As UNPAP develops the capacity to provide services which are beneficial, it is expected that membership will increase in order to be able to participate in the activities offered. As UNPAP expands the membership base and revenue base, it will be able to benefit more producers and processors. UNPAP will provide services to non-members.
- 3.44 Small producers may not have the capacity to absorb and make full use of the services to be provided by UNPAP. In recognition of this fact, the Bank has developed a Technical Cooperation program designed to strengthen small producers organizations (TC-92-04049). This project, to be implemented by Technoserve-Panama will work with small producer organizations to increase productivity. The Technoserve program may strengthen organizations to the point where they would become clients of UNPAP and be able to utilize the service offered by this project.

D. Monitoring

- 3.45 The activities of the agribusiness support services project are vital to the process of modernization of the agriculture sector in Panama. Bank staff will meet with the Executive Director of UNPAP as well as with members of the Board of Directors and staff of member associations during periodic supervision missions to Panama. However, in order to keep abreast of activities on an on-going basis, the Bank's Team Leader will receive copies of the quarterly reports of the Executive Director of UNPAP and of the long-term agribusiness advisor. In addition, UNPAP will contract with a local auditing firm for an annual external audit of its financial situation. These annual audit reports will also be made available to the Bank Project Manager.

E. Financial plan

- 3.46 The total cost of the Agribusiness Support Services project is estimated to be US \$1.9 million, which will be provided by UNPAP and by the MIF through non-reimbursable financing. The UNPAP counterpart financing will be generated from a variety of sources. Annual membership dues, contribution as part of the sub-leasing plan, fees for services, success fees, members contributions to special development activities, royalties and corporate and government donations will form the sources of revenue to support the activities to be carried out by UNPAP. The following table presents a summary estimated for the project. Annex IV contains a more detailed financial plan including the revenue projections and the basis and assumptions for all estimates. It is important to note that the recruitment of the long and short term technical assistance will be done through a competitive bidding process and therefore the amounts presented in the financial plan represents maximum costs for the project.

F. Summary estimated budget (Thousands of US Dollars)

SUMMARY FINANCIAL PLAN (US\$ 000)				
(By Budget Category)				
		PROJECT TOTALS		
CODE	ITEM	MIF	UNPAP	TOTAL
2.2	UNPAP Staff Salaries	0	207	207
2.2	Technical Assistance (LT)	148	0	148
2.2	Technical Assistance (ST)	839	108	947
2.5	Observation Trips	52	45	97
6.3	Equipment	39	0	39
6.9	Operating Costs	135	115	250
8.2	Audit & Evaluation	55	15	70
98	Contingencies	132	45	177
	Total	1400	535	1935
	Share (%)	72%	28%	100%

IV. DISBURSEMENTS

- 4.1 The resources allocated to the project will be disbursed in accordance with Bank procedures. UNPAP will be encouraged to initiate the process of contracting for the technical assistance immediately after approval of the project. The Bank will provide an advance of funds to UNPAP to enable it to make payments for equipment, technical assistance and other authorized expenditures. The amount of the advance will be consistent with the first year work plan and budget to be submitted for Bank approval prior to the first disbursement. Subsequent disbursements will replenish the advance thereby enabling UNPAP to make timely payment for expenditures.

V. VIABILITY AND RISKS

- 5.1 A key issue for the success of this project is the long-term financial sustainability of UNPAP. This will depend largely on whether the services are sufficiently valuable to agribusinesses and whether there is adequate demand for them. As part of the design process, a demand study was conducted to assess the level of demand for various services and the willingness of agribusinesses to pay for these services. The firms interviewed in the survey indicated a very high demand for the services contemplated. Among all firms interviewed, 94 percent expressed a need for access to technology, 81 percent need access to international market information, 69 percent need access to local market information and 63 percent need assistance with feasibility studies. A full 80 percent of the firms interviewed indicated the need to create or strengthen an association to provide services. In addition, 88 percent indicated a willingness to financially support such an association. Given the level of interest and the revenue generation mechanisms included in the project, there is every reason to expect success.
- 5.2 Panama is a relatively small country and the agriculture sector is a small portion of the economic activity. It is reasonable then to expect that only one national level private sector association can successfully develop and provide support services to the agribusiness sector. This results however in an association with a very diverse membership in terms of size, economic power and product interest. This means that UNPAP will be faced with balancing many different demands. The project design and the technical assistance being provided by the MIF funds are intended to further assist in creating innovative mechanisms to deal with this potential problem. The selection criteria and the process of selecting special development activities has been laid out so as to be able to objectively deal with prioritizing the use of project and UNPAP resources.

VI. COMPLIANCE WITH PROJECT ELIGIBILITY CRITERIA

A. General criteria for project eligibility

- 6.1 The proposed project is consistent with the Agreement establishing the MIF, in particular the general purposes of the MIF as stated in Article I, b) referring to the generation of increasing levels of private sector participation and of employment opportunities with an impact on poverty alleviation. The MIF seeks to increase investment and expand private sector participation as the basis for accelerating growth and development in the region. To the extent that Panamanian agribusinesses are able to acquire and utilize new information and new technology, private participation in economic growth will occur.

B. Facility criteria for project eligibility

- 6.2 The proposal is fully consistent with the criteria for MIF financing under Micro-enterprise or Technical Cooperation Facilities, Article III, Section 2 of the MIF agreement which established, among other criteria, that grants shall be provided to finance assistance to expand the capabilities of private sector organization to facilitate increased investment, contribute to the development of small businesses, strengthen the functioning of markets and be an innovative approach to private sector led development. The MIF Country Strategy Paper for Panama specifically mentions private sector-run export promotion services, including marketing information and investor services as activities which are appropriate for financing under Facilities I and III.

VII. CONSISTENCY WITH THE BANK'S COUNTRY PROGRAM

- 7.1 The proposed Agribusiness Support Services project is fully consistent with current Bank strategy for Panama as outlined in the most recent Programming Mission Report (PMR) dated December 9, 1994 and with the draft MIF Country Strategy Paper for Panama. Both of these documents emphasize the Bank's strategy to increase private sector participation in the economy, particularly in the agricultural sector. The strategy recognizes that Panama is in a period of transition from an economy dominated by the public sector to one where the environment is conducive to private sector led investment and growth. This project seeks to assist a private association to provide critical services to agribusinesses to enable them to rapidly take advantage of the liberalized economic policy environment.

VIII. AVAILABILITY OF MIF RESOURCES

- 8.1 The project is expected to be funded through a grant based on the following points: (I) Panama's eligibility which was approved on March 30, 1994; (ii) Panama's compliance with the criteria of eligibility for obtaining grant resources at the country level

(Article III, Section 5 (b) of the MIF Agreement) detailed in Section III paragraphs 3.1 - 3.4 of the Eligibility memorandum for each country, and (iii) the catalytic impact the proposed project is expected to have on investment flows, as required under Article III, Section 5 (a) by facilitating increased production, productivity and exports among the members of the Association which will implement the project.

IX. EVALUATION

- 9.1 The project will be evaluated by outside consultants to be contracted by the Bank. They will conduct a mid-term evaluation during the second year and a final review during the third year of the project. The exercise will require two persons for a period of three person weeks for both the mid-term review and again for the final review. One of the evaluators should have experience with the development of private sector associations which provide services and promote enhanced productivity. The other should be an agribusiness expert with experience in Latin America. Both experts should have experience in development project evaluation.
- 9.2 The purpose of the evaluation will be to determine whether the general and specific objectives of the project have been achieved. Achievement of the objectives will be measured in accordance with the indicators set forth in this Donors Memorandum. Specifically, the evaluators will measure the level of revenue being generated by UNPAP and determine the sufficiency of revenue compared to operating expenditures. They will evaluate the special development projects implemented by UNPAP and determine which were successful in increasing productivity and resulting in increased sales. They will also determine the level of exports attributable to the interventions of UNPAP. The evaluation team will determine the extent to which achievement of the objectives has served to enhance the entrepreneurial skills of producers and processors. The evaluation will assess the extent to which UNPAP will be able to continue to provide services beyond the end of the project.

LOGICAL FRAMEWORK

GENERAL OBJECTIVE	MEASURES OF ACHIEVEMENT	SOURCES OF DATA	ASSUMPTIONS																											
Access to services such as intelligence, access and technology and analyses of business in the agriculture	Increased exports of agricultural products, especially non-traditional products.	Contraloría General de la República (CGR) Reports	Demand for non-traditional tropical products remains strong.																											
Objectives: the Unión Nacional de Agropecuarios de enable it to provide services directly and members associations to business community of permit the rapid to new economic environment	End of Project Status: 1. UNPAP generating sufficient revenue to continue to operate at same program level. 2. UNPAP can document 15 successful interventions. 3. Exports attributable directly to UNPAP interventions have reached US \$ 10 million per year	1. UNPAP records. 2. UNPAP and member association records. 3. UNPAP information and CGR data.	GOP remains stable politically and implements the policy program contemplated in the Agricultural Modernization Program																											
Studies Technology Adapted Economic Feasibility Studies Linkages Established	Indicators: 1. 10 Products analyzed 2. 6 crops adapted 3. 15 studies conducted 4. 10 linkages established	UNPAP project records and observation in the field	Products can be found where Panamanian producers have a comparative advantage																											
Staff Salaries Expenses Development Projects Assistance Trips & Auditing es	<table><tr><td>MIF</td><td>UNPAP</td><td>Total</td></tr><tr><td>\$ 0</td><td>\$207</td><td>\$ 207</td></tr><tr><td>135</td><td>115</td><td>250</td></tr><tr><td>987</td><td>108</td><td>1095</td></tr><tr><td>39</td><td>0</td><td>39</td></tr><tr><td>55</td><td>15</td><td>70</td></tr><tr><td>53</td><td>45</td><td>98</td></tr><tr><td>131</td><td>45</td><td>176</td></tr><tr><td>\$1,400</td><td>\$535</td><td>\$1,935</td></tr></table>	MIF	UNPAP	Total	\$ 0	\$207	\$ 207	135	115	250	987	108	1095	39	0	39	55	15	70	53	45	98	131	45	176	\$1,400	\$535	\$1,935	UNPAP accounting records and Audited Financial Statements	MIF funds are available and that UNPAP can generate the revenues required for counterpart financing
MIF	UNPAP	Total																												
\$ 0	\$207	\$ 207																												
135	115	250																												
987	108	1095																												
39	0	39																												
55	15	70																												
53	45	98																												
131	45	176																												
\$1,400	\$535	\$1,935																												

PROPOSED RESOLUTION

PANAMA. NONREIMBURSABLE TECHNICAL COOPERATION FOR
A SUPPORT PROGRAM FOR AGRIBUSINESS INVESTORS

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 Multilateral Investment Fund, to enter into such agreements as may be necessary with the Unión Nacional de Productores Agropecuarios de Panamá and to take such additional measures as may be pertinent for the execution of the project memorandum referred to in Document MIF/AT-_____, with respect to a technical cooperation program for a support program for agribusiness investors.

2. That up to the amount of US\$1,400,000, or its equivalent in other convertible currencies, is authorized for the purpose of this resolution, chargeable to the Small Enterprise Development Facility of the Multilateral Investment Fund.

3. That the above-mentioned sum is to be provided on a nonreimbursable basis.