

## INITIAL ENVIRONMENTAL EXAMINATION

<b>Project Location:</b>	Panama
<b>Strategic Objective 525-022:</b>	Economic Freedom: An Open, Diversified, and Expanding Economy
<b>Reference IEE:</b>	LAC-IEE-
<b>Funding:</b>	\$235,500
<b>Life of Project:</b>	2005-2015
<b>IEE Prepared by:</b>	Nilka Varela USAID/Panama
<b>Recommended Threshold Decision:</b>	Categorical Exclusion

### **A. Background:**

Panama maintains important trade flows with the United States of America and its Latin neighbors. In addition, the country is negotiating bilateral free trade agreements with several Asian countries and the United States. As a result, new market opportunities will open for Panama in the near future in an increasingly global economy. In order for Panama to reap the benefits of global free trade, it will need to increase investment in its human capital. A Development Credit Authority guarantee will increase access to credit that will open doors to higher education to many Panamanians who normally cannot find financing for their studies.

The Panamanian education system (public and private) does not serve middle- to low-income families well today, and unless the private sector can grow rapidly, these segments will be underserved in the future. A student loan product is needed in Panama because currently there is little to no available financing to help level the playing field between affluent and middle- to low-income families. A large unmet demand is further exacerbated because the government agency, “*Instituto para la Formación y Aprovechamiento de Recursos Humanos*” (IFARHU), has reduced the number of loans and is concentrating them at the Masters and Doctoral levels. Without access to financing, the socio-economic disparity will continue to worsen. Currently, income disparity in Panama is one of the worst in the region.

Banks view students as risky because they are unfamiliar borrowers frequently with little to no collateral. Also, banks worry that they will have to reserve 100 percent of principal on all student loans, thereby making it unprofitable to introduce the new loan product. Without the proposed guarantee, the additional risk associated with entering this new market will continue to hamper private sector financing in the student loan market segment. These market failure related concerns are addressed by providing a partial guarantee and structuring the activity through a trust with a reserve fund.

### **B. Program Description:**

The Development Credit Authority (DCA) loan portfolio guarantee facility intends to encourage a pilot project in Panama wherein a commercial bank (Banvivienda) will make student loans to university students at “*Universidad Interamericana de Panamá*” to cover tuition at a private university. The loan portfolio guarantee will cover up to 50 percent of losses of principal on loans made to students attending the “*Universidad Inter-Americana de Panamá*” (UIP). The expected leverage of USAID funding is approximately 21:1.

The *short-term objectives* of the proposed guarantee are (1) to increase access lower- to middle-income families have to financing for university-level education and (2) to demonstrate to the Panamanian banking sector the viability of lending to university students. The *medium-term objective* is to assist

Panama maximize its comparative advantage and take full advantage of new market opportunities under the anticipated bilateral free trade agreement with the United States by facilitating private-public alliances that invest in professional training for the fastest growing demographic group in Panama. Investment in human capital is essential for success of the free trade agreement because Panama's comparative advantages are in services, banking/finance, and shipping/engineering – all of which depend on an educated workforce.

A *longer-term objective*, which is highly dependent on the success of this pilot activity, is to help the Government of Panama's student loan agency, IFARHU, transition into a guarantor rather than a lending institution. This will increase the multiplier effect and facilitate replication as well as inclusion of other universities.

**C. Justification for Environmental Determination**

The activity described above, student-loan guarantee to leverage funding from the private sector to increase access to financing by higher education students, is not expected to have a significant impact on the environment. This Development Credit Authority guarantee is not subject to the procedures set forth in 22 CFR, 216.3, except to the extent provided herein. This activity qualifies for a **Categorical Exclusion** under 22 CFR, 216(c)(2).

**D. Recommendation**

Based on the above discussion, it is recommended that the LAC Bureau Environmental Officer approve a **Categorical Exclusion** for this Development Credit Authority activity. Any activity potentially affecting the environment or natural resource policy needs to be reviewed by the Regional Environmental Officer to determine if an amendment to the IEE is necessary.

Concurrence: \_\_\_\_\_  
Leopoldo Garza  
Mission Director  
USAID/Panama

Date: \_\_\_\_\_

Drafted by: NVarela/DCA Technical Officer \_\_\_\_\_ Date 10/19/04  
Cleared by: RSpadafora/MEO \_\_\_\_\_ Date 10/20/04