


ORIGINAL

Credit Propensity, Capital Structure and Strategic Status in Micro, Small and Medium Sized Businesses in Panama

Propensión al Crédito, Estructura de Capital y Estatus Estratégico de las Micros, Pequeñas Y Medianas Empresas en Panamá

René Isaac Bracho Rivera^{a*}  , Aaron Samuel Bracho Mosquera^a  

^aUniversidad de Panamá, Centro Regional Universitario de San Miguelito. Panamá.

*Corresponding Author: René Isaac Bracho Rivera 

How to Cite: Bracho Rivera, R. I., & Bracho Mosquera, A. S. (2024). Credit Propensity, Capital Structure and Strategic Status in Micro, Small and Medium Sized Businesses in Panama. Edu - Tech Enterprise, 2, 16. <https://doi.org/10.71459/edutech202416>

Submitted: 29-04-2024

Revised: 08-08-2024

Accepted: 23-12-2024

Published: 24-12-2024

ABSTRACT

In this paper explores the position of Micro, Small and Medium Enterprises (MSMEs) in terms of three key variables: propensity to credit, capital structure and strategic profile. The premises presented in this scientific essay are derived from the interpretation of data and results of two studies applied to MSMEs. Some elements are presented that illustrate the most frequent preferences and behaviors together with conceptual considerations, with the purpose of trying to explain the main financial and strategic challenges of this type of companies in the national context. In each of the studies that serve as the basis for this paper, surveys were applied as instruments for data collection.

Keywords: capital structure; credit propensity; business strategy.

RESUMEN

Este trabajo explora la posición de las Micro, Pequeñas y Medianas Empresas (MIPYMES) en términos de tres variables claves: la propensión al crédito, la estructura de capital y su perfil estratégico. Las premisas expuestas en este ensayo científico se derivan de la interpretación de los datos y resultados de dos estudios aplicados a las MIPYMES. Se presentan algunos elementos que ilustran las preferencias y comportamientos más frecuentes junto a consideraciones de tipo conceptual, con la finalidad de intentar explicar los principales desafíos financieros y estratégicos de este tipo de empresas en el contexto nacional. En cada uno de los estudios que sirven de fundamento a este escrito se aplicaron encuestas como instrumentos para la recolección de datos.

Palabras clave: estructura de capital; propensión al crédito; estrategia empresarial.

INTRODUCTION

Micro, small, and medium-sized enterprises (MSMEs) occupy an important place in the economic dynamics of the Republic of Panama. This sector comprises around 92% of the country's business parks, and of this proportion, MSMEs represent 87%, according to institutional data (La Estrella, 2024). They contribute about 74% of the Gross Domestic Product (GDP) and 80% of employment.

By comparison, five years ago (2019-2020), these companies represented 97% of the country's business sector, approximately 96 000 companies, generating 56% of employment; of that proportion, between 90% and 92% were micro and small enterprises (MSMEs). (AMPYME, 2020). These percentages reflect the changes in the country's business landscape.

The changes above are related to four events that have had adverse effects on MSMEs: a) Pandemic (2020-2021); b) Start of the War in Ukraine (February 2022); c) Protests over the High Cost of Living (July 2022); d) Protests Against the Copper Mine (October and November 2023).

It is estimated that 40% of MSMEs were lost to the pandemic, 10% in July 2022, and another 10% in 2023. As of December 2024, there are an estimated 92 000 businesses, but most are new or reorganized surviving businesses. The current reorganization of some MSMEs is a cautious response to the uncertainty inherent in the possible social conflict that could be triggered in the context of the national debate on various issues: social security reforms, the mining issue (the proposal to reopen the mine to close it down in an orderly manner), and the threats of the new US President Donald Trump against Panama's sovereignty over the Interoceanic Canal.

On the other hand, article 5 of law 8 of March 29, 2000, presents a proposed definition that is described as follows: a) Microenterprise: Formal or informal economic unit that generates gross income or annual turnover of up to one hundred and fifty thousand balboas (B/.150 000,00); b) Small enterprise: An economic unit that generates gross income or annual turnover from one hundred and fifty thousand balboas with one cent (B/.150 000,01) to one million balboas (B/.1 000 000,00); c) Medium-sized enterprise: An economical unit that generates annual gross income or turnover from one million balboas and one hundredth (B/.1 000 000,01) to two million five hundred thousand balboas (B/.2 500 000,00).

A company in which members of the same family participate in its ownership and management and desire continuity is known as a family business (Esparza-Aguilar et al., 2021). In Panama, 92% of MSMEs are family businesses (UNPYME, 2021).

This paper's three key topics are credit propensity, capital structure, and the strategic status of MSMEs.

In macroeconomics, credit propensity is understood as a fundamental tool for stimulating aggregate demand and economic growth. The post-Keynesian theory holds that private investment tends to decrease in economic contraction, generating a deficit in effective demand. In this context, access to credit allows households and companies to maintain levels of consumption and investment that would otherwise be reduced. This premise implies the need to keep the financial system solvent and liquid to avoid speculative bubbles and to ensure that credit flows to productive sectors that promote general well-being and economic sustainability. Unlike traditional theories that consider credit as a simple result of previous savings, the post-Keynesian view emphasizes that the creation of credit can precede savings and that savings are an indispensable catalyst for inclusive and sustained economic growth (Setterfield, 2005).

Micro, small, and medium-sized enterprises (MSMEs) occupy an important place in the economic dynamics of the Republic of Panama. This sector comprises around 92% of the country's business parks, and of this proportion, MSMEs represent 87%, according to institutional data (La Estrella, 2024). They contribute about 74% of the Gross Domestic Product (GDP) and 80% of employment.

By comparison, five years ago (2019-2020), these companies represented 97% of the country's business sector, approximately 96 000 companies, generating 56% of employment; of that proportion, between 90% and 92% were micro and small enterprises (MSMEs). (AMPYME, 2020). These percentages reflect the changes in the country's business landscape.

The changes, as mentioned earlier, are related to four events that have had adverse effects on MSMEs: a) the Pandemic (2020-2021); b) the Start of the War in Ukraine (February 2022); c) Protests over the High Cost of Living (July 2022); d) Protests Against the Copper Mine (October and November 2023).

It is estimated that 40% of MSMEs were lost to the pandemic, 10% in July 2022, and another 10% in 2023. As of December 2024, there are an estimated 92 000 businesses, but most are new or reorganized surviving businesses. The current reorganization of some MSMEs is a cautious response to the uncertainty inherent in the possible social conflict that could be triggered in the context of the national debate on various issues: social security reforms, the mining issue (the proposal to reopen the mine to close it down in an orderly manner), and the threats of the new US President Donald Trump against Panama's sovereignty over the Interoceanic Canal.

On the other hand, article 5 of law 8 of March 29, 2000, presents a proposed definition that is described as follows: a) Microenterprise: Formal or informal economic unit that generates gross income or annual turnover of up to one hundred and fifty thousand balboas (B/.150 000,00); b) Small enterprise: An economic unit that generates gross income or annual turnover from one hundred and fifty thousand balboas with one cent (B/.150 000,01) to one million balboas (B/.1 000 000,00); c) Medium-sized enterprise: An economical unit that generates annual gross income or turnover from one million balboas and one hundredth (B/.1 000 000,01) to two million five hundred thousand balboas (B/.2 500 000,00).

A company in which members of the same family participate in its ownership and management and desire continuity is known as a family business (Esparza-Aguilar et al., 2021). In Panama, 92% of MSMEs are family businesses (UNPYME, 2021).

This paper's three key topics are credit propensity, capital structure, and the strategic status of MSMEs.

In macroeconomics, credit propensity is understood as a fundamental tool for stimulating aggregate demand and economic growth. The post-Keynesian theory holds that private investment tends to decrease in economic contraction, generating a deficit in effective demand. In this context, access to credit allows households and companies to maintain levels of consumption and investment that would otherwise be reduced. This premise implies the need to keep the financial system solvent and liquid to avoid speculative bubbles and to ensure that credit flows to productive sectors that promote general well-being and economic sustainability. Unlike traditional theories that consider credit a simple

result of previous savings, the post-Keynesian view emphasizes that credit creation can precede savings and that savings are an indispensable catalyst for inclusive and sustained economic growth. (Setterfield, 2005).

METHOD

The first instrument used as the basis for this paper is the survey: “Propensity to Credit and Capital Structure in Microenterprises in the Central Provinces, Panama, and Darien” from the 2018 University Research Funding Call (CUFI). Code: VIP 18-09-03-2018-10 of the University of Panama.

The survey was expected to be applied to MSMEs; however, it was only applied to micro-entrepreneurs (formal and informal subsistence) due to practical circumstances. The questionnaire included variables related to the general profile, credit preferences, and the business’s capital structure. After the data from the survey was analyzed, the data was interconnected, and the bibliographic information was used to interpret the processes that contextualize the financial structure of microenterprises.

The sample size obtained (400 surveys) was estimated using the sample size formula for an infinite population (unknown population size):

$$n_0 = \frac{z^2 pq}{e^2} = \frac{(1,96)^2 (0,5)^2}{(0,05)^2} = \frac{(3,84)(0,25)}{0,0025} = \frac{0,96}{0,0025} = 384 \approx 400$$

Where:

n_0 : Sample size: infinite population

z: Value (Z) associated with a confidence coefficient of 95%

p: Sample proportion

q: Complement of the sample proportion

e: permissible error (5%)

The research was carried out during 2019 and the first two months of 2020.

The second basic document is called: “Impact Study” which was the result of a survey carried out by the National Union of Small and Medium Enterprises of Panama during 2021 (UNPYME, 2021).

This study was carried out to monitor the effects of the pandemic on MSMEs and incorporated items that allow for the technological and strategic diagnosis of companies.

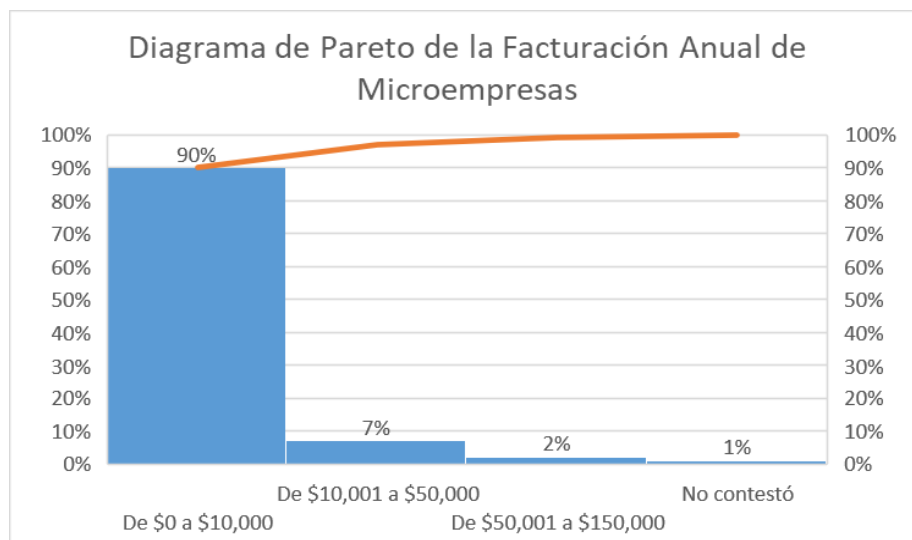
By addressing the issue of the stock and use of technological resources by MSMEs, the study makes it possible to examine the reality of the companies and to approach their strategic status by gaining knowledge about the distinctive capabilities of these companies. On this basis, the foundations can be laid for the development and implementation of a sectoral policy that can modify the competitive context in favor of MSMEs.

RESULTS

Below are the main graphs that describe the frequent situations in which Panamanian micro-enterprises find themselves.

Figure 1.

Pareto chart of the invoiced amount



91% of the businesses surveyed replied that their annual turnover was B/. 10 000,00 or less, classifying them as subsistence microenterprises. However, due to respondents' sensitivity to this question, future surveys should apply non-response techniques to manage non-sampling errors (arising from non-responses or falsified responses) for this item. On the other hand, the remaining 9% of reported revenues were between B/. 10 001 and B/. 150 000,00. This placed all the businesses surveyed in the microenterprise scale.

Figure 2.

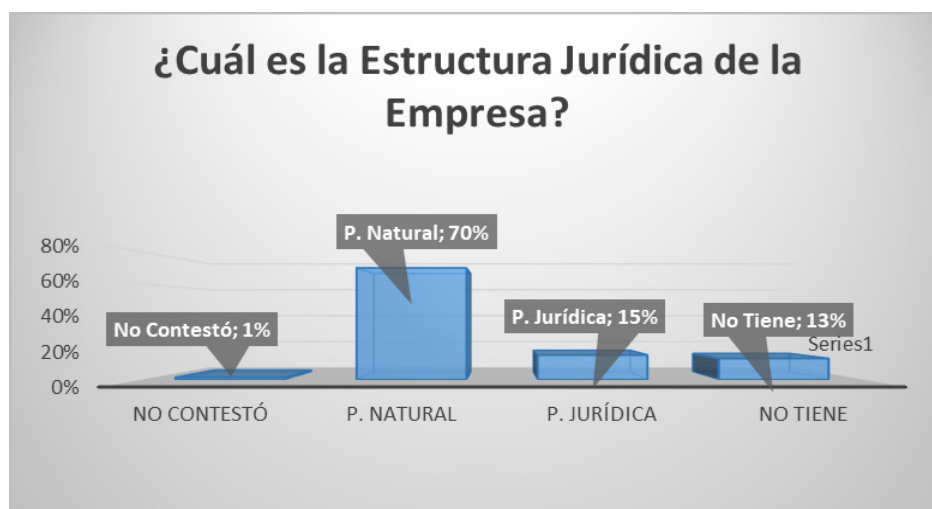
Microenterprises Surveyed by Economic Activity



The research findings correspond with the conventional data of the country's productive matrix and the high weighting of the tertiary sector. Thus, 89,5% of the microenterprises surveyed operated in the tertiary sector, of which 45,2% were engaged in commercial activities, 24,9% in professional and administrative services, and 14,8% in restaurants. All of the informal businesses surveyed (without notice of operations) are microenterprises, and the main reasons why they have not been formalized are misinformation and the perception that the procedures are complicated. Most of the micro-enterprises surveyed (71%) are informal, with processing a notice of operations being the most basic requirement. This figure is compatible with data from other studies, for example, the figures shared at the 2nd Annual MSME and Entrepreneurship Congress (La Estrella, 2024).

Figure 3.

Legal Structure of the Company

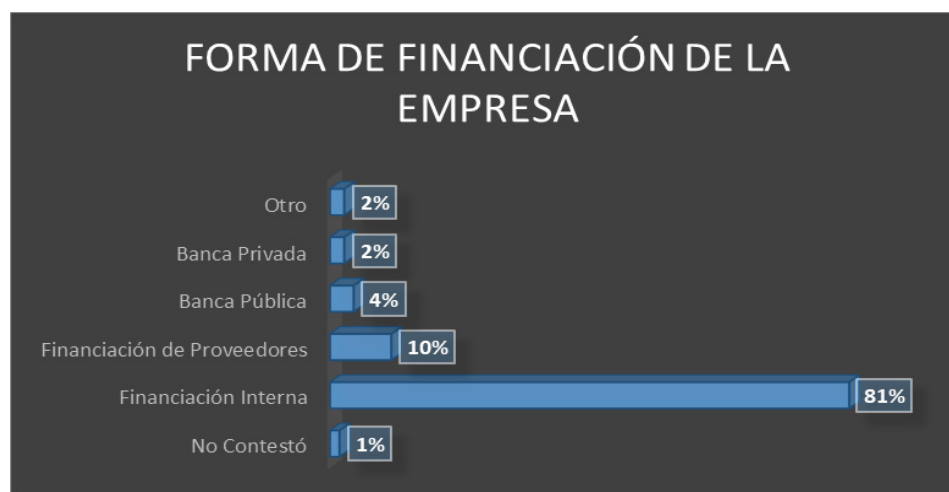


Regarding the legal structure of MIPES, 70% operate as natural persons while 15% as legal persons (public limited companies).

Other studies indicate that 57% are natural persons and 43% legal persons. 73% micro, 23% small and 4% medium (UNPYME, 2021).

Figure 4.

Form of Company Financing

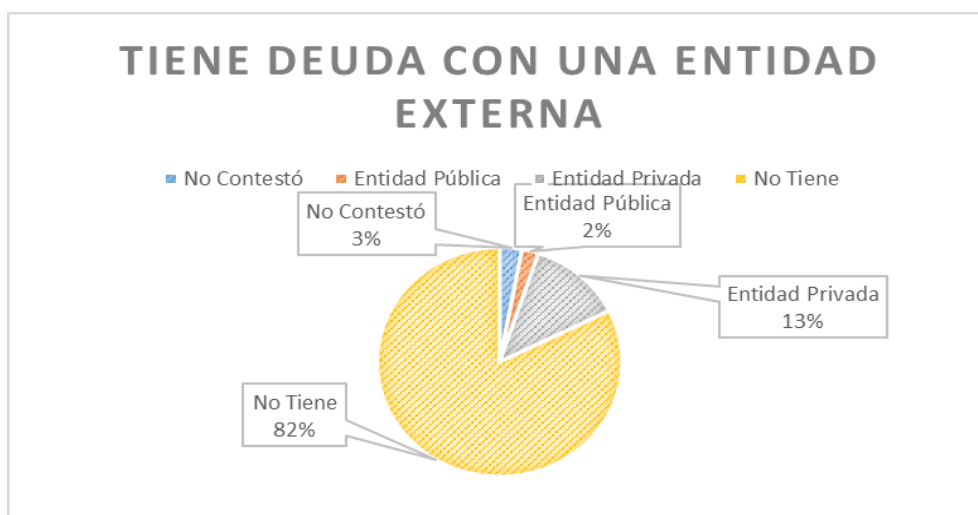


A valuable finding is that 81% of micro-entrepreneurs financed the start-up of their company with savings and their own resources. And only 6% had access to bank financing (figure 4). This highlights the lack of Panamanian financial system to finance micro-enterprises and start-ups.

According to the other study, 67% are banked and 32% are not banked, and 10% are in the hands of personal loans. (UNPYME, 2024).

Figure 5.

Composition of the Debt



The composition of the microentrepreneurs surveyed shows that 82% have no debt with financial institutions, 13% have loans with private entities, and 2% with public financial institutions (figure 5).

Finally, the microenterprises surveyed with debt indicated that the terms operated are 26% less than a year, 23% between 1 and 2 years, 13% between 2 and 4 years, 9% between 4 and 10 years, and 29% handle other terms.

In terms of technological and strategic conditions, the second baseline study found that 11,8% of MSMEs do not have a computer, and 5,1% do not have the Internet.

A central aspect of companies' competitiveness is diligence. In this regard, the study concludes that 68% carry out banking procedures, 47% government procedures, 6% look for suppliers, 5% look for clients, 2% systematically develop processes, 2% implement training, 1% carry out research on business issues, and 52% have no planning document. The main concern of these companies is working capital (82%), followed by sales.

Based on the data provided by the survey shown in figure 1, which deals with the annual turnover of the microenterprises

surveyed, it is possible to speculate on the possibility that non-subsistence microenterprises (turnover between B/. 50 001 and B/. 150 000) constitute between 1,5% and 3%.

Consequently, from a probabilistic perspective, this segment of microenterprises could be studied using a density distribution or Pareto probability distribution. The above hypothesis should be evaluated and explored in greater depth in future studies.

DISCUSSION

To complement the description and theoretical discussion of the characteristics of Panamanian MSMEs and entrepreneurs, we include some data from the 2020-2022 measurements carried out by the Global Entrepreneurship Monitor below.

The first of these measurements presents three key findings: a) Most start-ups are driven by people between the ages of 18 and 44; b) People with a high level of education set the trend in start-ups when the economy slows down; c) People with a medium or high socioeconomic level have a greater tendency to become entrepreneurs.

Early-stage enterprises (MSMEs between 1 and 3 years old) are more densely located in the country's capital (metropolitan) and central regions.

Data from the Global Entrepreneurship Monitor reaffirms the greater preponderance of the tertiary sector in Panamanian enterprises, with between 73% and 75%, not including the average 6% of the information and communications sector, assuming this sector is close to scientific-technological production.

It was observed that in the early stages, most enterprises generate between 1 and 5 jobs.

CONCLUSIONS

In Panama, MSMEs are mainly financed with their own funds, both at the moment of the enterprise's birth and in terms of working capital and growth. In terms of the companies' strategic status, many technological and managerial challenges must be addressed to increase their competitiveness.

The country's micro, small, and medium-sized enterprises (MSMEs) constitute a fundamental pillar of the national economy, representing a large proportion of employment and contributing significantly to local economic development. However, they face several structural challenges that limit their ability to grow and compete in a globalized market. These include restricted access to financing, lack of technical and managerial training, and weak adoption of modern technologies. Although the government has implemented support programs, such as tax incentives and specific lines of credit, these measures often do not significantly permeate micro-enterprises, especially in rural areas, where costs and bureaucratic barriers are more significant. These limitations restrict MSMEs' potential impact on innovation and value-added generation.

On the other hand, if their needs are addressed comprehensively, MSMEs in Panama have great potential to become engines of sustainable development. An improvement in technological infrastructure, accompanied by more significant investment in business training, can strengthen their productive capacities and insertion into international value chains. In addition, a more inclusive public policy adapted to the local reality is key to promoting the formalization of these companies and reducing their dependence on the informal sector.

In the context of globalization, MSMEs should also be supported in participating in trade agreements and taking advantage of the opportunities offered by the Panama Canal, free trade zones, and industrial parks. If effective strategies are implemented to overcome their limitations, these companies could be a key factor in economic diversification and reducing social inequalities in the country.

REFERENCES

- Autoridad de Micro, Pequeña y Mediana Empresa – AMPYME. (2020). Memorias Institucionales. Recuperado de: <https://ampyme.gob.pa/wp-content/uploads/2021/05/Memoria-2020.pdf>
- Banerjee, A., & Duflo, E. (2019). Good Economics for Hard Times: Better Answers to Our Biggest Problems. PublicAffairs.
- Comisión Económica para América Latina y El Caribe (CEPAL). Naciones Unidas. Recuperado de: <https://statistics.cepal.org/portal/cepalstat/>
- Hernández, F. (2003). La Economía de la Deuda. Lecciones desde México. Fondo de Cultura Económica. Ciudad de México, México.
- Instituto Nacional de Estadística y Censo. (INEC). Contraloría General de la República. Datos Económicos. Recuperado de: <https://www.inec.gob.pa/Default.aspx>
- Subramanian, A. (2019). Of Counsel: The Challenges of the Modi-Jaitley Economy. Penguin Random House India.

- Bhaird, C., & Lucey, B. (2008). Determinants of Capital Structure in Irish SMEs. Dublin City University. Recuperado del sitio de Munich Personal Repec Archive. https://mpra.ub.uni-muenchen.de/48415/1/MPRA_paper_48415.pdf
- Bogan, V. L. (2012). Capital Structure and Sustainability: An Empirical Study of Microfinance Institutions. *The Review of Economics and Statistics*, 94(4), 1045-1058. https://doi.org/10.1162/REST_a_00223
- Cuasquer, H., & Maldonado, R. (2011). Microfinanzas y Microcrédito en Latinoamérica. Estudios de Caso: Colombia, Ecuador, El Salvador, México y Paraguay. Centro de Estudios Monetarios Latinoamericanos.
- Esparza-Aguilar, J. L., Soto-Maciel, A., De La Garza-Ramos, M. I., & San Martín-Reyna, J. M. (2021). El desempeño financiero y la riqueza socioemocional en pequeñas y medianas empresas familiares y no familiares. *Tec Empresarial*, 15(2), 02-16. <https://doi.org/10.18845/te.v15i1.5584>
- Fisher, E. (2015). Un Análisis Económico De La Coyuntura Reciente. *Revista Investigación y Pensamiento Crítico*. Vol. 3, N°1, página 47-66. Universidad Santa María la Antigua -USMA Panamá.
- Fondo Monetario Internacional (FMI). (2017). Declaración Final de la Misión de Consulta del Artículo IV. Panamá. Recuperado de: <https://www.imf.org/es/News/Articles/2017/03/17/ms031717-panama-staff-concluding-statement-of-the-2017-article-iv-mission>
- Rodríguez, M. (2024). Ampyme: El 70% de las microempresas en Panamá operan bajo la informalidad. *La Estrella de Panamá*, Panamá. Recuperado de: <https://www.laestrella.com.pa/economia/ampyme-el-70-de-las-microempresas-en-panama-operan-bajo-la-informalidad-DI8390126>
- Ministerio de Economía y Finanzas (MEF). (2017). Dirección de Análisis Económico y Social. Informe Económico y Social – Al tercer trimestre. Recuperado de: <http://www.mef.gob.pa/es/informes/Documents/Informe%20Economico%20y%20Social%20-%20Septiembre%202017.pdf>
- Moody´s. (2018). Calificadora de Riesgo. Anuncio Sobre el Canal de Panamá. Recuperado del sitio de la calificadora de Riesgo: https://www.moodys.com/research/Moodys-Panama-Canals-expansion-is-credit-positive-as-performance-exceeds--PR_378480
- Porter, M. (2008). Estrategia Competitiva. Grupo Editorial Patria. Trigésimo Octava Edición. México.
- Portillo Medina, R., & Hernández Fernández, L. E. (2016). Estrategias para el desarrollo de la microempresa en América Latina. FAEDPYME
- Redcamif. (2015). Boletín Microfinanciero de Centroamérica y el Caribe. Edición No. 6 de diciembre.
- Sautu, R., Boniolo, P., Dalle, P., & Elbert, R. (Eds.). (2020). El análisis de clases sociales. Pensando la movilidad social, la residencia, los lazos sociales, la identidad y la agencia. Instituto de Investigaciones Gino Germani de la Universidad de Buenos Aires; Consejo Latinoamericano de Ciencias Sociales (CLACSO).
- Setterfield, M. (2005). La Economía Del Crecimiento Dirigido Por la Demanda. Editorial Akal Economía Actual. Madrid, España. Traducción: Equipo Editorial y Olga Biosca Artiñano. Pág. 320.

FINANCING

None.

CONFLICT OF INTEREST

None.

AUTHORSHIP CONTRIBUTION

Conceptualization: René Isaac Bracho Rivera, Aaron Samuel Bracho Mosquera.

Data curation: René Isaac Bracho Rivera, Aaron Samuel Bracho Mosquera.

Formal analysis: René Isaac Bracho Rivera, Aaron Samuel Bracho Mosquera.

Research: René Isaac Bracho Rivera, Aaron Samuel Bracho Mosquera.

Writing - original draft: René Isaac Bracho Rivera, Aaron Samuel Bracho Mosquera.

Writing - proofreading and editing: René Isaac Bracho Rivera, Aaron Samuel Bracho Mosquera.