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DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT
Washington, D.C. 20523

525-168

UNCLASSIFIED

AID-DLC/P-991

September 28, 1971

MEMORANDUM FOR THE DEVELOPMENT LOAN COMMITTEE

SUBJECT: Panama - Tourism Loan

Attached for your review are the recommendations for authorization of a loan in an amount not to exceed \$1,100,000 to the Instituto Panameno de Turismo for the United States dollar and local costs of goods and services to assist the Borrower in the development of the tourist industry for Panama by construction of a tourism/convention center-trade show building complex, training of personnel capable of providing necessary tourism services, technical assistance for the tourist industry, and a development revolving fund to provide seed capital for relatively small tourist-related projects.

Please advise us as early as possible but in no event later than close of business on Friday, October 8, 1971, if you have a basic policy issue arising out of this proposal.

Rachel R. Agee
Secretary
Development Loan Committee

Attachments:

Summary and Recommendations
Project Analysis
ANNEXES I-V

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TOURISM LOAN - PANAMA

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TOURISM LOAN - PANAMA

PART ONE

SUMMARY AND RECOMMENDATIONS

1. BORROWER: Panamanian Institute of Tourism, an autonomous agency of the Government of Panama.
2. GUARANTOR: The Government of Panama.
3. LOAN:
 - a) Amount: Not to exceed four million one hundred thousand U. S. dollars (\$4,100,000).
 - b) Terms: The loan will be repayable in 20 years, including a grace period of 7 years, at an interest rate of two percent (2%) during the grace period and three percent (3%) thereafter. The GOP will be offered the two-step option.
4. DESCRIPTION OF THE PROJECT:

The proposed project consists of:

 - a) Construction of a tourism/convention center-trade show building complex.
 - b) Training of personnel capable of providing necessary tourism services; technical assistance for the tourist industry.
 - c) Establishment of a development revolving fund to provide seed capital for relatively small tourist-related projects, such fund to receive the net income generated by the tourism/convention center complex.
5. PURPOSE:

The purpose of this loan is, within the wide range of activities in the top priority tourism sector, to assist the Panamanian Government undertake the one project most appropriate for AID financing and one which at the same time carries the potential for the highest developmental benefits. The greatly increased convention and trade show traffic generated by the completed center will make a significant contribution to raising Panama's levels of income and employment and to improving the country's balance of payments position.

6. PRIORITY:

The Government of Panama has assigned this project the highest priority. A team of top-ranking economists from the University of Chicago, Dr. Harry Johnson and Dr. Robert Mundell, have just concluded an economic survey of the Panamanian economy under an AID-financed grant. They have reported that there are two principal areas that offer the greatest potentialities for the development of Panama. These are (1) tourism and (2) banking and finance.

7. FINANCIAL PLAN:

The proposed financial plan is as follows:

	<u>A.I.D.</u>	<u>TOURISM INSTITUTE</u>	<u>TOTAL</u>	<u>%AID:</u>
Tourism/Convention Center	\$3,485,000	2,370,000	5,855,000	60
Training/Technical Assistance	615,000	20,000	635,000	97
	<u>\$4,100,000</u>	<u>2,390,000</u>	<u>6,490,000</u>	<u>63</u>

8. OTHER SOURCES
OF FUNDS:

No other sources of funds are available for the project.

9. STATUTORY
CRITERIA:

All statutory criteria, as set forth in Annex II of this paper, have been met.

10. VIEWS OF THE
COUNTRY TEAM:

This project has been given the highest priority by the GOP as indicated at the latest CIAP presentation. The country team has recommended approval of the loan.

11. ISSUES

- (a) Private Sector Participation. The private sector has participated in the planning of the project and will continue its management. The project will foster private business development.
- (b) Effect of the Center on other Latin America Centers. There is no comparable convention center in Latin America and the effect on hotel convention facilities should be negligible. See Part II, Section IV.
- (c) Financing the Tourism Institute's office space. This has been included because of the office space's integral location within the building, the operating relationship between the Center and the Institute, the autonomous nature of the Institute, and the fact that it will pay rent

12. LOAN ADMINIS-
TRATION:

Usual disbursement and procurement procedures will be followed in this loan.

13. RECOMMENDATION:

On the basis of the conclusions of the Capital Assistance Committee that the project is technically, economically and financially justified, it is recommended that a loan to the Panamanian Institute of Tourism for an amount not to exceed four million one hundred thousand dollars (\$4,100,000) be authorized subject to the following terms and conditions.

A. Conditions: In addition to the applicable standard conditions precedent to disbursement, the following requirements are proposed:

- (1) Prior to the issuance of the first commitment document or any disbursement under the loan, the Borrower shall submit in form and substance satisfactory to A.I.D., except as A.I.D. may otherwise agree in writing, the following:
 - (a) Evidence from the Government of Panama that it will guarantee repayment of the loan.
 - (b) Evidence of contractual arrangement with an architectural engineering firm acceptable to A.I.D. for preparation of the plans, specifications and bid documents for the tourism/convention center building complex and supervision of the construction.
- (2) Prior to the issuance of any commitment document or disbursement for other than the architectural engineering services, the Borrower shall submit to A.I.D. evidence of contractual arrangements with management consultants to provide technical assistance in the final stages of design of the tourism/convention center, review the final plans and specifications of the building

complex and provide technical assistance in the managerial operations of the convention center both prior to and after completion of the complex.

- (3) Prior to any disbursement or to the issuance of any commitment document for each component of the project for other than architectural engineering services and management consulting services, the Borrower shall, except as A.I.D. may otherwise agree in writing, submit evidence satisfactory to A.I.D. of the following:

(a) Component 1, Construction of Tourism/ Convention Center:

- I. Evidence that the management consultants have reviewed the plans and specifications and finds them adequate for sound operation of the project.
- II. Plans and specifications, bid documents, cost estimates and time schedules for construction.
- III. Evidence of contractual arrangement with a firm satisfactory to A.I.D. for construction services.

(b) Component 2, Technical Assistance and Training:

- I. Evidence of contractual arrangements with a firm(s), satisfactory to A.I.D., for consulting services.
- II. A program for in-country and out-of-country training as applicable.

B. Covenants: The Borrower shall agree to:

- (1) Retain a private business firm or firms to manage and operate all or parts of the tourism/ convention center that are appropriate for private management.

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November 8, 1971

- (2) Submit to A.I.D. in form and substance satisfactory to A.I.D., and prior to any disbursement or to the issuance of any commitment document under the loan for construction of the tourism/convention center, a plan for creation, funding, and operation of a tourism development fund, which plan shall include, without limitation, the criteria for making sub-loans from the fund.
- (3) Faithfully carry out all terms and conditions of the Loan Agreement.

C. Other Terms and Conditions: The loan shall be subject to other terms and conditions as A.I.D. may deem advisable.

PROJECT COMMITTEE:

Loan Officer:	John Shannon
Private Enterprise Officer:	Malcolm Novins
Economic Advisor:	Clark Joel
Financial Advisor:	William Roach
Engineering Advisor:	Hasan Hasan
Training Advisor:	Charles Briggs

OTHER CONTRIBUTORS:

Lewis W. Robinson, Cpt., U.S. Army
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PART II - PROJECT

SECTION I - NATURE OF THE PROJECT

A. DESCRIPTION

1. Strategy

Although in early colonial times Panama was one of the richest countries of the New World, its mineral wealth was depleted over a period of years and Panama was left with scant natural resources. Since then, with limited arable land, the country has been economically handicapped and its development potentials restricted. In the mid-1960's the Government began initiating a series of economic surveys to determine the best opportunities available to the country for its future development. The findings of these studies indicated that climatic conditions and a scarcity of high quality arable land severely limited Panama's agricultural output and placed it at a comparative disadvantage to other Latin American countries in the competition for world export markets. Consequently, the agricultural sector, while important for domestic market consumption, held no true potential for Panama as a source of significant and continued economic growth. Panama's future as an industrial nation also appeared dim. Serious limitations in the country's supply of basic resources, natural sources of energy, available labor, and a restricted domestic market all argued against Panama's successful development through major growth in the manufacturing sector.

Having identified the basic weaknesses of the traditional industrial and agricultural sectors, the economic surveys pointed to tourism as one area where Panama's natural resources offered significant comparative advantages over other Latin American countries. Panama's location as a world crossroad provided ready accessibility by air, sea, and land. Its scenic attractions, favorable climate, good beaches and recreational facilities, such points of interest as the Canal and Indian cultures, reasonable living costs, excellent sanitation and potable water, widespread use of the English language, and its dollar currency all worked to distinguish Panama favorably from most other areas of Latin America. The studies concluded that the proper realization of Panama's tourist resources might well bring to the country the level of economic growth and social prosperity which other sectors were unable to provide.

This assessment of Panama's potential was confirmed by a recent AID-financed survey of the Panamanian economy by a team of top-ranking economists, headed by Dr. Robert Mundell from the University of Chicago and the London School of Economics and Dr. Harry Johnson from the University of Chicago. The team reiterated the findings of the earlier

economic surveys concerning the relative lack of future economic growth potential which was contained in Panama's agricultural and industrial sectors. In fact, the team reported that tourism and international finance offered the two single areas where Panama by nature and past development could grow profitably and make significant strides in placing its economy on a rational basis, one which holds definite promise for continuing growth. The economists urged the Government to undertake a reordering of their development objectives and to assign the highest investment priorities to the tourism and international finance areas;

A recent article in the U.S. News and World Report of August 9, 1971, entitled "Progress for Panama," emphasized the phenomena which had led the economists to their conclusions. It noted, that American banks and business firms, together with international agencies, were taking part in Panama's progressive efforts, one phase of which centered on the development of tourism. The article reported on the new \$4.7 million Holiday Inn partially financed by the International Finance Corporation. International agencies have come to recognize the pre-eminent role tourism will play in Panama's future development. A copy of IBRD's rationale for its recently approved loan for a new airport in Panama City was the dramatically increased amount of tourist traffic Panama had experienced and the decisive economic advantages this activity would bring. The OAS has also strongly endorsed tourism as a prime instrument for Panama's development, as has the CIAP in its hearings. Both emphasized that tourism provided the best means of improving the country's financial position in a relatively short period of time while providing for long-term economic growth as well. See Section I-C, Project Justification, for a full discussion of this aspect.

Although tourism has replaced oil as the number one business of the world, Panama only recently began to capitalize on its particular competitive advantages in this industry. The economic surveys of the mid-1960's convinced the Planning Board and the Government as a whole that policies of previous neglect would have to be changed. The Government began a vigorous campaign to promote tourism (Section I-B). As a first step it organized and staffed one of the most capable and active tourist bureaus in Latin America (Section II-A). Next, with AID financing, it hired in 1968 the American firm of Clapp and Mayne, Inc. to investigate Panama's tourism potential in detail. The resultant study confirmed the excellent economic and market feasibility for the development of tourism in Panama and contained fairly specific plans for the overall realization of a coordinated tourism promotion program. The recommendations included a broad program covering governmental policy, external promotion, research and development, sales offices, a convention center, retiree inducement law, hotel improvement

and construction, training, access roads, public parks program, free zone operations, airline services, airport passenger clearances, a national development bank for financing tourism facilities, international banking participation and restoration of historical sites. The complete program is outlined in Annex III, Attachment 2.

Within this sectoral program the Clapp and Mayne report established priorities for the entire country and for specific regions, some of which are discussed in Section I-A-3. The OAS utilized these plans and prepared detailed feasibility studies for individual projects within the priority sectors. The Tourism Institute also hired a recognized expert in the tourism field as a consultant, Ralph H. Barell. In implementing its new program, the Government has taken a number of measures for supporting tourism, as set out in Section I-B-I. Among these are a hotel construction incentive law, tax exemptions for tourist-related activities, a retirement law, special concession contracts and increased revenue for the Tourism Institute. The Government has also undertaken to sponsor international sporting events, including the regional Olympics, film festivals, cultural events and similar meetings.

The private sector was not slow in recognizing the Panamanian Government's new and dramatic commitment to tourism and the commercial benefits which would accrue to it through the increase in tourist traffic which seemed certain to follow. Additions to existing hotel space were initiated. New hotel starts, including those of the Executive, the Granada, and the Caribe, were undertaken in short order. Restaurant facilities were expanded. Other tourism enterprises entered into by private enterprise since the GOP's announced intention to develop the country's tourist industry include the development of island resorts in the Las Perlas group complete with air strips, harbors, hotels, marinas, beaches, casinos, etc.; a new exclusive resort complex in Bocas del Toro, island resorts in the San Blas chain inhabited by the culture-retaining Cuna Indians and the entry of the Hyatt Hotel firm with management of the historic Hotel Washington in Colon and a new hotel complex on Taboga Island and in Panama City.

Not long after the Panamanian Government reached the decision to emphasize its tourism potential, President Nixon's policy of supporting tourism for Latin America was announced as a special priority at the February 27, 1970 IA-ECOSOC meeting. This statement encouraged the Panamanian Government to seek assistance from AID in its progressing endeavors to promote tourism. The conclusion of the recent University of Chicago economic survey team only reinforced the GOP's earlier intention to concentrate its efforts in the tourism, as well as international

finance, areas which earlier investigations had indicated as the prime sectors where Panama had a realistic chance to improve its internal economic growth on a continuing and competitively advantageous basis.

Consequently, the Planning Board approached USAID on the possibility of obtaining loan funds for the higher priority segments of the program, specifically, a convention center, training, technical assistance, restoration of the historical city of Portobelo and a development revolving fund for tourist-related industries.

Such factors as the ever-increasing number of world-wide conventions, the strong trend to resort and overseas locations of these conventions, and Panama's particular geographic, commercial and climatic advantages for attracting convention traffic led the GOP to assign the highest immediate priority to this area. Furthermore, within the broad range of income generating activities in the tourism field, conventions and trade shows offer one of the greatest rates of return to the economy. Section II-C examines these considerations in detail.

Therefore, the Government proposed the construction of a convention center to attract convention and tradeshow business. Being under borrowing restrictions by the CIAP, the Government had to seek long-term concessional lending. Because of other project commitments, the World Bank and IIB were not interested. OPIC indicated that this was not appropriate for its participation.

A thorough review was made by the Panamanian Tourist Institute and its U.S. consultant to determine the requirements for the convention trade and how these requirements could be met by Panama. These are set forth in Section II-C.

A study of the U.S. convention market as it pertains to meetings held outside the continental United States was prepared by Booz, Allen and Hamilton in 1968. The criteria it developed for successful conventions is set forth in Section II-C-1-f along with a presentation of how Panama meets all the requirements once the proposed convention center is constructed.

After making a survey of convention facilities in other countries, some of which were highly successful and some were not successful (see Section II-C-1-e and d), the Tourism Institute and its consultants arrived at a new concept. Instead of an isolated convention facility, the idea is to have a convention center which caters to all the needs of tourism under one roof. Not only would this be a major means of attracting conventions, but it could serve to attract tourists in general. In addition, when no conventions are booked, the center could continue as a going concern.

Under this unique concept, there will be a center housing the convention auditorium on the second floor which can also be used for international trade exhibits and industrial displays. The latter uses are becoming increasingly important and Panama should be able to attract such business. For example, the Japanese External Trade Organization (JETRO) will hold an industrial fair in Panama next year.

The auditorium will have collapsible chairs and tables on a level floor so that the hall can be used for multiple purposes, including banquets, film presentations, etc., and it will have folding walls so that several conferences can be held simultaneously or the hall divided into workshops or used for other purposes. All requisite facilities will be included, such as simultaneous translation, audio-visual equipment, lighting and catering services.

The first floor will contain shops and facilities providing most services and amenities required by tourists, such as banks, airline and steamship offices, travel agencies, retail shops, barber shops, beauty salons, cafeteria, snack bar, drug store, arts and crafts shops, first aid station, and taxi stand.

The third floor will house the Tourism Institute. The fourth floor will be a roof garden restaurant serving conventioners and general tourists. Above this will be five floors of offices to be rented to consultates and to firms whose business is related to tourism or which provide services to tourists. These office floors will not be financed by AID. The profits derived therefrom will be deposited in a development revolving fund to be used for tourist-related smaller entrepreneurial projects.

It is not proposed to make a profit from the operation of the convention facility itself, but the entire justification for the center is based upon the total impact on the country's economy through the income and employment effects generated by expenditures of conventioners and their accompanying family members, new hotel construction, new tourist related businesses, etc. Section II-C, Economic Evaluation, and Section II-D-3-b-(1)-(b) and (c) substantiate that it is the indirect effects which will contribute to the advancement of the economy.

The prospects are quite bright for the success of the center. Even without a convention center, Panama is already attracting conventions of smaller size and even some larger ones, such as the world wide meeting of the Bahais scheduled for next year bringing in between 3,500 and 5,000 persons. Last year the regional Olympic games brought in over 3,000 participants and between 8,000 and 10,000 visitors.

- (4) A roof garden restaurant to be operated as a concession.

The building complex will be located in a prime area in Panama City within walking distance of the four major hotels serving the city, see map on following page.

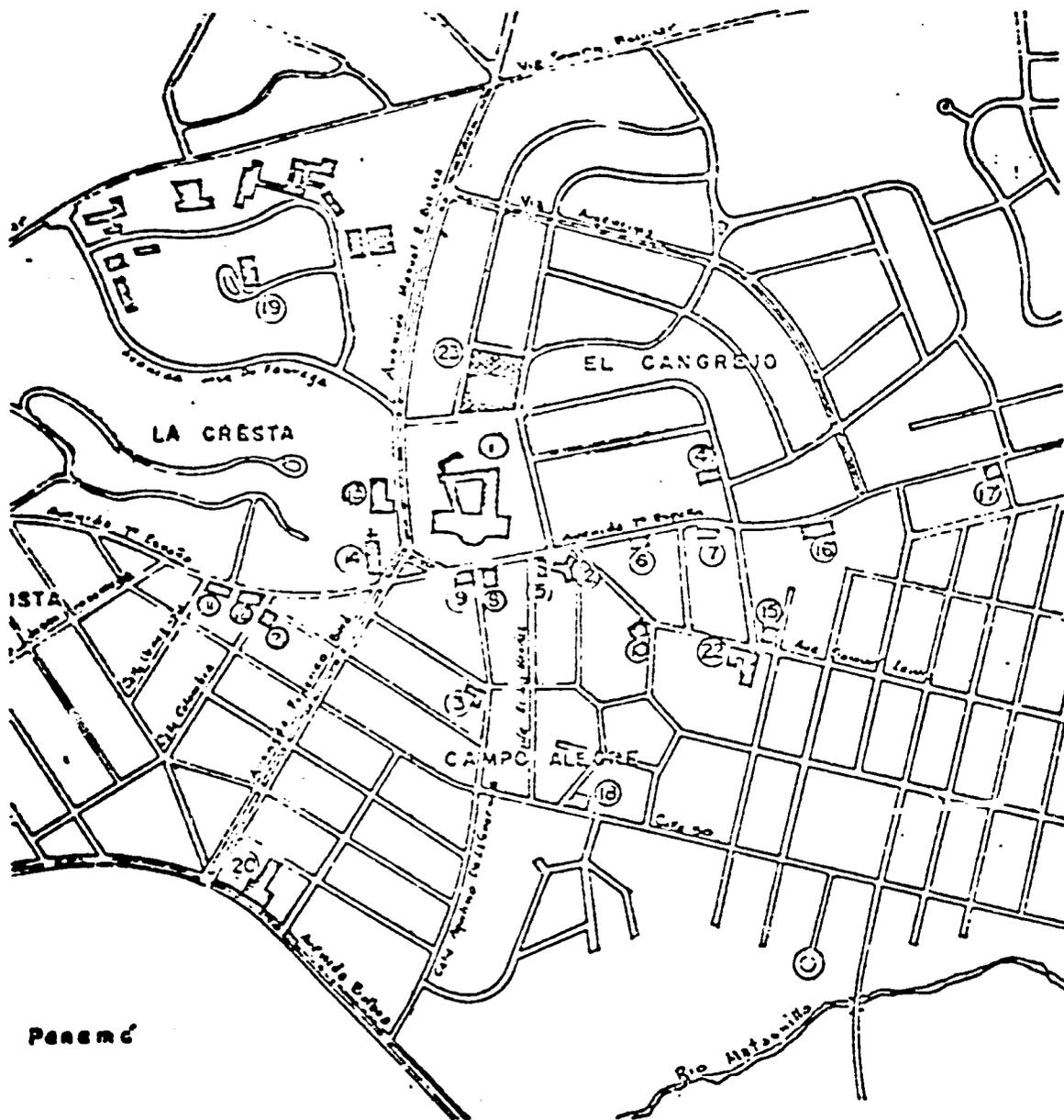
- b. Training and Technical Assistance Program. This component contemplates the development of a specific training and educational program along with technical assistance by which the tourism industry of Panama will be provided with the manpower, information and know-how required for the expected industry growth. The training aspects will be organized with the training program of the Institute for the Development and Utilization of Human Resources and fully coordinated with the private sector (the Hotel Association of Panama) to insure an integrated program. The training program under this project contemplates industry-wide application covering all phases of tourism development. It will be a required expansion of existing programs of the Tourism Institute both for the Institute and the tourist industry personnel. Funds under this component will also be used for out-of-country training for middle and upper management personnel for the tourism/convention center, the Tourism Institute and the tourist-related private sector. Technical assistance will be for the Tourism Institute and the management and operation of the tourism/convention center.
- c. Development Revolving Fund. This component provides for the establishment of a revolving fund in the National Bank to be used for relending for relatively smaller entrepreneurial projects related to the tourism industry. Cash flows generated by the tourism/convention center complex will be transferred to this fund. Criteria for sub-loans under the fund will be acceptable to A.I.D. Repayment terms will be up to fifteen years at mutually agreed upon interest rates with a grace period of up to three years on payment of principal.

The activities of this three-pronged project will encourage investments of the private sector in the development of the tourist industry. It will, directly and indirectly, provide increased employment opportunities. For example, it will attract, stimulate and generate

2. Definition

The objective of this project is to increase the level of income and employment and improve the balance of payments position of Panama through the development of tourism, which offers one of the best opportunities for the country in its economic and social welfare advancement. The project will permit the creation of an international focal point for the interchange of commercial, industrial and cultural programs and the expansion and improvement of existing tourist facilities and attractions. The immediate objective will be achieved as a result of a combination of three components which are identified as follows:

- a) **Tourism/Convention center - trade show building complex.**
The planning, designing and construction of a multi-purpose building complex that can provide facilities and services related to the promotion and support of tourism and/or conventions and trade shows attracted to Panama. The building complex will include:
 - (1) An auditorium for conventions of up to 3,500 persons, to be used also for international trade exhibits and industrial displays with related facilities.
 - (2) Six floors of rentable office space. This office space is to be leased to the firms represented in the Colon Free Zone, consulates, the executive offices of the Tourism Institute and others, particularly firms whose business is related to tourism.
 - (3) A ground floor lobby which will provide most of the services and amenities required by international travelers, such as airline and steamship offices, travel agents, international shopping facilities, personal services, (barber, beauty, etc.), financial services, local transportation services, food and beverage concessions, local and hemispheric arts and crafts shops, drug store, first aid station and all other tourist related services.



EDIFICIOS

- ① HOTEL EL PANAMA
- ② HOTEL CONTINENTAL
- ③ HOTEL EL EJECUTIVO
- ④ HOTEL GRANADA
- ⑤ FIRST NATIONAL CITY BANK
- ⑥ RESTAURANTE PANACHINA
- ⑦ BANCO FIDUCIARIO
- ⑧ CHASE MANHATTAN BANK
- ⑨ RESTAURANTE CAPRI
- ⑩ SUC. BANCO DE COLOMBIA
- ⑪ FIRST NATIONAL BANK OF CHICAGO
- ⑫ BANCO MERCANTIL
- ⑬ ATENEO DE CIENCIAS Y ARTE
- ⑭ IGLESIA EL CARMEN
- ⑮ EDIFICIO DE TROPICAL RADIO
- ⑯ CINE MEXICO
- ⑰ CINE OPERA
- ⑱ CLUB UNICORNIO
- ⑲ UNIVERSIDAD DE PANAMA
- ⑳ EDIFICIO DE LA CONTRALORIA
- ㉑ RESTAURANTE CHALET SUIZO
- ㉒ SANTUARIO CORAZON DE MARIA
- ㉓ EDIFICIO EN PROYECTO DEL INSTITUTO PANAMENO DE TURISMO

additional hotel construction as well as all required and related tourism services and facilities. The project as described herein will be an effective instrumentality for coordinating a national effort on a broad economic front. When considered with other development programs being generated by the Tourism Institute, this project provides a leverage to be used in the increase of the tourism contribution to gross national product from 17% to 40% of the total in this decade.

3. Limits of A.I.D. Financing

The proposed project to be partially financed with the requested loan funds is a portion of the overall plan for the development of the tourism industry of Panama. As described in Section I, Article B, Project Background of this paper, the Government of Panama has undertaken the development of four areas to serve as "tourist terminals" to attract and expand tourism. The proposed tourism/convention center is the initial phase in the development of the Panama City area. Other projects within this area are:

- a. The restoration of the Old City of Panama. This project contemplates the rehabilitation and reconstruction of the original city of Panama which was founded in 1519 and abandoned after being sacked by the famous buccaneer Sir Henry Morgan in 1671. The Old City of Panama is located in the outskirts of the present city of Panama and it is considered that its rehabilitation as a tourist attraction will require an investment of \$5 million.
- b. The promotion of ocean front hotels. A program to stimulate capital for investment in the development of hotels. Under this program the following hotels will be built: Holiday Inn, Punta Paitilla Hotel, Hotel Taboga, Hotel Costa del Sol and Golf Club Hotel, totalling approximately 1550 additional rooms for tourism in the City of Panama.
- c. A project that will develop a "Jungle Survival Center" to serve as an educational as well as an entertainment center that will promote the beauties and mysteries of the Panamanian jungle.
- d. A program that will develop adequate transportation for tours in the vicinity of the City of Panama. Under this program two excursion boats equipped with air conditioned ballrooms, cafeterias and amusement areas will navigate in the Bay of Panama making stops at the resort islands of Taboga and Contadora.

Also under this program, the Tourism Institute is assisting a local travel agency to purchase three special minibuses for group excursions to scenic sights of Panama.

- e. A program to organize a Tourist Assistance Officer and Guide Service. The National Guard and municipal offices are presently working with the Tourism Institute on a joint program for the establishment of "Tourist Assistance Officers"; also, the Institute for the Development and Utilization of Human Resources is working on a project that will train tourist guides. This last project is being developed with assistance from the Department of Socio-Historic Tourism of the Tourism Institute.

Hence, the proposed project is an important milestone in the first phase of development of the tourism industry in the City of Panama.

The project will be partially financed by the Tourism Institute as follows:

	<u>A. I. D.</u>	<u>TOURISM INSTITUTE</u>	<u>TOTAL</u>	<u>PERCENTAGE G. O. P.</u>
Tourism/Convention Center	\$3,485,000	\$2,370,000	\$5,855,000	40%
Training and Technical Assistance	<u>615,000</u>	<u>20,000</u>	<u>635,000</u>	<u>3%</u>
TOTAL	\$4,100,000	\$2,390,000	\$6,490,000	
PERCENTAGE	63%	37%	100%	

Of these funds approximately \$2,123,000 are to be off-shore costs and approximately \$4,367,000 are to be local costs.

B. BACKGROUND OF THE PROJECT

1. Genesis

For sometime there have been Panamanians who have realized the value of tourism and there has existed a fledgling tourist industry, much of which was generated by the existence of the Panama Canal. To foster the industry, the Government established the Tourism Institute (Instituto Panameño de Turismo) in 1960. Although at the beginning there remained insufficient interest and funding to capitalize on the tourist attraction of the country, the Tourism Institute in the last few years has convinced the Government of the vast potentialities of tourism for Panama. It provides one of the best opportunities for improving the country's financial position in a relatively short period of time. It will also create long term employment opportunities.

In 1968 the Directorate General of Planning and Administration of the Office of the President (Planificación) requested funds from A.I.D. to finance a study of the problems faced by the tourist sector. The request was approved and in July 1969 Planificación contracted with the firm of Clapp and Mayne Inc., who in conjunction with the Tourism Institute, prepared a study of the "Potentialities of the Tourism Industry in Panama." The document was completed in March 1970, and provided a general plan of development in which it was recommended that an overall revision of the national policies included in tourism be made by both the public and private enterprises engaged in this activity.

Since the completion of the document the Government of Panama has undertaken an energetic program to improve the tourism industry. It obtained the services of the Organization of American States (OAS) to develop detailed feasibility studies for specific projects within the tourism sector, i.e., the reconstruction and development as a tourist attraction the historic ruins of the old gold shipping fortress town of Portobelo and the Old City of Panama and an in-depth study of a tourism/convention center in Panama City. The Clapp and Mayne study of the "Potentials of the Tourism Industry", the feasibility recommendations prepared under the auspices of the OAS and reports and studies by Mr. Ralph J. Barell, consultant to the Tourism Institute, serve as a basis for the proposed project.

In April 1971, the Tourism Institute acting through Planificación requested that A.I.D. take under consideration an application for financial assistance in the form of a loan to construct a tourism/convention center; develop the port of Portobelo and the Old City of Panama as tourist attractions; provide a fund for training; and establish a development revolving fund for small entrepreneurial projects related to tourism.

The proposed project is to assist in financing the construction of the tourism/convention center, provide funds for training and technical assistance, and make available seed capital through a development revolving fund. The reconstruction of Portobelo and the Old City of Panama are subjects of subsequent projects.

Because of its position as an international crossroad, Panama has a large number of in-transit tourists. In order to capitalize on this tourist traffic, Panama has made efforts to prolong their stay in Panama. As a basis of these efforts and in order to stimulate capital for investment in the development of the tourism industry, the Government of Panama has put into effect various incentives and provided support for the Tourism Institute.

Worthy of note are:

- (a) A 5% lodging tax with the proceeds becoming income for the Tourism Institute.
- (b) The transfer of Tourist Card Income from the Central Government to the Tourism Institute.
- (c) The transfer of air departure fee income from the Central Government to the Tourism Institute.
- (d) A tax exemption law for tourist and tourist related activities.
- (e) A modification of the banking law to include tourism as an "Industry" for permissive interest rates on foreign loans.
- (f) A law that benefits transportation enterprises directly connected with tourism by reducing import taxes on vehicles.
- (g) A retirement law to attract retirees to Panama.
- (h) Special concession contracts for the development of tourism complexes (Isla Bastimento - Bocas del Toro, land value subsidy for Holiday Inn, etc.)
- (i) A hotel construction incentive law (Annex III, Attachment B).

In order to encourage the building, expansion or remodeling of hotels and motels, certain exemptions, concessions, protections and franchises have been established in behalf of investing enterprises by a governmental decree promulgated on September 27, 1967. In summary, the decree provides that for new hotel construction or renovation the following is applicable:

(a) Exemption from payment of duties, assessments, taxes or tariffs of any kind that may be imposed on importation of all construction material, provided that comparable material is not produced in Panama, for a period of five years.

(b) Exemption for a period of five years from duties, taxes or tariffs that may be imposed on furniture and fixtures and operating equipment (china, glass, linen, silverware), provided that comparable equipment is not produced in Panama.

(c) Exemption from payment of real estate taxes for a period of fifteen years.

(d) Exemption from payment of taxes or duties which may be imposed on capital, installations or operations, excluding income taxes.

(e) Exemption from payment of taxes and wharfage or landing taxes at wharves or airports built and owned by the enterprise.

(f) Allowance for depreciation of building and equipment at a rate of 10% for income tax purposes.

(g) Exemption from income taxes of the income originating from interest earned on loans destined for investment in hotels or motels.

(h) Provision for government guarantees of up to 70% in Panama City and up to 75% in the rest of the country on proposed improvements. The Government cannot grant a guarantee in excess of \$5,000,000 for any one project and for a period exceeding twenty years. Minimum investment requirements are \$2,000,000 in Panama City and \$150,000 in the rest of the country.

A further decree was issued on March 18, 1971 which provides for exemptions from duties, taxes and tariffs on equipment not necessarily used in conjunction with a hotel but which is primarily used in an activity directly or indirectly connected with or related to transportation for the tourism industry, such as tourist boats, buses, airplanes, helicopters and fishing boats. This will particularly assist in the development of the off-shore resort islands and will make the hotels on Taboga available for use by attendees of the convention center in Panama City.

Another element of positive value that has developed during the last two years and has benefitted the tourism industry is the introduction of international sport events to Panama.

Since the Central American and Caribbean Olympic games held in the months of February and March of 1970, Panama has been searching for new ways of making the best of its geographical location and is in the process of becoming a cultural and sporting center for the hemisphere.

With the strong support of the Government, the Tourist Institute has conducted a vigorous campaign to host international sporting events. As a result of this campaign, they have been able during the last year to attract such international figures as Pele and the Los Santos and the Cruzeiro championship soccer teams from Brazil; from the United States, Joe Di Maggio and leading golfers for the Panama Open Golf Tournament, the Pittsburgh Pirates for exhibition games and the leading U.S. jockeys for the El Clasico 11 de Octubre races; the Peñarol soccer team from Uruguay; the Racing soccer team from Argentina; and boxing matches featuring Ismael Laguna, world featherweight champion from Panama; plus international deep-sea fishing contests. These events have not only focused international attention on Panama but have also attracted numerous tourists from Central and South America.

An international film festival was held in Panama last year attended by film celebrities from a number of countries. Other international cultural events are under discussion, such as an annual inter-american dance festival, musical festivals, art shows and native arts and crafts exhibitions.

A recommendation of the Clapp and Mayne study of the "Potentials of the Tourism Industry in Panama" is the development of twelve specific areas to serve as "tourist terminals". Of these twelve zones or tourist development areas, the Tourism Institute and the Government of Panama selected four that in conjunction with the development of tourism would contribute to the overall development of Panama in terms of their socio-economic impact. The areas selected are the City of Panama, the Archipelago of Las Perlas Islands, the beaches of the Pacific Coast and the Archipelago of the Mulatas (the San Blas Islands). Technical proposals to conduct feasibility studies under the heading of the "Four Poles" for the development of these areas are presently under review by the Tourism Institute and financing for the studies is being negotiated with the Inter-American Development Bank (IDB) through Planificacion.

The result of the "Four Poles" feasibility study is expected to be concrete proposals for the touristic development and financing of the areas involved, thus giving impetus to the private sector for direct investment. It is expected that the

"Four Poles" program will be implemented by joint participation of government (infra-structure and land cost subsidies as required) and private capital (direct equity and loan financing). The Tourism Institute will follow up the "Four Poles" program with additional feasibility studies for the economic integration of tourism development throughout Panama through the technical assistance provisions of this project.

2. The Acceptance of Panama as a Destination Point

In the last sixteen months Panama has achieved a rather unusual forward thrust of international acceptance as a destination point. This was due to a great degree to the dynamic promotional programs instigated by the Tourism Institute to change the image of Panama and enter the competitive international travel markets.

The partial results of increased promotional expenditures are discernable from the following data of guest arrivals in Panama which indicate a definite trend of increasing acceptance of Panama as a destination point as well as a growing focal point for transit passengers. The time period covered by the following table represents the traditional southward bound travel by U.S. tourists.

REPUBLIC OF PANAMA

NUMBER OF VISITORS ARRIVING AT TOCUMEN AIRPORT FOUR MONTHS: JANUARY, FEBRUARY, MARCH, APRIL 1969 - 1971

	<u>1971</u>	<u>1970</u>	<u>1969</u>
January	14,414	12,400	11,564
February	13,977	13,056	11,050
March	13,373	12,019	12,716
April	12,533	9,623	9,985
T o t a l . . .	<u>54,297</u>	<u>47,098</u>	<u>43,313</u>

1969-71 Two year growth average 25.3%

1970-71 One year growth average 15.3%

The following table represents the yearly tourist traffic to Panama both by air and sea with the average of expenditures. This table verifies an increase in the number of passengers remaining in Panama for more than one day. This shows the increased acceptability of Panama as a destination point.

REPUBLIC OF PANAMA
NUMBER OF GUEST ARRIVALS AND EXPENDITURES (1)

T H O U S A N D S

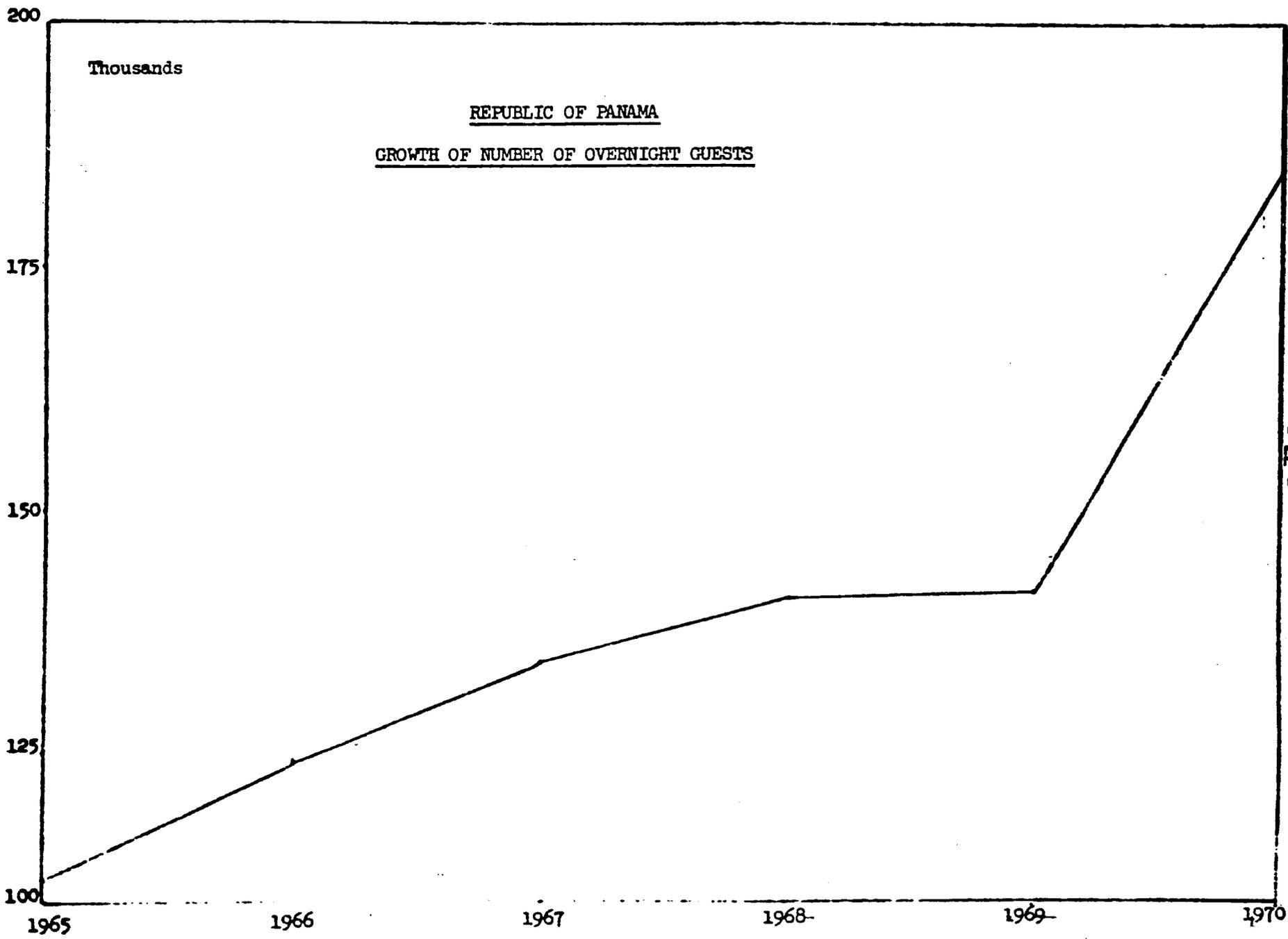
<u>Year</u>	<u>Total % (2)</u> <u>Overnight Guests Var.</u>		<u>Total % (2)</u> <u>In Transit Guests Var.</u>		<u>Total % (2)</u> <u>No. Guests Var.</u>		<u>Total Expenditures (3)</u>
1970	187.0	+ 30.8%	4) 309.0	+ 2.5%	506.0	+ 12.0%	B/ 41,982.0
1969	143.0	--	4) 300.4	+ 1.2%	443.4	+ 0.8%	B/ 29,536.0
1968	142.9	+ 6.0%	4) 296.7	+ 9.8%	439.6	+ 8.5%	B/ 25,258.0
1967	134.4	+ 8.2%	4) 270.1	+ 10.2%	404.9	+ 9.5%	B/ 25,948.0
1966	124.6	+ 19.1%	245.0	- (3.7%)	369.6	+ 4.3%	B/ 24,826.0
1965	104.6	--	249.4	--	354.1	--	B/ 19,637.0
5 Year % Increase	+ 78.7%		+ 23.8%		+ 40.0%		+ 113.7%

1) Source Contraloria General - Balanza de Pagos .

2) Represents Percentage Variation from Previous Year.

3) Valued at Variable Per Capita Rates, therefore valid year to year comparisons are not acceptable.

<u>4) Port of Entry</u>	<u>1970</u>	<u>1969</u>	<u>1968</u>	<u>1967</u>
Tocumen	218,947	199,283	201,818	192,046
Balboa & Cristobal	90,108	101,184	94,039	78,077



To further illustrate the acceptance of Panama as a destination, the following tables on hotel occupancy and meeting room usage are provided:

- (a) The percentage of occupancy of the three major hotels having convention facilities - El Panama, El Continental and La Siesta - is as follows:

12 Months 1969	69.1%
12 Months 1970	75.1%
First 4 Months 1970	79.1%
First 4 Months 1971	81.7%

For Miami Beach the percentages of occupancy are the following:

First 4 Months 1970	76.0%
First 4 Months 1971	80.0%

- (b) Meeting space availability and usage of El Panama, the leading hotel, is as follows:

(1) Existing Space Availability

	<u>Capacity</u>
Bella Vista Room	300 persons
Washington Room	75 persons
Panama Room	75 persons
Total	<u>450 persons</u>

(2) Space Usage

1968	108 groups	2,933 persons
1969	143 groups	3,361 persons
1970	159 groups	3,598 persons

C. PROJECT JUSTIFICATION

1. Place of Project in the Country Program

a. Private Sector Development

As outlined in the country assistance program, one of the specific objectives of the private enterprise sector is the development of tourism as a means of promoting private industrial development. As envisioned, this project is expected to raise the number of additional visitors to the country each year by 110,000 and increase the amount of tourist expenditures to B/19.6 million per year. The accompanying generation of business in the service industries, such as hotels, restaurants, airlines, travel agencies and the like, are clearly at the heart of the project's implications. In addition, the construction of the center itself, its management and the use of its six floors of office space and ground floor rental area will all draw upon the private sector.

The development of an adequate investment atmosphere and the incorporation of the small entrepreneur into the capital market are important considerations for political stability and increased economic development as described by the Government of Panama. To this end, part of the reasoning behind the proposed establishment of seed capital supplied through a revolving fund for the development of small, tourist-related projects is the encouragement of private investment in this area. The program for training personnel capable of providing the necessary tourism services is a further encouragement to private enterprise. It also serves to complement the Mission's objectives with regard to its overall manpower training activities. It is anticipated that some 1,300 additional employees will be needed to handle the required increment of 1,100 hotel rooms.

b. Impact on Employment

A major objective of the Government of Panama is to increase opportunities for employment, particularly in the urban areas. As a result of the influx of migrant workers from the rural areas, the unemployment rate in the metropolitan areas is substantially above that of the republic as a whole. In 1969, the unemployment rate for the metropolitan areas was 9.4%, compared with 6.5% for the whole country;

In absolute terms, the number of unemployed in the metropolitan areas is estimated at 21,000 in 1969, while approximately 23,000 people reportedly worked less than 20 days a month.

In theory, there are three ways in which urban unemployment can be reduced: (1) increase the rate of growth of GDP, (2) reduce the rate of growth of the urban labor force, and (3) use more labor-intensive production techniques.

Over the past decade, Panama's Gross Domestic Product increased at an average annual rate of 8% in real terms, while the unemployment rate in the metropolitan areas declined only from 11% to 9.4% of the metropolitan labor force. On the other hand, an 8% annual growth rate in real terms over ten year period is an extraordinary achievement, and Panama cannot count on being able to continue to grow at so high a rate over the next decade. While a high GDP growth rate is essential to absorb the 4.5% average annual increase in the country's labor force, it is not, by itself, sufficient to cope with the problem of urban unemployment in a developing country characterized by a large-scale migration from rural to urban areas.^{1/}

The second approach is to reduce the rate of growth of the urban labor force. This might conceivably be done in several ways, such as: (1) reducing migration from rural areas to cities by making the rural areas and small towns more attractive, (2) keeping urban children in school for more years, and (3) reducing the fraction of urban women who try to work. Some of these policies simply make the unemployed less visible in the cities and do not solve the underlying social problems. Others may be desirable, but cannot be brought about quickly, if at all.

Consequently, the most promising means of reducing urban unemployment is the third approach of developing or expanding labor intensive activities in the urban areas. Development of manufacturing is not enough since modern manufacturing processes are generally capital intensive

^{1/} Over 1965-69, the average annual rate of increase of the urban labor force was 5.4% versus 4.5% for the country as a whole.

and employ relatively few workers. On the other hand, service industries such as tourism are highly labor intensive, both in their direct and indirect effects.

The direct employment effect of the center and of the new hotels to be constructed to accommodate the conventioners is estimated at 2,000 jobs. This estimate refers only to jobs created within the center and new hotel facilities. To this direct impact must be added the indirect employment effect taking place outside the center and hotel facilities associated with the conventioners' expenditures. The total direct and indirect employment effect of the center and investment in hotel facilities is estimated at 4,000 to 6,000 permanent jobs.^{1/}

c. Impact on National Income and the Balance of Payments

The substantial contribution of this project to the GNP and to the balance of payments is an essential part of the justification of this project. The tourism/convention center together with the related hotel facilities^{2/} are projected to result in almost B/20.0 million a year in conventioner expenditures. The total resulting increase in income is much larger after allowance is made for the multiplier effects. The capital-output ratio of the investment in the center and related hotel facilities is unusually favorable (1.4 to 1.0). Both the income and balance of payments effects are discussed fully in Sections (b) and (c) of the "Project Contribution to Country's Economic Development" and under "Project Contribution to National Economy".

2. Project Contribution to Country's Economic Development

a. Macroeconomic Performance of the Economy

Gross Domestic Product (GDP) in 1960 Balboas grew from

^{1/} See Section C - 2 (a) below for a fuller discussion of employment effects.

^{2/} To be built by private enterprise.

B/415.8 million in 1960 to B/837.9 million in 1969; thus, in real terms the output of the domestic economy doubled over the past ten years.^{1/} The average rate of growth of GDP at 8.1% was very impressive and resulted in an increase in per capita income well in excess of the target rate set by the Alliance for Progress. Real income per capita rose from B/420 in 1961 to B/591 in 1969, or at an average annual rate of 4.4%. Moreover, this record of growth was achieved with minimal inflation. The Index of the implicit deflator for GDP (1960 = 100) rose only to 112.7 in 1969 and the Consumer Price Index (1962 = 100) applicable to low and moderate income groups in Panama City rose only to 112.5 in September of 1970.

Total employment grew by 124,000 between 1960 and 1969 - from 300,000 to 424,000 - while the country's unemployment rate declined from 9.1% to 6.5% of the labor force. The unemployment rate in the metropolitan area also declined over the decade though it is still significantly higher than for the rest of the country. In 1969, it stood at 9.4%.

The rapid increase in investment expenditures - both private and public, played a major role in explaining the economy's performance. Gross domestic investment, in 1960 Balboas, increased from B/67.8 million in 1960 to B/203.6 million in 1969, or at an annual average rate of 13.0%. For the most part, both private and public investment grew apace during this period. Private investment grew vigorously in all years except in 1964, 1967, and 1969. In the latter two years, a sharp upsurge in public investment spending offset the decline in the growth of private investment. Public investment also accounted for a significant proportion of GDP growth in 1970. In spite of the rapid growth in public investment in recent years, private investment still makes up between 75% and 80% of the total.

^{1/} Except where noted, all of the basic data in this report were drawn from publications of the Dirección de Estadística y Censo. All 1969 and 1970 data are still preliminary.

There can be little doubt that the investment climate in Panama has been favorable to private capital formation over most of the past decade.

Merchandise exports grew at rather spectacular rates over the 1960-1970 period, averaging 12.9% per year in current prices. Over the same period, merchandise imports grew at 11.9% per year. Panama has a substantial trade deficit and a smaller (though still significant) deficit on current account. The latter increased by 125% in 1969 and by 133% in 1970, in part as a result of the substantial increase in public investment activity in these two years. In 1970, Panama's current account deficit stood at B/80 million which was largely covered by short-term government borrowing. The country's balance of payments problem is discussed more fully under (c) below.

Government expenditures increased significantly since 1968 following the accession of the current Government. In an effort to reduce urban unemployment and provide the country with needed infrastructure, the Government investment budget was substantially increased. Total Central Government expenditures (current plus capital) increased from B/138 million in 1968 to B/170 million^{1/} in 1969 and to B/217 million^{2/} in 1970. The budget for 1971 is estimated at about B/238 million^{3/}. Government revenue also increased substantially in 1970 and the first quarter of 1971, in large part as a result of tax reform. Total current revenues of the Central Government increased from B/119 million in 1968 to B/160 million in 1970, and are projected at B/186 million for 1971. Nonetheless, the increase in expenditures outstripped the increase in

^{1/} Excludes payment of prior year obligations and B/25.5 million in long term loans issued to the Social Security Administration in payment of accumulated government debt.

^{2/} Preliminary estimate by Planificacion, Informe Económico, 1971, page 38.

^{3/} No final figure has been published at this writing.

revenues, raising the overall deficit in the Central Government's budget from B/19 million in 1968 to B/56 million in 1970, and a projected B/52 million for 1971. This deficit has been mostly covered by Government borrowing abroad.

The sharp increase in public investment spending in 1969 and 1970 has given rise to severe budgetary, balance of payments and debt service problems. A slow-down in the rate of growth of public sector spending is unavoidable as the Government is unlikely to be able to finance the expansion of public investment on the scale that prevailed in 1969 and 1970. Thus, the maintenance of a rapid economic growth rate will require vigorous growth in autonomous private sector spending, since the contribution of the public sector to growth must be expected to decline. Projects that stimulate private investment and exports are essential. The development of the tourist industry meets these needs - and offers, in addition, the advantage of being a highly labor intensive activity.

b. Impact of project on the GOP

Phase I of the tourist development projects involves two sources of income: the tourism/convention center building complex and the seed capital fund for small tourist-related projects. Of these, the tourism/convention center is by far the more important. The center will generate income not just by attracting conventioners but also by promoting trade shows (a natural for Panama in view of its location, its importance as a commercial and financial center, and the rapidly expanding trade of the Colon Free Zone). These income effects result from expenditures by conventioners and accompanying dependents on food, internal travel, locally produced handicrafts and consumer services. Moreover, these expenditures have a multiplier effect since a significant part of the income received by sellers of goods and services will be respent, thus generating additional income. In addition, the center will produce income from the rental of space to stores, offices, restaurants, etc. An indirect income effect that is likely to be quite important but impossible to measure is the impact on tourism through word-of-mouth advertising. A successful convention business is most likely to stimulate an interest in visiting Panama.

The following estimates of the income effect of the tourism/convention center complex are based on the study

undertaken by Ralph J. Barell, Economic Advisor to the Tourism Institute.

The first step in the analysis is the estimation of the total potential U. S. convention market.^{1/} This total potential market is estimated to attain an average of 2,750,000 conventioners a year during the decade of the 1970s. It is assumed that Panama will be able to capture about 4% of this market, an estimate which is in line with the estimated share of the U. S. overseas travel market that Panama is expected to capture over the next decade. According to this estimate, Panama can expect to receive 110,000 conventioners a year staying an average of about four days and spending an average of B/178 per stay. This will yield a convention and trade show income of B/19,580,000 per year.^{2/}

Another method of estimating Panama's share of the convention market is to examine the recent experiences of a country whose characteristics are somewhat similar -- Mexico. The following statistics apply to those conventions up to 3,500 people held in Mexico City and Acapulco during 1970.

	<u>Number of Conventions</u>	<u>Number of Participants</u>	<u>Number of Man-days</u>
<u>Total</u>	92	56,200	432,410

The average number of persons per convention was 600. Sixty-three percent of the conventions were between 100 and 600 persons, and twenty-six percent were in the 1000 - 3000 category. Acapulco conventions were never over 500 persons, and they averaged 280 persons. Mexico City's ability to accommodate the larger conventions (in 1970, there were additional ones of 4,000, 5,000, 7,000, and 10,000 -- all clearly too large for Panama) is evident.

It is reasonable to assume that with active and effective promotion Panama will over time be able progressively to approximate the 1970 Mexican attendance figure (remembering that, because of the increase in convention market, Mexico's absolute figure will grow). Using the Mexican example, the following calculations provide one estimate of the convention business and consequent income Panama can expect during the first five years of the convention center's operation. (Note: the calculations, based on the Mexican figure, assume an average per man day expenditure of \$44.)

^{1/} This market consists mostly of Florida, Puerto Rico, Bahamas, Jamaica, Mexico, and Europe.

^{2/} Annex No. 3: Addendum No.1, pages 1 - 2.

<u>Year</u>	<u>% of Mex. 1970</u>	<u>No. of Conventions and Participants</u>	<u>Number of Man-days</u>	<u>Income Generated</u>
1	15%	14/8,430	64,862	2,853,928
2	20%	18/11,240	86,482	3,805,208
3	30%	28/16,860	129,723	5,707,856
4	50%	46/28,600	216,205	9,513,020
5	75%	69/42,900	324,308	14,269,552

It is very possible that, given the demonstrated growth in overseas convention business and the fact that 1970 saw a general drop in world-wide convention business due to the economic squeeze, the above figures are too conservative and ignore the actual demand that will face Panama in the future. Nevertheless, as conservative as they may be, the above calculations demonstrate that the construction of a convention center in Panama City will open to the country a new source of rapid and significant income. Applying the accepted 2.14 multiplier coefficient used to measure the indirect income effect of convention expenditures in Panama, one arrives at a total GDP effect of approximately \$30,537,000 by the fifth year of operation. This figure, added to the projected rental and other income of the center (\$658,000), gives a grand total of \$31,195,000.

In addition, there is a rental income from the lease of stores and service establishments, offices, restaurants, and theaters, etc. This gross rental income is conservatively projected to increase from B/459,000 during the first year to B/658,000 in the sixth year, then to remain at that level. The direct annual income from the tourism/convention center can be recapitulated as follows:

1. Convention and trade show income....19,580,000
2. Rental and other income..... 658,000
3. Total Gross income.....20,238,000

Allowance must be made for the indirect income effect of conventioners' expenditures, since, as we have noted, these expenditures (estimated above at B/19.6 million) will generate income that will, in part, be respent, thus generating additional income. The magnitude of this indirect income effect depends on the size of the tourist income

multiplier. 1/ The magnitude of the tourist income multiplier was estimated by Mr. Barell in a separate study at 2.14. 2/ A total GDP effect of B/42,560,000 is obtained by multiplying the direct conventioner expenditures by 2.14 and adding the rental and other income.

It must be understood that this very substantial income effect cannot be related to the investment in the tourism/convention center alone as additional hotel facilities will have to be built by the private sector to accommodate the conventioners and trade show promoters.

An additional income effect will be generated by the seed capital fund that will be used to make loans for small tourist-related projects. During the first ten years of the tourism/convention center operation, funds available for lending are projected to reach a cumulative total of B/1.6 million exclusive of investment roll-over and interest. The investments made with these loans are projected to increase the GDP, after allowing for multiplier effects, by B/2,185,000 in the tenth year. 3/ This will bring the total annual income (inclusive of indirect income effects) generated by Phase I of the project to B/45 million.

c. Contribution to the Balance of Payments

Since Panama uses the dollar both as the internal and

1/ The magnitude of this multiplier is inversely related to the proportion of the increase in income that is saved, taxed and spent on imports.

2/ Annex No.3: Instituto Panameño de Turismo, Potencial de la Industria de Turismo, March, 1970, English version, page 274.

3/ In making this projection, it was assumed that the money in the seed fund would be used to build hotel rooms and other tourist facilities outside of Panama City. Total loans from the fund during the first ten years are projected at B/1.6 million which would finance the construction of about 240 hotel rooms. Total annual income generated is calculated as follows:

240 hotel rooms at B/10 a day for	
255 days (70% occupancy).....	B/ 612,000
Expenditures on food.....	306,000
Beverages.....	103,000
TOTAL.	B/1,021,000

Multiplying this direct income effect by the multiplier of 2.14 to take into account their indirect income effects yields B/2,185,000.

external medium of exchange, balance of payments difficulties cannot be measured in terms of a decline in foreign exchange reserves; but they can be measured in terms of the size of the country's current account deficit and how it is financed, as well as by the magnitude and growth of the service charges on its foreign debt. In terms of such standards, Panama has a balance of payments problem. Just like any other country, Panama must be able to earn and borrow^{1/} enough to pay for its imports and cover the debt service charges and other payments to the rest of the world. The country's rapid economic development has placed and will continue to place a severe strain on the country's balance of payments owing to its impact on imports and on the debt service burden.

Panama has a substantial deficit on current account which is only partially offset by its net earnings on services. The deficit must be made up by capital inflows. Table 1 shows that (a) the current account deficit has more than doubled in 1969, and again increased by 133% in 1970; (b) it has now reached a substantial B/80 million; and (c) long-term capital inflows on both private and public account have not been sufficient to cover this deficit and the government had to resort to short-term borrowing from private commercial sources on a substantial scale in both 1969 and 1970. According to the latest CIAP estimates, short-term borrowing by the public sector resulted in a net capital inflow of B/35.3 million in 1969 and B/37.1 million in 1970 (See Table 1). Such borrowing has added significantly to the debt service burden owing to the high amortization charges on the short-term debt.^{2/} Clearly, the sustained expansion of short-term borrowing cannot continue. The country urgently needs projects that contribute to its export earnings or to reducing its import requirements.

Data on earnings from travel for the period 1960-69 are presented in Table 2. Total expenditures by foreign travelers in Panama increased from B/27.6 million in 1960

^{1/} On terms that do not give rise to an excessive debt service burden.

^{2/} The outstanding short-term debt was converted into medium term in 1971.

TABLE 1

BALANCE OF PAYMENTS

1967 - 1970

(In Millions of Balboas)

	<u>1967</u>	<u>1968</u>	<u>1969</u>	<u>1970</u>
Trade, net	<u>-123.1</u>	<u>-128.5</u>	<u>-142.4</u>	<u>-202.1</u>
Exports	109.2	117.4	131.4	129.9
Imports ^{1/}	-232.3	-245.9	-273.8	-332.0
Services, net	<u>95.3</u>	<u>113.2</u>	<u>107.9</u>	<u>121.7</u>
Exports	189.9	210.4	226.8	250.5
Imports	-94.6	-97.2	-118.9	-128.8
Deficit on Current Account	-27.8	-15.3	-34.5	-80.4
Unilateral Transfers, net	1.8	0.3	1.1	2.6
Long-Term Loans & Investment, net	15.0	20.3	13.7	20.4
Short-Term Capital-Public sector, net	-0.5	-1.8	35.3	37.1
Short term Private Loans & changes in Bank Assets	15.7	-2.3	13.0	n.a.
Net Errors & Omissions	-4.2	-1.2	-28.6	--

^{1/} Include non-monetary gold

Source: CIAP Report, 1971. Figures for 1969 and 1970 are preliminary estimates.

TABLE 2
EARNINGS FROM TRAVEL
1960 - 69
(In Millions of Balboas)

	(1) Expenditures by Foreign Travelers in Panama			(2) Expenditures by Panamanian Travelers Abroad	(3) Net Earnings from Travel (1) - (2)
	From Canal Zone	Other Travelers	Total		
1960	13.2	14.4	27.6	6.5	21.1
1963	21.1	14.1	35.2	7.9	27.3
1965	21.4	19.6	41.0	10.0	31.0
1967	30.7	26.0	56.7	16.7	40.0
1968	33.9	25.5	59.4	16.0	43.4
1969	35.8	29.5	65.3	20.6	44.7
1970	38.3	42.0	80.3	23.8	56.5
Average Annual Compound Rate of Growth					
1960-70	11.2	11.3	11.3	13.9	10.3

Source: Estadística y Censo

to B/80.3 million in 1970, or at an average annual compound rate of 11.3%. Net earnings from foreign travel increased from B/21.1 million in 1960 to B/56.5 million in 1970, or at an average annual compound rate of 10.3%. Net earnings of B/56.5 million constitute 15% of total foreign exchange earnings from exports of goods and services and 12% of total import requirements.

Given a determined effort in the area of tourist promotion, there is no reason why a net annual growth of 10% in net earnings from travel should not continue over the next decade. On this assumption, net earnings from travel would contribute B/146.5 million by 1980, a contribution which is likely to be even more significant in relation to total import requirements than it is today.

d. Tax Revenues

It has been estimated in a separate study^{1/} that the gross income accruing to the Central Government from the operation of the center would come to at least 10% of the additional income generated. This estimate includes the yield from both direct and indirect taxes. On this basis, the total contribution to the Central Government resulting from the direct income effects of the center would be B/2.0 million.^{2/} Total Central Government revenue collections resulting from both direct and indirect income effects of the center and loans from the seed fund would be about B/4.5 million.^{2/}

^{1/} Annex No. 3: Addendum No. 1, page 2.

^{2/} Ten percent of B/19.6 million. Annex No. 3: Addendum No. 1, page 2.

^{3/} Not all of this increase in tax revenue is traceable to the investment in the tourism/convention center since additional investments in hotel facilities (to be undertaken by private interests) will be needed.

g. Effects on Income Distribution and Employment

The benefits from this project will be widely dif- fused among various income groups. Lower income groups will stand to gain on account of the labor intensity that characterizes the service industries. The project allocates B/635,000 for the training of personnel capable of providing the necessary tourist services, thus enhancing the earning capacity of these employees. Of even greater importance is the fact that a very large proportion of the tourist dollar is spent on services. The stores, restaurants, beauty shops, offices, etc. in the center must all be staffed. It is estimated that some 2,000 positions in the center and in new hotels will be created. Additional indirect employ- ment effects can be expected to occur since some of the income will be spent on goods and services originating out- side the center and new hotel facilities. To estimate the total employment effect of the project, the direct employ- ment impact must be multiplied by the employment multiplier. On the conservative assumption of an employment multiplier of 2.0, the total employment effect of the center and related hotel facilities would be 4,000. Alternatively, the total employment effect can be calculated by relating the number of new hotel rooms to additional jobs on the basis of studies conducted in other countries. Estimates range between 3 and 4 new jobs per additional hotel room. On this basis, the construction of 1,460 hotel rooms (1,100 in Panama City and 360 elsewhere), plus the 200 jobs in the center itself, could be expected to give rise to 4,600 to 6,000 new jobs.

During the construction phase, an estimated average of 300 construction workers will be employed. In addition, the center's construction will have significant employment effects in related industries (cement, brick, metal indus- tries, etc.). Thus, the project will contribute signifi- cantly to employment both during and after construction. The GOP places a high priority on the reduction of unemploy-

1/ Breakdown as follows:

Employment in center itself.....	200
Employment in new hotels in Panama City to accommodate conventioners.....	1,300
Employment in new hotels outside Panama City built with loans from seed fund.....	500
TOTAL.....	2,000

ment in the metropolitan area which was estimated at 9-1/2% of the metropolitan labor force in 1969.

f. Effect on Related Industries

The most obvious and significant impact on the center will be on investment in additional hotels. On the assumption of 110,000 arrivals per year, an average stay of 3.5 to 4.5 days, an average number of 1.4 guests per occupied room and a 70% occupancy rate, it has been estimated that 1,100 additional hotel rooms will be required involving an investment of B/22 million.^{1/} This calculation does not consider the impetus to the tourist industry that the center can be expected to provide. (Or using the more conservative calculations based on the Mexican figures, the center would stimulate a need for an additional 800 rooms involving an investment of \$16.0 million.)

3. Impact on United States Economy

The impact on the United States economy is discussed under two headings: direct effects and indirect effects. By "direct effects" is meant imports from the United States resulting from the construction and equipping of the center. "Indirect effects" relate to incremental imports from the United States projected to result from the increase in GDP accruing to Panama from the operation of the center.

a. Direct Effects

The engineers' current best estimate is that roughly 33% of the total estimated cost of construction, furnishings and equipment of the center will be spent on imports from the United States. Since total cost of construction, furnishings and equipment are estimated at B/4,313,000,^{2/} commodity import are projected at about B/1.4 million, which represents 2/3 of the total estimated B/2.1 million in offshore costs, most of which will be U.S. procurement.

1/ Annex No. 3: Addendum No. 1, pages 2 - 3.

2/ Cost of construction, furniture and equipment and contingency allowance. Excludes architect and engineer services, administration, value of land, training and technical assistance.

b. Indirect effects

These are considerably more important since they will continue - and most likely increase - over the life span of the center.

The total direct and indirect income effects from Phase I is estimated at 8/45.0 million a year. To estimate what impact this increased income may have on imports from the United States, total imports from the United States have been correlated with GDP (in current prices) for the period 1962-69. 1/ The data is presented in Table 3.

TABLE 3
GDP and IMPORTS from the UNITED STATES
(Millions of Balboas)

	<u>GDP</u> <u>Current Prices</u>	<u>Imports from</u> <u>United States</u>	(2) <u>as % of (1)</u>
1962	504.8	66.4	13.2
1963	559.5	74.0	13.2
1964	600.8	71.2	11.8
1965	659.9	78.0	11.8
1966	719.0	87.9	12.2
1967	800.7	90.0	11.2
1968	861.4	93.5	10.9
1969	<u>944.1</u>	<u>95.4</u>	<u>10.1</u>
Weighted Average	5,650.2	656.4	11.6

1/ The relationship between increases in imports from the United States to annual increments in GDP is actually more relevant for the purposes of this analysis. It is found, however, that this ratio fluctuates very widely from year to year, ranging from minus 6.8% in 1964 to plus 16.8% in 1966. An average of median value under such condition would be quite meaningless.

Note that imports from the United States as a percentage of GDP fluctuated within the relatively narrow range of 10 to 13%. Since there is a definite downward trend, a ratio of 10% was used. On this basis, the major effect of the center (together with private investments in hotels) on the United States balance of payments would be to expand U.S. exports to Panama by about B/4.6 million a year.

4. Building of Democratic Institutions (Title IX)

The impact of the project on income distribution and employment was covered under Section 2 (e) of the Program Justification.

b. Indirect effects

These are considerably more important since they will continue - and most likely increase - over the life span of the center.

The total direct and indirect income effects from Phase 1 is estimated at \$/45.0 million a year. To estimate what impact this increased income may have on imports from the United States, total imports from the United States have been correlated with GDP (in current prices) for the period 1962-69. 1/ The data is presented in Table 3.

TABLE 3
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Note that imports from the United States as a percentage of GDP fluctuated within the relatively narrow range of 10 to 13%. Since there is a definite downward trend, a ratio of 10% was used. On this basis, the major effect of the center (together with private investments in hotels) on the United States balance of payments would be to expand U.S. exports to Panama by about \$4.6 million a year.

4. Building of Democratic Institutions (Title IX)

The impact of the project on income distribution and employment was covered under Section 2 (e) of the Program Justification.

SECTION II - PROJECT ANALYSIS

A. BORROWER

The Panamanian Institute for Tourism is an autonomous government agency created by presidential decree in September 1960. It is administered by a nine-member board of directors consisting of representatives from organizations in both the private and public sectors: Ministry of Commerce and Industry, Ministry of the Treasury, Ministry of Public Works, Presidential Planning Board, Federation of Chambers of Commerce, Airlines Association, Association of Travel Agencies, Hotel Association and the Office of the Controller General.

Primarily functioning as the focal point for the various economic, social and political facets governing the promotion and development of tourism, it carries out analytical, planning, programming, implementation, coordination and evaluation procedures in accordance with the overall national development plans and policies of the executive branch. As such, it properly serves as the principal instrument in this loan proposal with the Central Government acting as guarantor. Its present financial resources include: Government subsidies of \$390,000 per year; a 5% hotel tax; income from the sale of tourist cards; a tax on the purchase of airline tickets.

The Tourism Institute will implement the loan in general and will assign a project manager for the three principal areas involved. In each case it is planned that the day to day management of the various portions once they are in operation will be conducted by private and government agencies, with the Tourism Institute retaining overall administrative and financial responsibility.

The confidence the Central Government has in the Tourism Institute as an organization is self-evident in the position it holds at the forefront of the government's efforts to develop tourism into a major contributor to the country's overall economic development. The Mission shares this confidence, particularly with respect to the two key individuals responsible for the Institute's present policies and management and the future implementation of the proposed loan.

Jose Rogelio Arias, Jr., General Manager of the Tourism Institute, has long been active in the civic and industrial life of Panama. Appointed to his current post in January 1970, he was named "Mgn of the Year" at the end thereof for his dynamic efforts on behalf of Panama's tourist industry. Mr. Arias, who is 49, was

educated at the University of Santa Clara and the University of Southern California. He has twice been elected to public office, as councilman in the District Capital between 1956 and 1960 and as a member of the National Assembly from 1960 to 1964. Otherwise, he has had a successful career in business as Director General of the Panama Radio Corporation and as executive in and director of several other business corporations.

Mr. Ralph J. Barell, who is the Economic Advisor to the Tourism Institute and who prepared the Clapp and Mayne tourism study, is a recognized economic and travel research consultant. Educated at Cornell, the Harvard School of Business and M.I.T., he has had as clients in recent years Hilton International, Sheraton International, Intercontinental Hotels, IBM, T.W.A., Cornell University and the Governments of Israel, Venezuela, Jamaica, Bahamas and Puerto Rico. The expertise and knowledge that he has contributed to the Tourism Institute will be continued in the management of the proposed project.

B. ENGINEERING ANALYSIS

1. General Description

The engineering phase of the project comprises the planning, design and construction of the tourism/convention center, a combination convention/trade show center and office building. The proposed center contains a basement storage area and a garage supplemented by outside parking, a ground floor housing shopping facilities and services related to tourism, a convention hall and an office tower of seven (7) stories. The facility will provide parking for a total of 350 cars - 100 in the basement garage and 250 outside. The ground floor will provide a rentable area of 2600 sq. meters (28,000 sq. ft.) and the convention hall a usable floor area of 2400 sq. meters (25,800 sq. ft.) and a reception-registration area of 1000 sq. meters (10,750 sq. ft.). Each floor of the office tower will provide a net rentable area of 1000 sq. meters (10,750 sq. ft.) with the Tourism Institute housed on one floor.

The center will occupy an entire city block, centrally located in the El Cangrejo section of Panama City, immediately north of the El Panama Hotel complex. Utility service connections for electricity, water and sewer are readily available. The site is 11,282 sq. meters (about 3 acres) in area. The Tourism Institute will develop a master plan as a part of the project that will provide a rational expansion of the currently proposed facility as future needs may dictate. The initial construction phase of the proposed master plan will be financed jointly with loan and with counterpart funds. It is estimated that implementation will require thirty months, and it is proposed that only one construction contract be awarded. The architectural treatment envisioned will utilize modern design concepts that will result in a functional building reflecting the Panamanian ambience through the use of local materials and innovative designs typical of Panama and Panamanian initiatives.

Loan funds will finance the cost of construction of the basement storage-garage area, the ground floor, the convention center-reception area and the first two floors of the office tower housing the Tourism Institute and a restaurant, together with all grading, site preparation, site clean-up and landscaping. Loan funds will also be utilized for the purchase and installation of equipment and hardware that will be a permanent part of the structure within the above mentioned floors, as well as selected furnishings not of Panamanian manufacture that will qualify for loan financing, including instant translation and audiovisual equipment. The Tourism Institute will contribute the land and furnishings of local make or origin and will finance the cost of five stories.

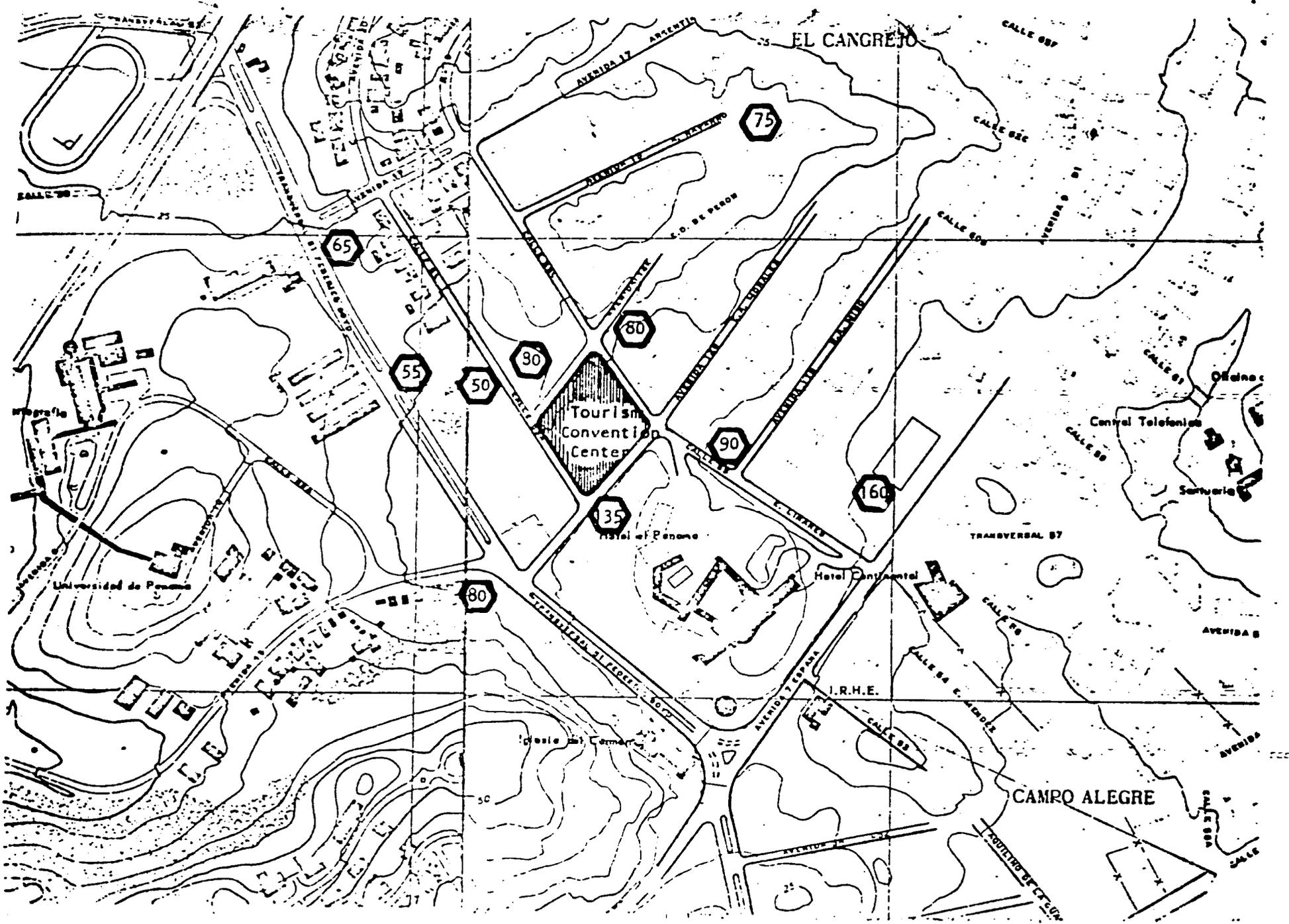
of the seven-story office tower. It is estimated that equipment and materials amounting to about 30% of the value of the construction cost will be imported from the United States or will be of U.S. origin. Architectural-engineering services for the whole project, including the part of construction and procurement financed by the Tourism Institute, will be financed under this loan.

2. Estimate of Cost

A preliminary estimate of cost of the total facility is tabulated below. This estimate, developed from preliminary sketches prepared by the architect-engineering firm of Villamil and Associates of Panama, retained by the Tourism Institute to study the center's feasibility, is based on a reinforced-concrete frame, reinforced-concrete floor slabs with waffle-type voids, and cement block curtain walls. This cost includes a nominal allowance for minor changes that may be incorporated as design progresses, and it is based on current prices of building construction in Panama with a 15% escalation. Building construction cost escalation is about 7½% per year, and this allowance projects that construction would commence on or about October 1, 1972. Included in the estimate is an allowance for heavily reinforced foundation work to permit the construction of additional floors for future expansion. The contingency allowance is based on approximately 12% of the combined cost of construction, equipment and furnishings, and A & E services are estimated at 11% of the combined construction and contingency cost estimate.

The value of the land has been computed on the basis of \$88 per square meter. This figure is considered reasonable when compared with other nearby plots of land which sell between \$80 and \$160 per square meter, depending on the size of lot and its accessibility to principal streets. Land located on a main artery, Via España, two blocks from the proposed site recently sold for \$160 per square meter. The Hotel El Panamá estimates its land value, immediately across the street and south of the center, at \$135 per square meter. A small lot suitable for single residences or small apartment structures, located immediately north of the site, is on the market at this time with an asking price of \$80 per square meter. Similar smaller lots in the general area, are also on the market in the \$50 to \$100 per square meter range, the lower limit for land where zoning regulations prohibit buildings above three stories in height. See accompanying map with land price distribution.

Following is a breakdown of estimated cost of the construction and related items showing the projected utilization of loan and counterpart funds.



<u>Construction</u>	<u>A.I.D.</u>	<u>BORROWER</u>	<u>TOTAL</u>
<u>Civil Work</u>			
Grading & Excavation	50,000	- -	50,000
Additional Cost of Foundation under master plan	150,000	- -	150,000
Basement floor-parking storage area and maintenance shops	340,000	- -	340,000
Ground floor, tourism facilities	527,000	- -	527,000
Convention hall-including reception area	544,000	- -	544,000
2nd Floor of Tourism Institute offices	182,000	- -	182,000
3rd Floor-restaurant	182,000	- -	182,000
Identical 4th, 5th, 6th, 7th, & 8th floor offices		910,000	910,000
Outside parking	50,000	- -	50,000
Landscaping, shrubs, plants & side-walks including restaurant patio	50,000	- -	50,000
Sub-Total, Civil Work	\$2,075,000	\$910,000	\$2,985,000
<u>Equipment, Machinery and Furnishings</u>			
Air Conditioning	208,000	144,000	352,000
Passenger Elevators (2)	41,000	34,000	75,000
Service Elevator (1)	20,000	16,000	36,000
Escalators (2)	55,000	- -	55,000
Framed divider partitions convention hall	100,000	- -	100,000
Furnishings & Equipment	150,000	50,000	200,000
Sub-Total, Equipment	\$574,000	\$244,000	\$818,000
Total Construction	\$2,649,000	\$1,154,000	\$3,803,000
<u>A & E Services (design & Inspection)</u>			
	470,000	- -	470,000
<u>Land</u>		1,000,000	1,000,000
<u>Administrative Overhead</u>		72,000	72,000
<u>Contingencies</u>	366,000	144,000	510,000
<u>Total Center</u>	\$3,485,000	\$2,370,000	\$5,855,000
Percent Participation	59.5	40.5	100.0

3. Technical Feasibility

It is considered that the proposed project is technically feasible from an engineering standpoint and that the requirements of FAA Section 611 have been met. The architectural studies and preliminary plans and costs have been prepared by the firm of Villamil and Associates of Panama. The well drained site is more than adequate for the project, and all needed utilities are readily available. Rock outcrops are visible, and borings confirm that rock is encountered near the surface throughout the property, which should minimize foundation planning and design.

4. Implementation Plan

The Tourism Institute has a small engineering staff of its own (one engineer, one architect) and no expansion of this staff is contemplated in connection with this proposed work. Planning, design, preparation of bids documents, assistance in evaluation of bids for the construction contract and supervision of construction will be undertaken by consultants.

From discussions with the Tourism Institute, there are indications that it plans to retain the firm of Villamil and Associates of Panama City to do the A & E work. This firm has performed the preliminary study of the center and the sketches and renderings which have served as a basis for the current project planning. This firm appears qualified. Consequently, selection would be performed in accordance with Section 2.7a of M.O. 1442.1, March 1971, and would be subject to pertinent requirements.

In recent years, Panama has experienced a building boom and new multi-story office and apartment buildings, both luxury and low-income, are continually changing the appearance of its sky line as seen from the Bay of Panama. These are all locally conceived, planned, financed and constructed projects. As a result, there are available highly qualified Panamanian professionals fully capable of providing the needed A & E services to plan and implement this program.

Construction services and mechanical and electrical equipment procurement, when performed separately from construction procurement, will be solicited through advertising in U.S. and Panama, and also sought from 941 Code countries. Construction contractors will be pre-qualified, and awards will be based on results of public bidding to be adjudicated in accordance with local law and practice. At this time, only one construction contract is envisioned. During the design, it will be determined whether equipment will be purchased by the Tourism Institute and turned over to the construction contractor for installation or whether the construction contractor will provide and install the equipment as part of the construction contract.

The total cost of the A & E services, including the design and construction inspection of the components of the facility financed from counterpart funds, will be financed under this loan, and the project will be handled as one package. Terminal dates for commitment and for disbursement and all conditions precedent shall apply to the whole facility as a unit and not only to A.I.D. financed portions, and A.I.D. will review and monitor the whole project planning and construction.

The project schedule of work from the planning stage to the final acceptance and occupancy of this building is estimated at 30 months broken down as follows:

Preparation of master plan layouts, renderings, design criteria and general design concepts.	3 months
Preparation of contract drawings, prequalification	6 months
Receipt of bids, evaluation and award of construction contract	3 months
Construction	18 months
	<hr/>
	30 months

5. Maintenance

The Tourism Institute has no maintenance capability at present, but contracts services of a maintenance nature on a job basis. The tourism/convention center, as a working facility, will require constant maintenance both of a corrective and preventive nature. Maintenance functions will vary from routine janitorial services to complicated mechanical and electrical work and will be performed by a building management firm under a contract with the Tourism Institute. A small

maintenance shop, with a limited staff of building maintenance personnel for minor and routine electrical, mechanical, carpentry, plumbing, etc.. repairs will be housed in the basement of the building with an appropriate stock of spare parts.

C. ECONOMIC EVALUATION

1. Market Analysis

a. International Business Trade.

The overseas travel industry (tourism and business travel) is characterized by a high income elasticity, i.e. as incomes increase, expenditures on travel tend to increase more than proportionately. Between 1959 and 1969, GNP in the United States went up by 92.6% while expenditures for foreign travel rose by 153%.^{1/} Over 1960-68, the number of United States travelers abroad increased by 138%, or at an average annual compound rate of 11.4%.^{2/}

International travel has been growing considerably faster than world trade. The total number of visitor arrivals worldwide tripled between 1958 and 1970, while the total value of world exports increased by 2.3 times over the same period.^{3/}

Mr. R.J. Barell, consultant for the Tourism Institute, has projected total U.S. overseas travel to increase from 3.9 million in 1968 to 8.2 million in 1980, or at an average annual rate of 6.3% (a very conservative projection on the basis of past growth rates). Panama's share of the U.S. overseas travel market which stood at 2.16% in 1968 is projected to grow to 4% by 1975 and to 5% by 1980. These projections are, of course, based on the assumption that Panama will build the tourism/convention center and the hotels and other facilities needed to attract this inflow.

b. International Convention Market.

The world-wide convention attendance has been increasing by great strides in the past decade. This is recognized by the fact that Japan, which is a remote destination point from the major markets, has been building international convention halls at home and established convention bureaus abroad, as the one in New York City, to promote their facilities at

1/ Source: Statistical Abstract of the U.S., 1969

2/ Source: Attachment No. 2, Potencial de la Industria de Turismo, (English version) Table X-1, Page 237, Annex III.

3/ Ibid., Page 25

the international level. This indicates that distances are no longer a primary consideration in selection of sites for conventions and trade shows due to the availability of air travel, particularly with the advent of the Boeing 747 Jumbo Jet. Facilities in Europe are increasing at a very rapid pace to take advantage of the current trend, especially in view of the favorable group travel fares.

c. The U.S. Convention Market.

The convention business in the United States has increased very rapidly from, 21 million conventioners in 1959, to 40 million in 1968 or at an average annual compound rate of 7.4%. In the latter year, conventioners attended 300,000 meetings and spent some 6 billion dollars.^{1/}

The number of United States conventioners is conservatively projected to grow to 74 million by 1980, or at an average annual compound rate of 5.3%.^{2/}

Conventions fall into two categories: the association group, which includes the massive trade shows, the technical, scientific and educational groups, the social and fraternal organizations, and the corporation meeting.

The association meeting is the traditional convention. In 1968, Chicago hosted 1,070 of these meetings. More than 1,300,000 people attended them and spent between \$200 million and \$300 million. New York drew 2,733,350 delegates to 812 of these conventions. They spent \$267 million.

The corporate meeting contributes the bulk of conventioners. More than a quarter of a million corporate meetings were held in 1968 and 28 million businessmen attended them. Moreover, companies favor executives taking their wives to conventions. A few years ago the number of accompanying wives was less than 10%. Today it is over 50%.*

Two other trends in the convention business are of significance: (1) the tendency to move conventions out of the large urban centers to resort areas; and (2) the movement of conventions to overseas sites. The latter occurs both because the export business has assumed increased importance for many U.S.

^{1/} Source: Editor of World Conventions, Hempstead, Long Island, N.Y. and Attachment No. 1, Page 3, Annex III.

^{2/} Projection by Ralph Barell

* F. Richard Ciccone, Associated Press release from San Juan Star, April 13, 1969.

companies, and because the growing tendency of wives to accompany their husbands is generating a desire to visit exotic places. A convention center in Panama would capitalize on these trends:

- (1) **Trend to Resort Areas.** This trend is well illustrated by the success of Las Vegas as a convention city. To increase its tourism, in 1959 Las Vegas opened a modern \$10 million convention center on a 67 acre site, which today schedules over 250 conventions a year worth more than \$50 million.

The following statistics* for Miami Beach show that the number of conventions, conventioners and amount spent by conventioners has more than doubled in the nine years up to 1967:

Conventions in Miami Beach

<u>Oct. 1 - Sept. 30</u>	<u>No. of Con- ventions</u>	<u>No. of Con- ventioners</u>	<u>Convention- eer Days</u>	<u>Amt. Spent by Conventioners</u>
1958-59	307	128,895	714,078	22,950,467
1959-60	366	279,150	1,514,491	49,704,221
1960-61	433	293,460	1,625,768	52,252,182
1961-62	508	182,512	1,011,116	32,497,270
1962-63	405	202,406	1,121,330	35,933,314
1963-64	435	150,441	836,427	26,882,762
1964-65	482	232,232	1,286,566	41,350,769
1965-66	645	243,466	1,348,802	43,350,496
1966-67	811	274,681	1,340,443	47,478,500

*Tourist Development Authority, Miami Beach, July 29, 1969

Similarly, the figures for Hawaii also bear out this trend as shown in the following table:

Conventions in Hawaii

<u>Year</u>	<u>No. of Events</u>	<u>Attendance</u>
1964	62	18,521
1965	113	22,182
1966	134	50,487
1967	192	67,702
1968	284	71,979
1969	160	89,688
1970	203	75,423

The new international convention center in Hawaii is a complex composed of a concert theater seating 2,158 people, an exhibition building of 50,000 square feet, an assembly hall seating 608 with ten adjoining meeting rooms accommodating groups from 25 to 800 and an arena with 8,731 seats.

- (2) **Trend to Overseas Meetings.** In January 1968, the American Society of Association Executives (ASAE) sent out questionnaires to its 2,410 members. Responses to that questionnaire revealed that 432 associations or about 18% of the ASAE's member groups, have conducted meetings or conventions outside the continental United States. By far the greatest proportion of these meetings, 350 or 81%, were held by associations with a national membership. Those having state or regional membership had held but 76, or 17% of their meetings outside the United States. The ASAE questionnaire also revealed that the average annual budget for national associations was \$664,000, compared to \$168,500 for the state and regional associations.

The national associations have an average membership of 15,470. Given the generally accepted measure that from 10 to 15% of the membership of large associations attend annual conventions, the importance of the national groups becomes clearer. In fact, from the ASAE figures one could roughly say that a market of 400 conventions with an approximate median size of 1,500 persons existed for a foreign convention facility.

Supplementing ASAE findings is information from individual companies. For example, in the last few years Philco-Ford Division of Ford Motor Company has chartered thirty 707 jets to ferry 5,000 appliance and electronic dealers and their wives from the continental United States to such places as Puerto Rico, Hawaii and Paradise Island in the Bahamas at an annual average cost of \$2.5 million to the company. Last year, 4,000 John Deere dealers from the United States convened in Mexico City. Also last year 3,300 insurance salesmen met in Jamaica. More information on the Latin American market is given below.

d. Choice of Caribbean, Central American and other Latin American sites for conventions.

Much of the overseas convention business of U.S. firms and associations has been flowing to the Caribbean, Central American and other Latin American areas, due partially to the affinity with the region along with its proximity. Mexico received a large share of the business. For 1970 Mexico had 98 reported conventions with an attendance of approximately 75,000 conventioners from abroad. Annex 3 contains a list of the conventions and their attendance. Note that the list contains only foreign participants and does not include numerous meetings not registered. The largest conference was for 10,000, that of the Conferencia Ultraya Mundial, but there were many over 1,000, including:

1970 Conventions in Mexico with attendance over 1,000

Dairy Queen Association	1,200 - 1,500
American College of Cardiology	3,500
Congress of Ophthalmologists	3,000
IBM Canada Ltd.	1,100
Xerox Company, Inc.	2,200
American Ass'n. for the Advancement of Science	1,500 - 1,800
Western Shrine Association	7,000
Congreso Internacional de Anatomia Patológica	1,500
Club Serra Internacional	4,000
Teleflora	2,000
Congreso Internacional de Microbiologia	5,000
Society of Mining Engineers of AIME	1,000
Deere and Company	4,000
Dallas Morning News	1,000
World Conference of Travel Agencies	1,000
Interamerican Travel Seminar	1,000
American Association of Hotels and Motels	1,500
Marketechs, Inc.	2,000
American Anthropological Association	2,000

Jamaica, Puerto Rico, Caracas, Buenos Aires, Rio de Janeiro, Sao Paulo and other places have capitalized on this market, but all, including Mexico City, are hampered by the lack of adequate convention facilities, a need which the proposed center for Panama would supply. For example, the largest hotel convention room in Mexico is that of the Camino Real, which would conceivably be stretched to accommodate 2,500,

although the 1,500 delegates at the American Hotel and Motel Association meeting could not all convene in one hall, even though there was no other large meeting at the time, and had to meet in smaller groups at various meeting rooms in several hotels. The claimed seating capacity of some hotels for conventions is not reliable.

e. Panama's Potential Market.

The average annual competitive convention market with Panama over the decade of the 1970's is projected in the following table.

TOURISM/CONVENTION CENTER

ESTIMATED COMPETITIVE CONVENTIONEER MARKET (1970-80)

<u>AREA</u>	<u>NO. OF CONVENTIONEERS PER YEAR</u>
Florida	900,000
Puerto Rico	400,000
Bahamas	200,000
Jamaica	200,000
Mexico	300,000
Europe, Selected countries	300,000
Other U.S. and Caribbean Areas	<u>450,000</u>
TOTAL Potential Market	2,750,000

Source: Annex III, Addendum No. 1, Page 1

(Note: See more conservative projections and calculations in Section I-C-2-b.)

The potential Panamanian convention market is estimated at 4% of this total potential market, or at 110,000 conventioners per year. They are projected to spend an average of \$178 per stay of from 3.5 to 4.5 days, on the basis of experience in Miami Beach and other sites.

There are at present no suitable convention facilities in Central America, or for that matter, in most of Latin America. Because of its central location, the establishment of a convention and trade show center in Panama is most likely to

capture a large proportion of the convention and trade show business involving mixed delegations from the United States and Latin countries. The fact that Panama is already popular as a site for conventions and conferences is evidenced by the fact that 17 conventions, conferences and meetings took place in 1970. Of these, six had delegates numbering from 500 to 1,000, five from 300 to 499 and six between 50 and 299.^{1/} However, because of the lack of adequate convention facilities, Panama has had to turn down a considerable number of conventions. For example, this year El Panama Hotel has already turned down a conference by the American College of Surgeons (400 attendees) and Wertz Travel Inc. (200 persons) and is tentative on two others, Amway Corporation (300 persons) and International College of Surgeons conference (450-550 doctors)*.

Trade shows have also grown in importance and will supplement the income obtained from conventions. Mr. Arthur Friedman, President of General Exhibits, Inc., estimates that trade show expenditures in the U.S. now exceed \$2 billion a year,^{2/} equal to about a third of annual expenditures by U.S. conventioners. In view of the rapid growth and present magnitude of both the convention and trade show markets, the rental income from convention and trade shows that was projected in Table 4 (\$75,000 a year after the fifth year) is a conservative estimate.

Panama's potential is uniquely enhanced by its geographic location. As a major crossroads of the world, it can capitalize on this position, particularly as a regional center for Latin America, in attracting conventions and trade shows. Panama already enjoys advantages as a commercial and banking hub for Central and South America. There are sixty-five banks located in Panama, representing twenty five banking firms. These include four American firms^{3/}, one British^{4/}, two Spanish, two Colombian^{5/}, two Swiss, one German and one Korean, with other countries to be represented in the next two years. Included with its commercial

^{1/} Tourism Institute, Tourist Profile of Panama, (prepared for CIAP Meeting) April 1971, Pages 48-50.

^{2/} Sales Meeting Magazine, January 1971 issue, Page 41

* See Annex 3, letter of May 27, 1971, El Panama Hotel

^{3/} The First National City Bank has 15 branches, Chase Manhattan 6 branches, Bank of America 5 branches, First National Bank of Chicago 1 branch, U.S. Investment Bank, 1 branch.

^{4/} Bank of London and Montreal 5 branches.

^{5/} The Bank of Colombia - 5 branches, Bank of Bogota - 2 branches.

advantages is the fact that the dollar (Balboa) is the medium of exchange and Panamanian banks are depositories for funds of corporations and citizens from other Latin American countries. There are more consulates in Panama than any other Latin American country. Many U.S. and Latin American firms have branches, offices or other representation in Panama. Of assistance in its commercial importance is the bilingual capacity not found in other countries of the hemisphere. Although it functions on an international basis, it remains a Latin country which makes it favorable to Latin Americans. For these reasons Panama is a focal point for Latin America.

Combined with these factors, there is a growing tendency to regional activities and cooperation on the commercial, political and cultural levels. Thus, there is an increased need for both regional convention facilities and for a trade show exhibition hall. The proposed project would satisfy this requirement.

f. Panama's Adequacy as a Convention Site.

A 1968 Booz, Allen and Hamilton study of the U.S. convention market as it pertains to meetings held outside the continental United States contains the following:

"The most important factors influencing site selection are the adequacy of convention and lodging facilities and frequency of air scheduling, but the adequacy of space for assembly, meetings, and exhibits is the single most important factor. The ability of a community to house delegates comfortably within walking distance of the convention activities also is a critical factor.

In addition, a city must offer frequent flights in order to be attractive to those selecting a site for a convention. Both convention managements and delegates typically prefer a high degree of concentration of essential community and convention facilities. These preferences generally favor

site locations in downtown areas, since easy walking distances will encourage attendance, ease problems of event scheduling, and lessen time spent in and cost of transportation. Concentration allows the delegate, who typically is without a personal automobile, to make the most effective use of his limited time in attending convention events shopping, dining, and taking advantage of local entertainment and other leisure time opportunities."

In many respects Panama is already uniquely suited as a convention site. With the construction of the convention center, all major Booz, Allen and Hamilton criteria will be satisfied. Outlined below are some of the principal factors.

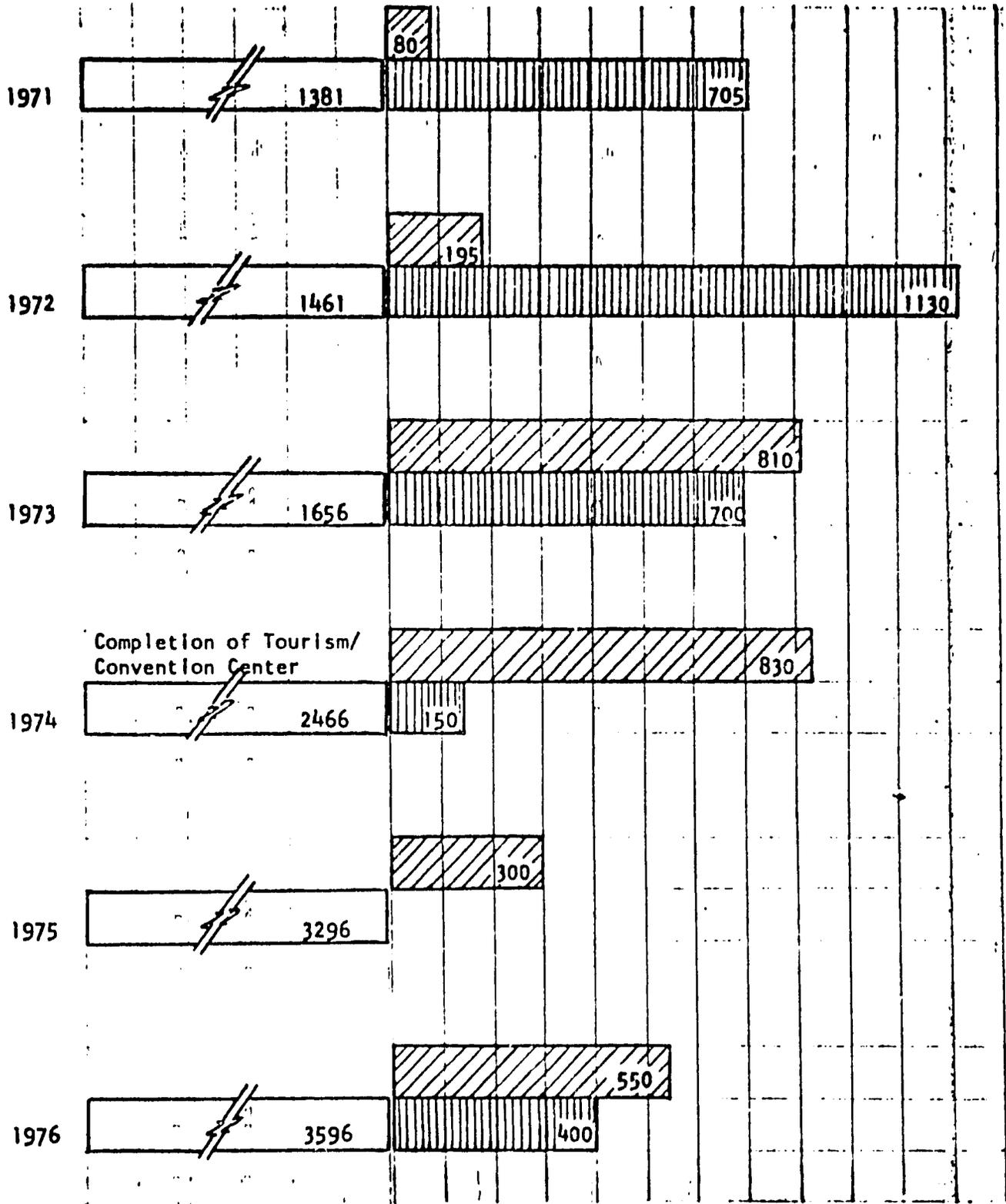
- (1) **Adequate Meeting Facilities:** The convention center will seat 3,500 people in the convention hall of 25,800 square feet, for a ratio of 7.4 square feet per person, a ratio well above that accepted as adequate. Furthermore, the center will contain separate smaller conference and meeting rooms and movable wall panels which will make it completely adaptable to whatever particular needs the convention groups may have. The exhibition space totals 36,500 square feet permitting 500 exhibits.
- (2) **Concentration of Facilities.** The convention center will be a "total" facility. It will contain a first class restaurant seating 750 persons and is capable of being expanded to accommodate much larger numbers. There will be a snack bar and cafeteria seating 100 people, branch offices for all airlines, tourist shops, barber shop, beauty shop, drug store, first aid station, and other services, with bilingual assistance personnel in every location.
- (3) **Availability of First Class Hotel Rooms.** At present Panama City has 1,381 first class hotel rooms, 850 of which are within five minutes walking distance of the convention site. There are up to 1,000 additional hotel rooms of varying degrees of acceptability, some of which could be up-graded. By the estimated time of the center's completion in mid-1974, the number of first class rooms will have increased to 2,750 and will reach 3,500 in 1975 containing a total of 5,800 beds. The hotel rates are below the international competitive price levels.

The accompanying chart and detailed schedule of hotel construction indicates that, based on present known data,

(continues on page 63)

1971-1976 HOTEL CONSTRUCTION SCHEDULE

PANAMA CITY AREA



No. of rooms available per year, beginning of year.

No. of rooms per year

 Completed

 Started

PROJECTED SUMMARY OF HOTEL CONSTRUCTION
(PROJECTS USABLE IN CONNECTION WITH CONVENTIONS)

<u>1971 - Starts</u>	<u>No. Rooms</u>	<u>Completions</u>	<u>No. Rooms</u>
Holiday Inn	260	Washington Hyatt	80
Granada - Addition	40		
Ramada Inn - Colon	150		
Hyatt - Taboga	155		
Isla Viveros	100		
Total	<u>705</u>	Total	<u>80</u>

<u>1972 - Starts</u>	<u>No. Rooms</u>	<u>Completions</u>	<u>No. Rooms</u>
Ejecutivo Addition	100	Hyatt - Taboga	155
El Panama Addition	80	Granada	40
Hyatt - Paitilla	400		
Contadora	100		
La Venta	300		
Coronado	150		
Total	<u>1,130</u>	Total	<u>195</u>

<u>1973 - Starts</u>	<u>No. Rooms</u>	<u>Completions</u>	<u>No. Rooms</u>
Indesa (P.V.)	400	Holiday Inn	260
Paitilla - Intercontinental	300	Ramada Inn	150
		La Venta	300
		Viveros	100
Total	<u>700</u>	Total	<u>810</u>

PROJECTED SUMMARY OF HOTEL CONSTRUCTION
(PROJECTS USABLE IN CONNECTION WITH CONVENTIONS)
(Conclusion)

<u>1974 - Starts</u>	<u>No. Rooms</u>	<u>Completions</u>	<u>No. Rooms</u>
New Airport Inn	150	Ejecutivo	100
		El Panama	80
		Contadora	100
		Hyatt-Paitilla	400
		Coronado	150
Total	<u>150</u>	Total	<u>830</u>

<u>1975 - Starts</u>	<u>No. Rooms</u>	<u>Completions</u>	<u>No. Rooms</u>
None Scheduled	--	Paitilla - Inter-Continental	<u>300</u>

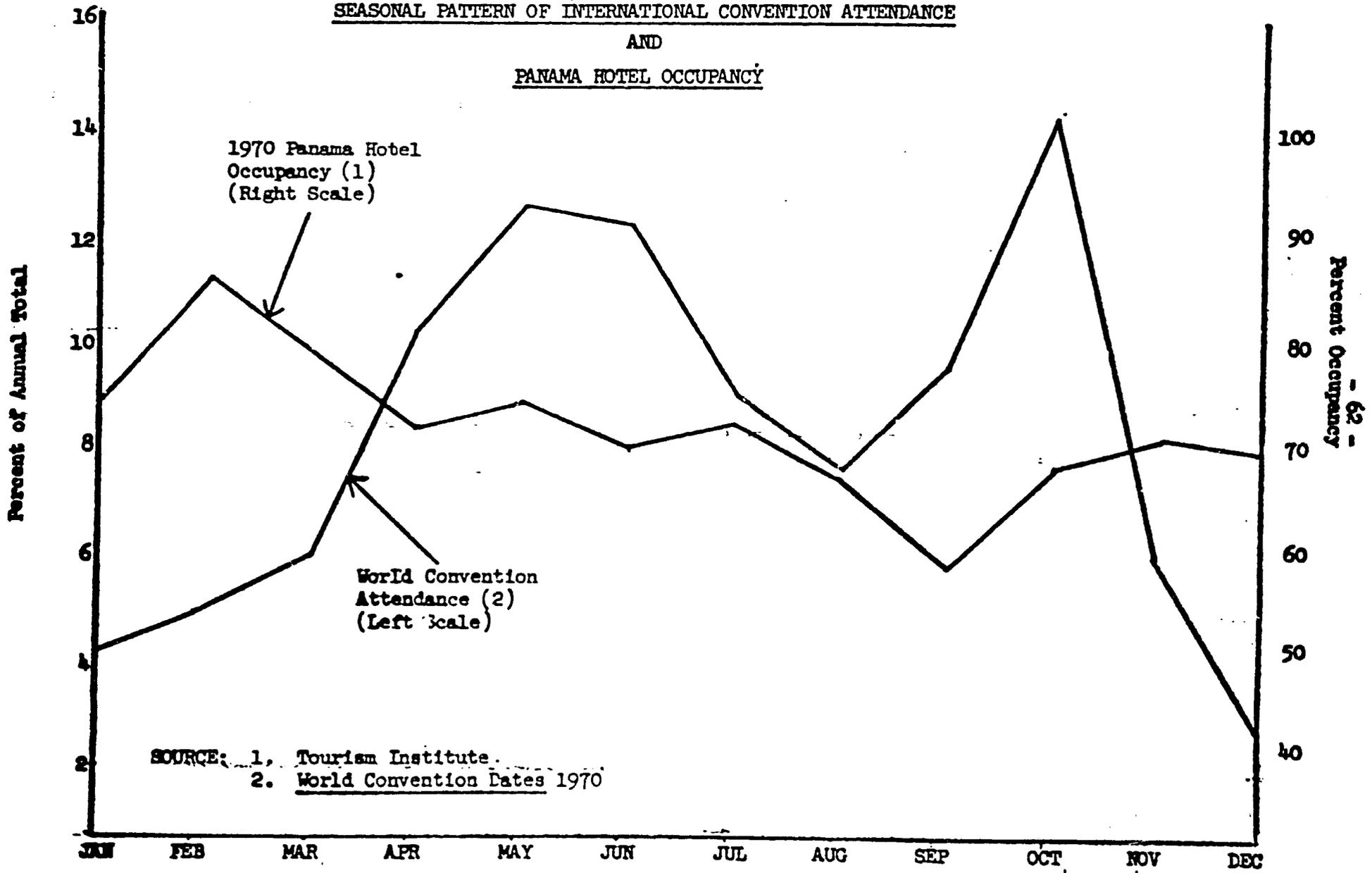
<u>1976 - Starts</u>	<u>No. Rooms</u>	<u>Completions</u>	<u>No. Rooms</u>
Ciudad Marina	400	Indesa (P.V.)	400
		Airport Inn	150
Total	<u>400</u>	Total	<u>550</u>

Of further consideration is the prevailing situation illustrated by the accompanying graph which shows that the peaks of the international convention attendance take place when the Panamanian hotel occupancy is at it lowest.

SEASONAL PATTERN OF INTERNATIONAL CONVENTION ATTENDANCE

AND

PANAMA HOTEL OCCUPANCY



SOURCE: 1. Tourism Institute.
2. World Convention Dates 1970

there will be a sufficient number of hotel rooms usable for convention/trade show bookings during the early years of operation. As the bookings increase and hotel occupancy levels off at over 75%, additional investments in hotel facilities will be generated. The Government's plans for a convention center have already attracted venture capital. Additional capital will be attracted as soon as construction is confirmed.

Taxis are abundant and inexpensive in Panama; furthermore, the Tourism Institute will encourage hotels to establish and support financially a mini-bus shuttle service which will provide frequent and scheduled transportation between the hotels and the convention center.

- (4) Frequent and Reliable Air Transportation. Presently, there are the following daily flights arriving to and departing from Panama City's Tocumen Airport:

<u>Destination</u>	<u>Daily Flights</u>
Miami	7
New York	3
Dallas/Houston	2
Los Angeles/San Francisco	2
New Orleans	2
Central America/Mexico	8
South America	9

There are also several flights per week to and from Washington, Chicago, Detroit and other points. Airline service is being expanded and by 1974, when the center is completed, other points will have been added.

To handle the anticipated convention business, mini-bus and other larger bus service providing frequent and scheduled transportation between the major hotels and the airport will be established.

- (5) Reliable/International Communications. Direct telegram, radio telephone and teleprinter services with all parts of the world are provided by Tropical Radio, All American Cables, Intercomsa, and Comunicaciones, S.A. (microwave). Cable offices are located in the major hotels. Rates to the United States are 37¢ per word to New York, Miami and New Orleans and 44¢ to all other places. Rates to Canada are 48¢ per word and 51¢ to London. A person-to-person night rate telephone call to New York costs \$3 for three minutes.

- (6) **Restaurants and Night Life:** There are 24 first class restaurants with a seating capacity of 3,600. These feature a diversity of international cuisine, including French, Chinese, Italian, Spanish, Argentine and Swiss, in addition to such American standards as three Col. Sanders' Kentucky Fried Chicken establishments. About half of these restaurants are within walking distance of the convention center, and none are more than five minutes away by taxi. In addition, all the major hotels feature ample restaurant facilities.

Most of the major hotels feature casinos and have nightly shows. Three have dancing facilities. Additionally, Panama has many night clubs which the normal convention-goer and his escort would find appealing.

- (7) **Daytime Diversions.** For wives and weekends, Panama offers many and varied diversions:
- (a) International shopping bazaar with goods from all over the world at prices competitive with the place of origin in addition to the Free Zone where tourists may purchase duty-free goods at excellent bargains.
 - (b) First class eighteen-hole golf course in the city plus other courses in the Canal Zone for those with military privileges.
 - (c) Major historical sites including Panama Viejo, and Portobelo, described earlier, Fort San Lorenzo, the Las Cruces trail gold route across the Isthmus, and Casco Viejo, the old section of new Panama built in 1671 containing the golden altar saved from Morgan's sacking of Panama Viejo, the flat arch, Bolivar Room where Simon Bolivar proposed the Pan-American Union, the Cathedral, old churches and other points of interest.
 - (d) Beaches on both the Atlantic and Pacific Oceans, clean, attractive, palm-fringed with good skin-diving, snorkeling and water skiing. Excellent swimming pools in El Panama and El Continental Hotels.
 - (e) Fishing is among the best in the world: the word Panama means abundance of fish. Plenty of boats are available and fishing excursions can be easily arranged. There are exclusive fishing and yacht clubs whose facilities can be used by tourists.

- (f) Panama Canal - a prime attraction for Americans. There is easy access to the locks only minutes away from the heart of the city. Arrangements can be made for transiting the Canal.
 - (g) Island hopping to lovely tropical islands: Taboga with its good beaches, Las Perlas with good beaches, skin-diving and fishing and the San Blas Inhabited by the Cuna Indians, preserving their native way of life. Hotel and restaurant facilities are available on the islands.
 - (h) Folklore, carnival, fiestas, fairs - Spanish and Indigenous. The carnival is one of the best in Latin America.
 - (i) Theater and arts. There are concerts, art shows, etc. In addition to the cinema, where American movies are shown on a first run basis in English with Spanish sub-titles. The theaters are first class. There is also an International film festival held yearly.
 - (j) Churches - most denominations are represented in the City or the Canal Zone.
 - (k) Sports, events of various types - soccer, baseball, basketball, boxing, jai lai, bullfighting, cock-fighting, horse racing, etc.
 - (l) Museums - the Anthropological Museum has an interesting collection containing some good pre-Columbian objects.
- (8) Bilingual Capacity. Language is no problem in Panamá. Although Spanish is the official language, English is spoken in all the hotels, restaurants and other facilities and is understood quite generally in the city. Translation services for all major languages are readily available.
- (9) Banking and Currency. The United States dollar, called officially the Balboa, is the currency of Panamá. Thus,

there are no exchange problems or confusion of currencies by tourists. Outstanding international banking services are present, including branches of the Bank of America, Chase Manhattan Bank, First National City Bank and the First National Bank of Chicago.

- (10) **Effective Sanitation and Health Conditions.** Panama is one of the few cities of Latin America where the water is completely safe. Also, fresh fruits and vegetables may be eaten. Sanitation is excellent in the hotels and restaurants. Medical facilities are first-rate and excellent doctors are available who speak English.
- (11) **Benign Climate.** There is no smog. Temperatures are practically uniform all year round, averaging 73 to 81 degrees (F) on the Pacific side and 73 to 84 degrees on the Atlantic side. Although there is a rainy season, there are few days in which the sun does not shine for a part of the day.
- (12) **Geographic Location.** Panama as a crossroads of the world enjoys a unique advantage for international conventions and trade shows. Although this paper concentrates mainly on the U.S. convention market, there is a growing Central and Latin American participation in conventions by corporations and associations. Panama should particularly be able to profit from the trade show and industrial exhibition market which is greatly increasing in international scope.

g. **Promotion and Operation**

- (1) **Promotion of Panama.** The Tourism Institute is well aware of the necessity of promotion to assure the success of the center. It has undertaken measures first for the promotion of Panama itself. This will be a far-reaching campaign conducted through all media - magazine, television, radio and newspaper. Its aim is to improve the image of Panama and to develop Panama as a desired destination point. Much has already been accomplished in this regard and the efforts are being increased. The promotional facilities of the Tourism Institute are recognized as among the best in Latin America.

- (2) **Direct Sales Promotion Program.** The second phase of the overall program will be the activation of a new marketing and Sales Department within the Tourism Institute to establish direct and concentrated convention and trade show promotion at the international level. This Department will be supported by offices in world-wide commercial centers. A new marketing and sales office will shortly be opened in Miami for the purpose of making direct contact with all conventions and trade shows held in the south and southeastern United States and will serve as a base for international marketing of Panama. All the existing Panamanian Tourist Offices in New York, Chicago, San Francisco, Madrid and Tokyo will be developed into a competitive marketing and sales promotion position.
- (3) **Services Availability Program.** The Tourism Institute will employ a professional convention manager to assure the proper servicing of conventions once they have been contracted. His duties will be the day to day supervision of the operation of the center, such as making the initial contact with the user, planning space allocation, arranging transportation, decorations, catering, etc. The Tourism Institute is also making plans for expediting customs clearance for all materials and equipment needed for conventions and trade shows. It will have on hand a bilingual staff. It will have available a professional crew of electricians, soundmen, carpenters, stage hands, security personnel, caterers, decorators, secretaries, sign painters, messengers, and all others as needed. It will have available the most modern audio-visual equipment, spotlights and all other required equipment for rental. There will be office space available for convention/trade show managers and their staffs.
- (4) **Incentives Program.** Furthermore, there will be incentives for the hotel chains to promote Panama as a convention site, particularly the new Holiday Inn and Hyatt hotels. Pan American and Braniff airlines will also be able to assist in this endeavor by encouraging their sales departments to promote Panama as a convention site. Additionally, the Tourism Institute plans to provide special incentives to travel agencies for the promotion and solicitation of conventions and trade shows for Panama.

2. Projected Contribution to National Economy.

(a) Net rate of return

The total capital outlay required by the center is estimated at B/5.8 million, as shown in Section D, Financial Analysis.

The direct income from the convention center building complex, operating expenses, depreciation and net profits are summarized in the rate of return calculation in this section. The projections are based on the following estimated rentals and rentable areas of floor space:

- (1) The ground floor (lobby area, steamship and airlines offices, shops, personal and financial services, local transportation, food and beverage services outlets, etc.) has a rental area of 26,875 square feet and an estimated rental rate of B/7.00 per square foot, yielding an annual rent of B/188,125 when fully rented. The calculation in Table 4 conservatively assumes that 60% of the ground floor area is rented the first year, 75% the second year and 90% in subsequent years.
- (2) Convention and trade show area will be rented during 150 days per year after the fifth year; the assumed rental rate is B/500 per day.
- (3) Five floors of office space, 64,500 square feet at B/5.50 per square foot per year, plus one floor rented to the Tourism Institute (12,900 Sq. Ft.) at B/3.00 per square foot. Occupancy rates for the five floors were assumed as follows: 1st year 70%; 2nd year 80%; 3rd year 90%.
- (4) Restaurant, 7,500 square feet at B/4.50 per square foot per year.

Interest payments on borrowed funds were excluded from costs in this calculation since interest should be treated as a return on capital.^{1/}

^{1/} While interest payments are deducted from net operating income in calculating return on equity, they should not be deducted in calculating the rate of return on the total investment of the project.

TOURISM/CONVENTION CENTER
 RATE OF RETURN CALCULATION
 (Thousands of Dollars)

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
1. RENTAL INCOME										
Ground Floor.....	113	141	169	169	169	169	169	169	169	169
Trade Shows & Convention....	20	35	50	50	60	75	75	75	75	75
Floor Office Space.....	287	325	360	360	360	360	360	360	360	360
Luxury Restaurant.....	34	34	34	34	34	34	34	34	34	34
Other Income.....	5	10	15	20	20	20	20	20	20	20
Total Income.....	459	545	628	633	643	658	658	658	658	658
2. OPERATING EXPENSES.....	51	78	89	91	93	93	93	93	93	93
3. NET OPERATING INCOME.....	408	467	539	542	550	565	565	565	565	565
4. DEPRECIATION.....	136									
5. NET BOOK PROFITS.....	272	331	403	406	414	429	429	429	429	429

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The projection denotes a net annual book profit (after deduction of depreciation from net operating income) of B/429,000 in the sixth year, which indicates an annual rate of return of 7.5%. Note that the rental income projection assumes constant rental rates for office and convention hall space over the decade of the 70s. This is a very conservative assumption. Should Panama continue to grow at anywhere near the same rate as over the past decade, rental incomes and the rate of return are likely to be higher than projected here 1/.

No factors are known that would introduce significant artificial distortions (such as administered prices, high tariffs or taxes, subsidies, etc.) in this rate of return calculation.

(b) Capital - Output Ratio:

The capital-output ratio relates the total investment in a project to the total income that it generates. For the purpose of this calculation, "output" is defined as the total income resulting from the direct expenditures of the conventioners and their dependents. The direct income effects resulting from subsequent respending cycles have been excluded, as these are generally excluded from a capital-output calculation. Also excluded are the income effects from the seed capital fund. The direct income effects from the center were estimated at B/20.2 million a year (see above, Program Justification, Section II (b).), or \$14,928,000 according to the more conservative calculation. It has been noted that not all of this B/20 million income effect can be attributed to the tourism/convention center, since additional hotel facilities must be built to accommodate the convention trade. The capital-output ratio must reflect the total convention-hotel package since the income effects of the two elements are inseparable. Since the investment in hotel facilities has been estimated at B/22.0 million, the total capital investment in the center and hotel facilities is estimated at B/27.8 million.

1/ Operating expenses were also projected to remain constant but are actually most likely to rise. However, the rise in rental income in absolute terms is likely to substantially outstrip the rise in operating costs.

The capital output ratio of the tourism/convention center-hotel package is thus estimated at $B/\frac{27.8}{20.2}$ million = 1.4

This is an unusually favorable ratio since capital-output ratios generally fall within the range of 2.0 to 4.0. ^{1/} Or, according to more conservative calculations, since the investment in hotel facilities generated by the center has been estimated at \$16.0 million, the total capital investment in the center and hotel facilities is estimated at \$21.8 million. The capital output ratio of the tourism/convention center-hotel package is thus estimated at $\frac{21.8}{14.9}$

million = 1.5. As mentioned above, this would still represent an unusually favorable capital-output ratio.

c) General Conclusions:

The analysis suggests that there is a strong justification for the project. This justification lies not so much in the commercial profitability of the tourism/convention center itself as in its total impact on the Panamanian economy. The project analysis indicates that the center will yield an acceptable rate of return, though this rate may be somewhat lower than in many commercial undertakings, at least during the first four or five years of the center's operation. However, the project's main justification lies in the substantial income and employment effects it is expected to generate for Panama. The project capitalizes on the very bright growth prospects for international convention facilities in Latin America and on Panama's strategic geographical location. The outlook is for a most favorable capital-output ratio even when the secondary income effects of convention expenditures are ignored.

^{1/} The lower the capital output ratio, the more favorable it is.

D. FINANCIAL ANALYSIS

1. Funding Requirements

The total cost of the project by dollar and balboa costs is presented in the following table:

<u>Description</u>	<u>C O S T</u>		<u>Total</u>
	<u>\$</u>	<u>B</u>	
Land	---	1,000,000	1,000,000
Construction	625,000	2,360,000	2,985,000
Furniture & Equipment	618,000	200,000	818,000
Architect & Engineering Services	300,000	170,000	470,000
Administration	---	72,000	72,000
Contingency	185,000	325,000	510,000
Tourism/Convention Center	1,728,000	4,127,000	5,855,000
Training & Technical Assistance	395,000	240,000	635,000
Total	2,123,000	4,367,000	6,490,000
Percent	33%	67%	100%

Contingencies amount to approximately 12% of tourism/convention center costs excluding land. Also included in funds requirement is a 15% construction cost escalation allowance.

Interest during construction, estimated at \$128,000, and an injection of \$100,000 working capital at inception of operations have not been listed as a Tourism Institute contribution, but have been taken into account in the project financial planning and feasibility.

All funds are expected to be disbursed within three years of the loan agreement date.

2. Sources of Financing

The following three tables show, respectively, the proposed sources of financing, timing of projected funds disbursements and costs of individual projects by sources of funding.

<u>Source</u>	<u>C O S T</u>			<u>%</u>
	<u>\$</u>	<u>B</u>	<u>Total</u>	
A.I.D.	2,074,000	2,026,000	4,100,000	63
Tourism Institute	49,000	2,341,000	2,390,000	37
Total	2,123,000	4,367,000	6,490,000	100

<u>S o u r c e</u>	<u>C O S T</u>			<u>T o t a l</u>
	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>	
A.I.D.	479,000	2,661,000	960,000	4,100,000
Tourism Institute	1,026,000	102,000	1,262,000	2,390,000
	<u>1,505,000</u>	<u>2,763,000</u>	<u>2,222,000</u>	<u>6,490,000</u>

<u>Description</u>	<u>C O S T</u>		<u>Total</u>
	<u>A.I.D.</u>	<u>Tourism Institute</u>	
Land	- -	1,000,000	1,000,000
Construction	2,075,000	910,000	2,985,000
Furniture/Equip.	574,000	244,000	818,000
Architect/Engr. Serv.	470,000	- -	470,000
Administration	- -	72,000	72,000
Contingency	366,000	144,000	510,000
Tourism/Convention Center	3,485,000	2,370,000	5,855,000
Training and Tech. Assist.	615,000	20,000	635,000
Total	<u>4,100,000</u>	<u>2,390,000</u>	<u>6,490,000</u>
Percent	63%	37%	100%

The total cost of the project is estimated at \$6,490,000. A.I.D. will fund not to exceed \$4,100,000 through the subject loan and the balance of \$2,390,000, which amounts to 37% of the estimated total, will be financed by the Tourism Institute and the Government of Panama. The G.O.P. will provide concessionary financing to the Tourism Institute in the form of a \$1,000,000 non-interesting bearing loan repayable in fifteen years with a five-year grace period. The loan will be used for the construction of the top five office stories planned for the tourism/convention center.

The major additional contribution by the G.O.P. is the land for the site of the proposed center, included above at \$1,000,000. The land value is based on a price contour study of adjacent or nearby land and independent appraisals.

The above financial support from the G.O.P. demonstrates its commitment to the development of the tourism center.

3. Financial Position

a. Tourism Institute

The Tourism Institute, an autonomous agency of the Government of Panama, relies on several sources of revenue for budget support. The primary sources are Government of Panama subsidies, room and airline ticket taxes, and revenues from tourist cards. A breakdown of revenue sources for 1970 is presented below.

Airline Ticket Tax	390,000	25
Room Tax	338,000	22
Tourist Cards	173,000	11
G.O.P. Subsidy-Law 22	360,000	24
G.O.P. Subsidy-Other	280,000	18
Other	8,000	--
Total	<u>\$1,549,000</u>	<u>100%</u>

Budget amounts for the last four years and forecasted budget amounts through 1975 for the Tourism Institute (the following table) indicated the strong emphasis placed on tourism by the Government of Panama.

<u>Year</u>	<u>Budget in \$</u>	<u>% of 1970 Budget</u>
1967	297,000	18
1968	542,000	32
1969	1,060,000	66
1970	1,607,000	100
1971	1,913,000 1)	119
1972	2,333,000 1)	145
1973	2,753,000 1)	171
1974	3,103,000 1)	194
1975	3,453,000 1)	215

The increase in budget support for the year 1969 was due principally to the transfer of revenues from various taxes and tourist cards to the Tourism Institute. Proposed additional budget support for years beginning with 1972 will come primarily from the above taxes and tourist cards due to estimated increases in the number of tourists.

Balance sheets for the Tourism Institute for 1967 through 1970 are included in Annex IV, Table 1.

b. Loan Project

Annex IV, Table 2 presents a detailed analysis of proposed disbursements by loan project.

1) Obtained from R. Barell, consultant to Tourism Institute.

Revised
November 8, 1971

(1) Tourism/Convention Center

(a) Total Project

Total estimated project cost is \$5,855,000, including the five additional office floors to be financed by the Tourism Institute.

Pro forma financial statements presenting financial position, net income, and cash flow from operations for the construction period and ten years of operations of the total project are included in Annex IV, Tables 3 and 4.

An analysis of discounted cash flow projections, Annex IV, Table 5 indicates a total project yield of just under 8%. This yield is conservatively stated due to assumptions of a projected leveling off of cash flow starting with the sixth year of operations and no allowance made for appreciation of land value over project life.

Annual cash flow from operations is more than adequate at \$565,000, beginning with the sixth year of operations, to service debt principal and interest of approximately \$381,000 annually on the total A.I.D. loan of \$4,100,000 and \$100,000 annually on the G.O.P. loan of \$1,000,000. The debt/equity ratio decreases from a high of 78:22 at the end of the sixth year to 41:59 after ten years of operations. Net working capital is estimated at \$1,217,000 at the end of the tenth operating year after accounting for the \$1,000,000 transfer to the revolving fund.

Initial projects to be financed with the net income after debt servicing transfers from the tourism/convention center, in addition to tourism related infrastructure, include loans to the private sector for partial financing of inns and/or tourist centers in various provinces, fishing, camps, hunting lodges, etc.

The loan grace period has been figured at seven years for the A.I.D. loan from the date of first disbursement. Deducting the approximate three years of construction, there will be four years of revenue-producing operations, which will enable the tourism/convention center to reach financial maturity. The center will be able to increase the percentage of projected maximum gross revenues (a measure of capacity) from 70% (1st year of operations) to 83% (2nd year of operations) to 95% (3rd and 4th years of operations). Loan principal repayment will commence at the end of the fourth operating year. Convention bookings require significant lead times of up to five years in some cases, which is another factor to consider in setting the grace period.

Loan principal repayment for both the A.I.D. loan and the G.O.P. interest-free loan will commence at approximately the same time.

(b) A.I.D. Financial Portion of Project

An analysis of only the A.I.D. financed portion of the project, i.e., convention hall, ground floor, restaurant, and Tourism Institute offices, indicates a cash flow from operations of \$270,000 annually beginning with the sixth year of operations (see Annex IV, Table 6), after a deduction of \$28,000 for contingency reserves and an average annual debt servicing requirement of \$381,000, leaves an annual deficit of \$125,000.

Discounted cash flow projections show a yield of slightly better than 4% (see Annex IV, Table 7).

These analyses indicate that the A.I.D. financed portion of the project is not commercially viable, therefore giving justification to A.I.D. concessionary lending. Project justification for the A.I.D. financed portion lies not in the project itself, but rather in its total impact on the Panamanian economy as discussed in Section II-C, Economic Evaluation.

(c) Conventioneers Breakeven Analysis

Rental revenue from trade shows and conventions is estimated at \$75,000 annually (150 days use at \$500/day), which amounts to 11% of total project revenues or 22% of revenues attributable to the A.I.D. financed portion of the project. Consequently, convention rental revenue is not as significant as rent from the ground floor and office space. However, assuming that convention hall rentals were the only source of income, a breakeven analysis based on the number and size of conventions is presented in the following table:

Size of Convention	Rental Rate Per Day	Rental Rate Per Day Per Conventioneer	Breakeven # of Conventioneer Days	Breakeven # of Conventioneers	Breakeven # of Conventions	Breakeven of Days Utilized
3,000	\$ 0	\$.00	--	--	--	--
2,500	100	.04	1,675,000	418,500	--	--
2,000	200	.10	670,000	167,500	84	335
1,500	300	.20	335,000	83,750	56	223
1,000	400	.40	167,000	41,850	42	168
500	500	1.00	67,000	16,500	33	134

Assumptions:

1. Rental rate per day reflects marketing decisions and trade-off of convention hall rentals for more tourists.
2. A large convention lasts 4 days.
3. Breakeven is based on out-of pocket operating costs of \$67,000.

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Conventions of 500, 1,000 or 1,500 people are all within the projected potential Panamanian convention market of 110,000 conventioners. Larger conventions (2,000-3,000 people), because of probable lower daily rental rates, have extremely high or no feasible breakeven points with regards to the number of conventioners. A rate of \$184 per day at full capacity of 365 days per year is needed to breakeven. At \$500 per day the convention hall breaks even in 134 days of operation.

(2) Training and Technical Assistance

Estimated project cost is \$635,000 with \$375,000 reserved for Training and \$260,000 funded for Technical Assistance. Details of projects cash flow are presented in Annex IV, Table 2.

c. Prospects of Repayment

Prospects of loan repayment appear to be excellent. The cash flow from operations of the tourism/convention center generates 1.5 times interest and principal payments on the AID Loan of \$4,100,000. In addition, projected net quick assets of the center after accounting for cash transfers to the tourism sector, are estimated at \$728,000 as of the end of the loan grace period.

Further assurance of loan repayment is in the form of a loan guaranty to be requested from the Government of Panama.

SECTION III - LOAN ADMINISTRATION

A. Project Execution

1. General Guidelines

To achieve the objectives of the project, each component will make use of one or more of the following activities:

- a) Technical Assistance. Foreign specialists to work with the Tourism Institute to develop a sound management system in the initial stages of operation of the tourism/convention center and for advisory services to the Tourism Institute for the general promotion of tourism and operation of the industry. The scope of work of each specialist will be prepared by the Tourism Institute personnel focussing on the characteristics of each area of management requiring assistance for efficient operation. The scopes of work will be approved by AID prior to their implementation and will serve as a guideline for project evaluation.
- b) In-country-training. Courses and seminars to be conducted in conjunction with training programs of the Institute for the Development and Utilization of Human Resources and specialty areas as recommended by the technical assistance personnel. The trainees will be tour guides, interpreters, tourist police, hotel maids, waiters, bus boys, kitchen personnel, etc. required for a successfully operated tourism industry.
- c) Out of country training. In areas of operation within the tourism industry where technical assistance or in-country-training cannot provide adequate training for continued implementation of the project. This activity is aimed primarily at the middle management level with training to be conducted in the United States and other eligible western hemisphere countries. Areas to be included are hotel management, financial management, convention management, sales promotion, marketing, and advertising sales development, building engineering, food and beverage cost management, travel research and hotel housekeeping.

- d) Equipment and Furniture. Commodities as deemed necessary by the Tourism Institute, AID and the technical assistance for the efficient operation of the tourism/convention center.
- e) Construction. Plans and specifications to be prepared by a qualified firm of architects and engineers selected by the Tourism Institute with AID approval. Construction documents will be prepared for AID approval and the construction phase of the project will be under the inspection of the firm of architects and engineers.

2. Plan of Execution

Prior to initiation of activities within any component of the project, the Tourism Institute will meet the standard conditions precedent to initial disbursement. Conditions precedent to disbursement for activities within each component will begin to be met concurrently with the standard conditions precedent; i.e., scopes of work for technical assistance and the preparation of construction documents. The activities within each component will be monitored by a project coordinator and are as follows:

- a) Tourism/convention center-trade show building complex. The construction of a building complex that will serve as a tourism/convention center-trade show exhibition hall with its related services including facilities for rental as office space. Construction documents are expected to be completed within nine (9) months of execution of the loan agreement. An eighteen (18) month construction phase is anticipated with completion expected thirty (30) months after execution of the loan agreement.
- b) Training and Technical Assistance. To insure an efficient operation of the tourism/convention center personnel will be trained out of country as recommended by the Tourism Institute and the technical assistance in such areas as convention management, convention hall operations and other areas of tourism promotion. It is expected that the technical assistance will be contracted within six (6) months of execution of the loan agreement and recommendations for out-of-country training will be made shortly thereafter. Approximately 1,600 individuals will be trained in country to provide tourist-related services such as waiters, attendants, and cashiers with emphasis on the "hospitality" industry.

It is expected that programs for the in-country-training will be developed within twelve (12) months after execution of the loan agreement.

In addition to the training envisioned for the tourism/convention center building complex, other training will be provided for personnel at a national level for on-going activities. This training will involve personnel of the National Guard Police Force, the International Airport, hotels, restaurants, taxi and all other personnel who have a direct contact with the tourist. In addition there will be training of selected personnel of the middle management sector of the tourism industry. Here, again, the program will be developed in conjunction with the Institute for the Development and Utilization of Human Resources for in-country-training and it is expected that the program will be initiated within six (6) months after execution of the loan agreement.

Out-of-country training in this area will be limited to the middle management level and selection for such training will be made by the Tourism Institute for approval by A.I.D. It is expected that this activity will be initiated within six (6) months after execution of the loan agreement.

Technical assistance will be provided by consultants to the Tourism Institute covering the management and operation of the tourism/convention center as well as other services relative to the promotion of tourism and the conduct of the tourist industry. It is envisioned that approximately eight specialists will be hired from abroad to conduct this phase of the project.

- c) The Development Revolving Fund. This component establishes a fund in the National Bank of Panama to serve as seed capital for relatively small tourist-related projects. Loans under this component will be approved by the Tourism Institute based upon its assessment of each sub-project according to criteria acceptable to US AID. Repayments of the sub-loans will be

made to the fund at the National Bank for relending. These funds will then be under the control and jurisdiction of the Tourism Institute under a trusteeship but will be mechanically handled by the National Bank, which will receive a nominal service fee. The sub-loans from the revolving fund will be made with terms of up to fifteen years at mutually agreed upon interest rates, with a grace period of up to three years for repayment of principal.

B. Implementation Procedures

1. Target Dates

- a) The Loan Agreement will be prepared and negotiated within one month of the date of loan authorization.

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- b) Initial conditions can be met within three months from date of execution of the Loan Agreement.

February 1, 1972

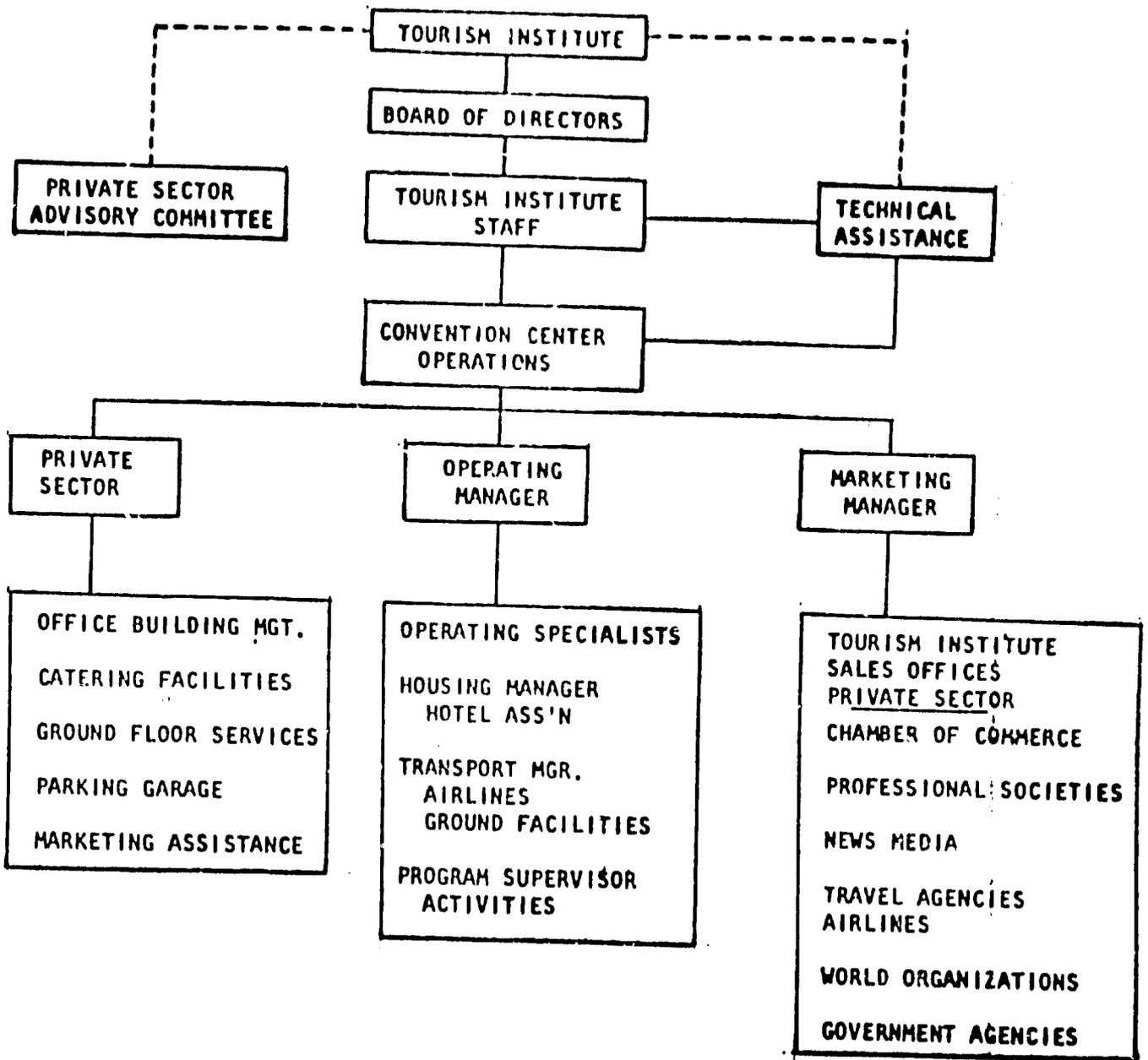
- c) All conditions precedent to disbursement are expected to be met within twelve months from date of execution of the Loan Agreement - November 1, 1972.
- d) The first request for letter of commitment is expected to be submitted within three months of execution of the Loan Agreement - February 1, 1971.
- e) The final disbursement under the loan is expected to be made by February 1, 1975.
- f) The disbursement period is expected to cover three years from the date of the first disbursement of loan funds.

2. Administrative Provision and Responsibilities

- a) Project Management. Will be composed of personnel from the Tourism Institute under the direction and responsibility of a "Project Manager" appointed to coordinate the various activities within the project

- b) Technical Assistance. Will be provided through contractual arrangements with private firms or individuals. The monitoring of the implementation of recommendations made through technical assistance will be the responsibility of the Tourism Institute.
- c) Loan Disbursements. Will be made under letters of Commitment for the off-shore costs and disbursement procedures established by USAID for the local costs.
- d) Fiscal Control of loan funds will be the responsibility of the Tourism Institute and audit and review activities will be made by both the USAID Controller and by the Controller of the Government of Panama.
- e) Construction will be under direct responsibility of the Tourism Institute through the firms of architects and engineers. It shall submit to USAID for approval all construction plans and specifications, all procurement specifications and all contractual arrangements. The plans/specifications will take into account recommendations of advisors provided by the technical assistance furnished under the project. The USAID project coordinator will have the responsibility of monitoring the general operation of the project .
- f) Maintenance and Operation of the facilities will be the responsibility of the Tourism Institute through its board of directors with advisory assistance from a Private Sector Advisory Committee. This committee will be composed of prominent representatives of the professional and business communities of Panama and will have as its principal function that of introducing constructive advice and recommendations based on their knowledge, expertise and requirements and in furthering the involvement of the private sector of the Panamanian economy in the tourism/convention industry.

MANAGEMENT STRUCTURE OF TOURISM/CONVENTION CENTER



Within its general organization, the Tourism Institute will form an office for convention center operations with three interrelated but functionally separate departments: (a) convention operations, (b) convention marketing, and (c) operation of facilities. The first two of these will be headed by professional experts hired directly by the Tourism Institute.

The convention operations department will have certain specialized areas within its management of the convention center, such as housing, transportation and convention programming. This will include the day to day supervision of the operation of the center including planning space allocation; arranging for sound and audio-visual facilities, decorations, exhibits and lighting; catering; secretarial services; liaison with hotels, restaurants, touring agencies and organizations; and all other services necessary for the successful operation of the center. This department will have a bilingual staff to conduct its work including managers, secretaries and messengers. It will have available a professional crew of electricians, soundmen, carpenters, sign painters and others as required.

The marketing department will be responsible for the sales promotion of the center for conventions and trade shows. It has as a function the promotion and marketing of the assets of the tourism/convention center. The professional manager of this department will be in charge of a world-wide staff. In addition to the supervision and guidance of the staffs in the Panamanian Tourist Offices in New York, Chicago, San Francisco, Madrid and Tokyo for marketing and sales promotion of the center, a new office is being opened in Miami to serve as a base for international marketing under this department. This department will make contacts with chambers of commerce, professional societies, communications media, travel agencies, airlines, world organizations, government agencies, business firms and other organizations.

Physical facilities of services to be provided by the tourism/convention center complex other than the operation of the convention center itself are to be placed in the third operating department. For this purpose, the Tourism Institute will contract with specialized firms and enterprises in the fields of office building management, catering facilities, tourism facilities at the ground floor level and parking. Provisions for maintenance of the building will be included in the building management contract.

The Tourism Institute is aware that future operations of the center hinge on early successful ventures and to insure success and sound management, it will contract with a management consulting firm during the design phase. This firm will provide assistance to the architectural engineering consultant in the design of adequate facilities for the operation of the convention center. A consultant will also initiate marketing of the center prior to its completion to insure sufficient booking during the initial period of operations. The consultants will continue to provide assistance in the operation of the center in the areas of conventions and convention marketing after the center is completed. Throughout the design and construction phases, the Tourism Institute will obtain technical assistance and train key personnel to strengthen its managerial procedures and expand the area of tourism as an industry.

- g) USAID Monitoring Responsibilities. The Private Enterprise Officer of USAID/Panama will have primary monitoring responsibility for AID. This responsibility will entail the receipt and initiation of all correspondence with the Tourism Institute on matters of execution, compliance with the Loan Agreement, issuance of Letters of Implementation, approval of construction documents and contracts and receipt of progress reports. The USAID Office of the Assistant Director for Capital Development will assist in

monitoring activities appropriate to its field of competence and responsibility. The USAID Engineering Division will assist in the surveillance of the engineering and construction phases of the project. The USAID Human Resources Division will give assistance regarding training aspects of the project. There is sufficient expertise in USAID to adequately provide the necessary services.

C. Conditions and Covenants

1. Conditions:

In addition to the applicable standard conditions precedent to disbursement, the following requirements are proposed:

- a. Prior to the issuance of the first commitment document or any disbursement under the loan, the Borrower shall submit in form and substance satisfactory to A.I.D. except as A.I.D. may otherwise agree in writing, the following:
 - (1) Evidence from the Government of Panama that it will guarantee repayment of the loan.
 - (2) Evidence of contractual arrangement with an architectural engineering firm acceptable to A.I.D. for preparation of the plans, specifications and bid documents for the tourism/convention center building complex and supervision of the construction.
- b. Prior to the issuance of any commitment document or disbursement for other than the architectural engineering services, the Borrower shall submit to A.I.D. evidence of contractual arrangement with a management consulting firm to provide technical assistance in the final stages of design of the tourism/convention center, review the final plans and specifications of the building complex and provide technical assistance in the managerial operations of the convention center both prior to and after completion of the complex.
- c. Prior to any disbursement or to the issuance of any commitment document for each component of the project for other than architectural engineering services and management consulting services, the Borrower shall, except as A.I.D. may otherwise agree in writing, submit evidence satisfactory to A.I.D. of the following:

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(1) Component 1, Construction of Tourism/Convention Center:

- i. Evidence that the management consultants have reviewed the plans and specifications and find them adequate for sound operation of the project.
- ii. Plans and specifications, bid documents, cost estimates and time schedules for construction.
- iii. Evidence of contractual arrangements with a firm satisfactory to A.I.D. for construction services.

(2) Component 2, Technical Assistance and Training:

- i. Evidence of contractual arrangements with a firm satisfactory to A.I.D., for consulting services.
- ii. A program for in-country and out-of-country training as applicable.

2. Covenants: The Borrower shall agree to:

- a. Retain a private business firm or firms to manage and operate all or parts of the tourism/convention center that are appropriate for private management.
- b. Submit to A.I.D. in form and substance satisfactory to A.I.D., and prior to any disbursement or to the issuance of any commitment document under the loan for construction of the tourism/convention center, a plan for the creation, funding, and operation of a tourism development fund, which plan shall include, without limitation, the criteria for making sub-loans from the fund.
- c. Faithfully carry out all terms and conditions of the Loan Agreement.

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3. Other Terms and Conditions: The loan shall be subject to such other terms and conditions as A.I.D. may deem advisable.

SECTION IV - ISSUES

A. Private Sector Participation

Four of the nine members of the Board of Directors of the Tourism Institute are selected from the private sector, representing the Chambers of Commerce, the Airlines Association, the Association of Travel Agencies, and the Hotel Association. These members, along with other interested persons in the private sector, have been consulted in the creation of the concept of the project and they have vigorously supported it. Attached as a part of Annex 3 is a letter from the Director General of the Tourism Institute confirming a unanimous resolution of the Board in support of the project. The Director General is himself a former businessman and he maintains close touch with the business community. He has solicited and obtained advice from the private sector throughout the planning of this project.

The impetus that this project will have on the development of private business in Panama is discussed previously in this paper, particularly Section I-C; Program Justification. The purpose of the loan is to develop the private tourist industry and all elements of the project are directed toward that effort. The seed capital fund will foster smaller entrepreneurial projects. It is expected that the tourism/convention center will lead to direct demand for additional hotel facilities; the construction of these hotels, estimated at B/ 22 million, will be undertaken entirely by the private sector. The Tourism Institute will retain a private business firm to manage and operate all or parts of the tourism/convention center building as may be required.

B. Effect of the Center on Other Latin American Centers

There is no comparable convention center in all of Latin America. The only existing convention facilities are to be found in hotels and do not compare in size or facilities and services offered. The U.S. Department of Commerce is opening a trade show exhibition hall in Mexico City this fall, one of nine built abroad and the first in Latin America. The center here could complement the one in Mexico City by providing the facilities for a follow-on exhibition to serve Central and South America.

Convention facilities in some Latin American hotels have not been successful. If one compares these facilities to the criteria established by Booz, Allen and Hamilton for convention centers as set forth in Section II-c-1-f, page 57 herein, the reason is readily apparent. For example, one of the larger meeting halls in Caracas is in a hotel removed from the main part of the city and cannot offer all of the requisite services and facilities. Isolation, lack of facilities, difficulty of transportation, scarcity of diversions and high prices are all factors which have worked against the success of some hotel convention halls. The totality of the concept for the proposed tourism/convention center for Panama in which the Booz, Allen and Hamilton criteria are met should warrant its success. On the other hand, in consideration of the purposes of the convention rooms in the various Latin American hotels, it is believed that the proposed center will have a negligible effect upon their business.

C. Government Office Financing

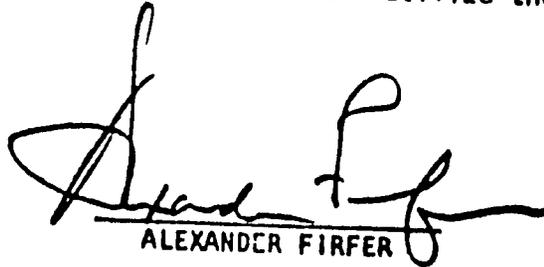
One issue concerns AID financing for the construction of government office space as represented by the third floor offices of the Tourism Institute in the Center building. These offices have been included under AID financing for the following reasons: First, the Tourism Institute's offices are in a mezzanine location between the lower level of the auditorium and the restaurant, making it difficult to break out the financing. Second, the Institute's offices are integrally related to the operation of the convention center, particularly since the Institute's management staff for the Center will occupy a sizable portion of the space. Third, the Institute is differentiated from the normal government operation in that the Institute is an autonomous agency governed by a Board of Directors with both public and private representation and is more analogous to a corporation. Fourth, the area allocated to the Institute is rentable space and the Institute, in line with its autonomous nature, will pay rent therefor like other tenants of the building.

CERTIFICATION PURSUANT TO SECTION 611 (e) OF THE
FOREIGN ASSISTANCE ACT OF 1961, AS AMENDED

I, Alexander Firfer the principal officer of the Agency for International Development in Panama, having taken into account among other things, the maintenance and utilization of projects in Panama previously financed or assisted by the United States, do hereby certify that in my judgement Panama has both the financial capacity and the human resources capability to effectively maintain and utilize the capital assistance project for the development of tourism in Panama.

This judgement is based on the Mission's over-all experience with the Tourism Institute of Panama and experience with loans to other autonomous and semi-autonomous agencies of the Government of Panama.

The Capital Assistance Paper certifies that the statutory criteria as applied to Panama have been met. Discussion in the capital assistance paper has clearly demonstrated the capability of Panama and the Borrower to effectively maintain and utilize the project.


ALEXANDER FIRFER

June 2, 1971

DATE

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CHECKLIST OF STATUTORY CRITERIA

(Alliance for Progress)

In the right-hand margin, for each item, write answer or, as appropriate, a summary of required discussion. As necessary, reference the section(s) of the Capital Assistance Paper, or other clearly identified and available document, in which the matter is further discussed. This form may be made a part of the Capital Assistance Paper.

The following abbreviations are used:

FAA - Foreign Assistance Act of 1961, as amended.

App. - Foreign Assistance and Related Agencies Appropriations Act, 1971.

MMA - Merchant Marine Act of 1936, as amended.

COUNTRY PERFORMANCE

Progress Towards Country Goals

1. FAA § 208; §.251(b).

A. Describe extent to which country is:

(1) Making appropriate efforts to increase food production and improve means for food storage and distribution.

The growth in agricultural production in Panama (1960-69: 6.2%) is among the highest in Latin America. Improvement in food storage and distribution has been satisfactory.

(2) Creating a favorable climate for foreign and domestic private enterprise and investment.

The climate for foreign and domestic private enterprise and investment has been favorable as evidenced by the high rate of private investment over the past several years.

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(3) Increasing the public's role in the developmental process.

Although legislation is enacted by executive decree, rather than elected legislature, increased participation in the development process is being promoted through several GOP programs, especially those administered by the Office of Community Development.

(4) (a) Allocating available budgetary resources to development.

During the 1960-69 period, public sector real investment amounted to about \$260 million or 20% of estimated total public expenditures (\$1,301 million).

(b) Diverting such resources for unnecessary military expenditure (See also Item No. 16 and intervention in affairs of other free and independent nations.) (See also Item No. 14.)

Panama's expenditures for military purposes have been a small percentage of total government expenditures and Panama has not intervened in the affairs of other free and independent nations.

(5) Willing to contribute funds to the project or program.

The Bortower's contribution to this project is substantial, being approximately one-third of total estimated project costs.

(6) Making economic, social, and political reforms such as tax collection improvements and changes in land tenure arrangements, and making progress toward respect for the rule of law, freedom of expression and of the press, and recognizing the importance of individual freedom, initiative, and private enterprise.

Panama has made substantial progress in social, economic and political reforms. It has reformed the tax laws and improved tax administration substantially. As a result, 1969 tax income receipts totaled \$41 million, nearly three times the 1963 total of \$15.5 million. Although there is press censorship under the provisional government, it is moving in the direction of restoring constitutional rights and free elections have been held in at least one municipality in 1970. The provisional government has emphasized the concepts of self-help and individual initiative in its civic action programs and has given support to private enterprise.

ANNEX II, 2 (4-7)

(7) Adhering to the principles of the Act of Bogota and Charter of Punta del Este.

Panama is adhering to the principles of the Act of Bogota and is working to achieve the objectives of the Charter of Punta del Este. In practically every category Panama is ahead of the targets set by the Charter or approaching them.

(8) Attempting to repatriate capital in other countries to its own citizens.

Capital repatriation is not a problem in Panama at the present time. Capital flows are not restricted.

(9) Otherwise responding to the vital economic, political, and social concerns of its people, and demonstrating a clear determination to take effective self-help measures.

See answer to (6) above. This loan should be of assistance in this regard.

B. Are above factors taken into account in the furnishing of the subject assistance?

Yes.

Treatment of U.S. Citizens

2. FAA § 620(c). If assistance is to government, is the government liable as debtor or unconditional guarantor on any debt to a U.S. citizen for goods or services furnished or ordered where (a) such citizen has exhausted available legal remedies and (b) debt is not denied or contested by such government?

No such case is known.

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3. FAA § 620(e)(1). If assistance is to a government, has it (including government agencies or subdivisions) taken any action which has the effect of nationalizing, expropriating, or otherwise seizing ownership or control of property of U.S. citizens or entities beneficially owned by them without taking steps to discharge its obligations toward such citizens or entities?

Panama is not known to have taken such action.

4. FAA § 620(o); Fishermen's Protective Act. § 5. If country has seized, or imposed any penalty or sanction against, any U.S. fishing vessel on account of its fishing activities in international waters,

No such seizures or sanctions are known.

a. has any deduction required by Fishermen's Protective Act been made?

b. has complete denial of assistance been considered by A.I.D. Administrator?

Relations with U.S. Government and
Other Nations

5. FAA § 620(d). If assistance is for any productive enterprise which will compete in the United States with United States enterprise, is there an agreement by the recipient country to prevent export to the United States of more than 20% of the enterprise's annual production during the life of the loan? **Not applicable.**
6. FAA § 620(j). Has the country permitted, or failed to take adequate measures to prevent, the damage or destruction, by mob action, of U.S. property? **No.**
7. FAA § 620(l). If the country has failed to institute the investment guaranty program for the specific risks of expropriation, in convertibility or confiscation, has the A.I.D. administration within the past year considered denying assistance to such government for this reason? **Such risks are included under the current investment guaranty bilateral agreement.**
8. FAA § 620(q). Is the government of the recipient country in default on interest or principal of any A.I.D. loan to the country? **No.**

AID (A-71)

9. FAA § 620(t). Has the country severed diplomatic relations with the United States? If so, have they been resumed and have new bilateral assistance agreements been negotiated and entered into since such

No.

10. FAA § 620(u). What is the payment status of the country's U.N. obligations? If the country is in arrears, were such arrearages taken into account by the A.I.D. Administrator in determining the current A.I.D. Operational Year Budget?

Panama is not delinquent with respect to dues, assessments or other obligations to the U.N. for the purposes of Article XIX of the Charter.

11. FAA § 620(a). Does recipient country furnish assistance to Cuba or fail to take appropriate steps to prevent ships or aircraft under its flag from carrying cargoes to or from Cuba?

No.

12. FAA § 620(b). If assistance is to a government, has the Secretary of State determined that it is not controlled by the international Communist movement?

Yes.

13. FAA § 620(f). Is recipient country a Communist country? No.
14. FAA § 620(i). Is recipient country in any way involved in (a) subversion of, or military aggression against, the United States or any country receiving U.S. assistance, or (b) the planning of such subversion or aggression? No.
15. FAA § 620(n). Does recipient country furnish goods to North Viet-Nam or permit ships or aircraft under its flag to carry cargoes to or from North Viet-Nam? No.

Military Expenditures

16. FAA § 620(s). What percentage of country budget is for military expenditures? How much of foreign exchange resources spent on military equipment? How much spent for the purchase of sophisticated weapons systems? (Consideration of these points is to be coordinated with the Bureau for Program and Policy Coordination, Regional Coordinators and Military Assistance Staff (PPC/RC).)
- (a) Less than 1% of 1970 budget.
- (b) Less than 1% of foreign exchange resources.
- (c) No purchase of sophisticated weapons systems has been made.

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CONDITIONS OF THE LOAN

General Soundness

17. FAA § 201(d). Information and conclusion on reasonableness and legality (under laws of country and the United States) of lending and relending terms of the loan.

The terms are both legal and reasonable under the applicable U.S. and Panamanian standards.

18. FAA § 251(b)(2); § 251(c). Information and conclusion on activity's economic and technical soundness. If loan is not made pursuant to a multilateral plan, and the amount of the loan exceeds \$100,000, has country submitted to A.I.D. an application for such funds together with assurances to indicate that funds will be used in an economically and technically sound manner?

The economic and technical soundness of the project is discussed in Section II of Part II.

19. FAA § 251(b). Information and conclusion on capacity of the country to repay the loan, including reasonableness of repayment prospects.

There are reasonable prospects of repayment of this loan.

20. FAA § 611(a)(1). Prior to signing of loan will there be (a) engineering, financial, and other plans necessary to carry out the assistance and (b) a reasonably firm estimate of the cost to the United States of the assistance?

Yes.

21. FAA § 611(a)(2). *If further legislative action is required within recipient country, what is basis for reasonable expectation that such action will be completed in time to permit orderly accomplishment of purposes of loan?* None required.
22. FAA § 611(e). *If loan is for Capital Assistance, and all U.S. assistance to project now exceeds \$1 million, has Mission Director certified the country's capability effectively to maintain and utilize the project?* Yes, see annex.
23. FAA § 251(b). *Information and conclusion on availability of financing from other free-world sources, including private sources within the United States.* Financing from other free-world sources, including private U.S. sources, is not available.

Loan's Relationship to Achievement of Country and Regional Goals

24. FAA § 207; § 251(a). *Extent to which assistance reflects appropriate emphasis on: (a) encouraging development of democratic, economic, political, and social institutions; (b) self-help in meeting the country's food needs; (c) improving availability of trained manpower in the country; (d) programs designed to meet the country's health needs, or*
- (a) Private sector tourism development has social and economic implications.
 - (b) Agricultural production will be facilitated by the supply of food products to the tourist trade.
 - (c) One of the three components of the project is for training and technical assistance.
 - (d) This project involves human resources development.

24. (e) other important areas of economic, political, and social development, including industry; free labor unions, cooperatives, and Voluntary Agencies; transportation and communication; planning and public administration; urban development, and modernisation of existing laws.
25. FAA § 209. Is project susceptible of execution as part of regional project? If so why is project not so executed?
26. FAA § 251(b)(3). Information and conclusion on activity's relationship to, and consistency with, other development activities, and its contribution to realizable long-range objectives.
27. FAA § 251(b)(7). Information and conclusion on whether or not the activity to be financed will contribute to the achievement of self-sustaining growth.
28. FAA § 281(a). Describe extent to which the loan will contribute to the objective of assuring maximum participation in the task of economic development on the part of the people of the country, through the encouragement of democratic, private, and local governmental institutions.
- (e) This project involves human resources development. The expansion of transportation, communications and other pertinent industries is an implication of the project's purpose.
- No.
- The project is consistent with other development activities and contributes to long-range objectives. The development of the tourist industry will complement other public and private institutions in Panama. Investment in service related industries is an integral part of expanding tourism. Training will progress towards overall objectives of reducing unemployment and underemployment.
- The project fosters long-term tourism industry development and will contribute to the achievement of self-sustaining growth of Panama. This will be accomplished through income produced by the center, private investment in related service industries and the general influx of tourist expenditures.
- This project will promote the development of private sector businesses and institutions. It involves considerable human resources development. The project will promote the development of a tourist center which in turn will lead to an increased number of visitors, subsequent private investment in related industries and contribute to the continuation of economic growth.

29. FAA § 281(b). Describe extent to which program recognizes the particular needs, desires, and capacities of the people of the country; utilizes the country's intellectual resources to encourage institutional development; and supports civic education and training in skills required for effective participation in governmental and political processes essential to self-government.
- Training under this project is for both lower level skills development by the Institute for the Development and Utilization of Human Resources and for middle management upgrading. Income generated by increased tourism will eventually lead to the augmentation of the central government financial resources which may then be rechanneled to further some of its stated objectives in the areas of social, political and economic development.
30. FAA § 601(a). Information and conclusions whether loan will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage development and use of cooperatives, credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture, and commerce; and (f) strengthen free labor unions.
- This project will encourage private initiative and competition in the tourist industry directly and in other businesses indirectly. The planned tourist shopping facilities and the requirements for the tourist industry will increase the flow of international trade. The development revolving fund for small entrepreneur projects will discourage monopolistic practices. The technical assistance component will improve technical efficiency.
31. FAA § 619. If assistance is for newly independent country; is it furnished through multilateral organizations or plans to the maximum extent appropriate?
- Panama is not newly independent.
32. FAA § 251(h). Information and conclusion on whether the activity is consistent with the findings and recommendations of the Inter-American Committee for the Alliance for Progress in its annual review of national development activities.
- This activity is consistent with the findings and recommendations of the 1971 CIAP review.

33. FAA § 251(a). Information and conclusion on use of loan to assist in promoting the cooperative movement in Latin America.

The loan will not be used to promote cooperatives.

34. FAA § 209; § 251(b)(8). Information and conclusion whether assistance will encourage regional development programs, and contribute to the economic and political integration of Latin America.

The project will promote conventions, meetings, cultural events, etc. for all of Latin America .

Loan's Effect on U.S. and A.I.D. Program

35. FAA § 251(b)(4); § 102. Information and conclusion on possible effects of loan on U.S. economy, with special reference to areas of substantial labor surplus, and extent to which U.S. commodities and assistance are furnished in a manner consistent with improving the U.S. balance of payments position.

Loan is not detrimental to the U.S. economy. Loan funds will be used to procure materials, equipment and services from the U.S.

36. FAA § 601(b). Information and conclusion on how the loan will encourage U.S. private trade and investment abroad and how it will encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).

The trade show exhibition hall included in the project will permit U.S. suppliers to exhibit their equipment for regional showings to Central and South America. Private U.S. firms will provide substantial equipment, materials and services to be financed by the loan.

MAU 1240-2 (4-11)

37. FAA § 601(d). *If a capital project, are engineering and professional services of U.S. firms and their affiliates used to the maximum extent consistent with the national interest?* Yes.
38. FAA § 602. *Information and conclusion whether U.S. small business will participate equitably in the furnishing of goods and services financed by the loan.* Usual procedures for facilitating U.S. small business participation in AID-financed procurement will be followed.
39. FAA § 620(H). *Will the loan promote or assist the foreign aid projects or activities of the Communist-Bloc countries?* No.
40. FAA § 621. *If Technical Assistance is financed by the loan, information and conclusion whether such assistance will be furnished to the fullest extent practicable as goods and professional and other services from private enterprise on a contract basis. If the facilities of other Federal agencies will be utilized, information and conclusion on whether they are particularly suitable, are not competitive with private enterprise, and can be made available without undue interference with domestic programs.* Technical assistance will be provided primarily by private sources.

AID 1240-2 (4-71)

41. FAA § 252(a). Total amount of money under loan which is going directly to private enterprise, is going to intermediate credit institutions or other borrowers for use by private enterprise, is being used to finance imports from private sources, or is otherwise being used to finance procurements from private sources.

Total resources of loan funds will be used to finance goods and services from private sources.

Loan's Compliance with Specific Requirements

42. FAA § 201(d). Is interest rate of loan at least 2% per annum during grace period and at least 3% per annum thereafter?

Yes.

43. FAA § 608(a). Information on measures to be taken to utilize U.S. Government excess personal property in lieu of the procurement of new items.

The loan agreement will include the standard provision so requiring.

44. FAA § 604(a). Will all commodity procurement financed under the loan be from the United States except as otherwise determined by the President?

From the U.S. or other free countries included in AID Geographic Code 941.

45. FAA § 604(b). What provision is made to prevent financing commodity procurement in bulk at prices higher than adjusted U.S. market price?

Procurement under the loan will be by competitive bidding. AID/W control audit procedures will insure against paying above market prices.

46. FAA § 604(d). If the cooperating country discriminates against U.S. marine insurance companies, will loan agreement require that marine insurance be placed in the United States on commodities financed by the loan?
- Yes.
47. FAA § 604(e). If offshore procurement of agricultural commodity or product is to be financed, is there provision against such procurement when the domestic price of such commodity is less than parity?
- No such procurement to be financed by the loan.
48. FAA § 611(b); App. § 101. If loan finances water or water-related land resource construction project or program, is there a benefit-cost computation made, insofar as practicable, in accordance with the procedures set forth in the Memorandum of the President dated May 15, 1962?
- Not applicable; no such program or project is to be financed by the loan.
49. FAA § 611(c). If contracts for construction are to be financed, what provision will be made that they be let on a competitive basis to maximum extent practicable?
- Competitive bidding will be required.
50. FAA § 620(q). What provision is there against use of subject assistance to compensate owners for expropriated or nationalized property?
- No loan funds will be used for acquiring land. The COP already owns the site for the proposed facility.

AID 1240-2 (4-71)

51. FAA § 612(b); § 636(h). Describe steps taken to assure that, to the maximum extent possible, the country is contributing local currencies to meet the cost of contractual and other services, and foreign currencies owned by the United States are utilized to meet the cost of contractual and other services.
- The Borrower will contribute to the local costs of the project.
52. App. § 104. Will any loan funds be used to pay pensions, etc., for military personnel?
- No.
53. App. § 106. If loan is for capital project, is there provision for A.I.D. approval of all contractors and contract terms?
- The loan agreement will so require.
54. App. § 108. Will any loan funds be used to pay U.N. assessments?
- No.
55. App. § 109. Compliance with regulations on employment of U.S. and local personnel for funds obligated after April 30, 1964 (A.I.D. Regulation 7).
- Capital Assistance Guidelines under Implementation Letters will so provide.
56. FAA § 636(i). Will any loan funds be used to finance purchase, long-term lease, or exchange of motor vehicle manufactured outside the United States, or any guaranty of such a transaction?
- No.

57. App. § 401. Will any loan funds be used for publicity or propaganda purposes with the United States not authorized by the Congress? No.
58. FAA § 620(k). If construction of productive enterprise, will aggregate value of assistance to be furnished by the United States exceed \$100 million? No.
59. FAA § 612(d). Does the United States own excess foreign currency and, if so, what arrangements have been made for its release? No.
60. MMA § 901.b. Compliance with requirement that at least 50 per centum of the gross tonnage of commodities (computed separately for dry bulk carriers, dry cargo liners, and tankers) financed with funds made available under this loan shall be transported on privately owned U.S.-flag commercial vessels to the extent that such vessels are available at fair and reasonable rates. Requirement will be complied with.

ANNEX III - SUPPORTING MATERIAL

- * Attachment 1 - The Palace of Tourism
- * Attachment 2 - Potential of the Tourism Industry
In Panama
- * Attachment 3 - Tourism Profile of Panama
Prepared by C.I.A.P. High Level
Meeting
- * Attachment 4 - Letter of May 27, 1971 from
El Panama Hotel
- * Attachment 5 - Memorandum of Record, May 10, 1971,
from the Tourism Institute
- * Attachment 6 - General Business Guide of Panama
- * Attachment 7 - Preliminary drawings of
Tourism/convention center
- Attachment 8 - Hotel Construction Incentive Law

* Not attached. Copy on file in LA/DR Official File

DECREE LAW No.26
(Of the 27th of September, 1967)

Establishing incentives and facilitating the construction and rehabilitation of hotels and other installations of a tourist nature.

THE PRESIDENT OF THE REPUBLIC:

In exercise of his constitutional rights and especially that which has been conferred on him by paragraph 27 of Article 1 of Law 57 of the 2nd of February, 1967, having the favorable opinion of the Cabinet Council and the approval of the Permanent Legislative Committee of the National Assembly, and,

WHEREAS

Tourism is a basic industry for the country, being one of the most productive sources of foreign exchange;

The hotel industry is a fundamental and indispensable base for the development of tourism;

It is the duty of the Government to encourage the investment of capital and the progress of the country;

Investment in hotel construction and other activities of tourist interest favor national interests and consequently standard, or general and specific benefits not subject to the need for prior negotiations with the State must be established.....

Hereby DECREE:

I. GENERAL DEFINITIONS

ARTICLE II. - For the purpose of this Decree Law, the term "enterprise" shall apply to any economic entity, individual or collective, natural or juridic, national or foreign, which has invested or may invest capital in building or remodeling hotels and motels in the Republic.

Projects and other activities of a tourist nature shall be taken to mean activities such as, but not limited to the following:

- 2 -

Hotels, motels, heliports, marinas, sales centers of tourist items, golf courses, construction or improvements of International Airports for the purpose of providing services and encouraging the transit and stay of tourists in the Republic.

In the case of urban centers of more than 20,000 inhabitants, a hotel may be described an establishment of public lodging having a minimum of thirty (30) rooms and have been constructed and equipped especially for the purpose of providing permanently guests with such remunerated service as reception offices and other public areas.

In urban centers of less than 20,000 inhabitants, it is not necessary that the establishment to have thirty (30) rooms in order to be classified as a hotel, as long as it fills the other requirements described above.

A motel is classified as an establishment for public lodging located preferably in rural areas, or near beaches or highways, having a minimum of twenty (20) rooms, and which has been built for the basic purpose of providing automobile travelers remunerated services of lodging and, as a general rule, meals and related services such as reception offices.

ARTICLE 2:- It shall be understood that the assistance and protection which the Government may render to the hotel industry shall include among others, exemption from taxes, especially import duties, with the exception of those goods which are being produced in the country; exemption from payment of tax on real estate for certain periods of time, and the measures which in any way could represent the granting of subsidies or considered as an incentive for the hotel and tourism industry.

II. EXEMPTIONS, CONCESSIONS, OBLIGATIONS AND SANCTIONS:

ARTICLE 3.- In order to encourage the building, expansion or remodeling of hotels and motels, the following protections and franchises are established in behalf of the enterprises which may come under the provisions of this Decree-Law:

Exemptions from the payment of duties, assessments, taxes or tariffs of any kind or denomination which may be imposed on:

- a. The importation of construction materials to be used in the building, furniture, equipment, fixtures, or other items such as table linen, bed clothes, glassware, etc., providing that such construction material furniture, equipment and fixtures are not being

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produced in the country. Said exemptions will be applicable for a maximum period of five (5) years counting from the date of publication of the contract in the Official Gazette, and the imported articles must not exceed the quantities needed for equipping the hotel and its auxiliary facilities.

In it will be included, for the purpose of the contract, such items as airplanes, helicopters, leisure and sports equipment owned or to be rented by the enterprise.

The equipment, machinery and utilities mentioned above will be for the exclusive use of guests of the contracting enterprises. In the case of vehicles, these cannot be offered for use by the public in general, in competition with enterprises engaged in public transportation activities.

- b. For hotels and motels representing an investment over three hundred thousand Balboas (B/300,000) in the cities of Panama and Colon, and not under fifty thousand Balboas (B/50,000) in any other part of the Republic, and such investment having previously verified and approved by the Ministry of Agriculture, Commerce and Industry, an exemption will be granted from real estate taxes for a period of fifteen (15) years counting from the date that the contract is published in the Official Gazette.

This exemption covers all real estate acquired, built or operated by the enterprise, providing it is actively used in the activities of the contracting enterprise.

In order to be eligible for this exemption, the real estate property of the enterprise must be duly registered and the exemption must be requested from the Ministry of Finance and Treasury.

- c. The enterprise also will be exempted from payment of taxes or duties which may be imposed on its capital, installations and operations.
- d. The enterprise also will be exempted from payment of taxes and wharfage or landing taxes at wharves or airports built and owned by the enterprise. The facilities may be used free of charge by the Government. Toward this end the Government will provide appropriate regulations.
- e. Exemptions from the payment of taxes on income originating from interest earned by creditors in operations destined for investment in hotels and motels.

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- f. For the purpose of computing the depreciation on Real estate and equipment, a rate of 10% per year will be allowed.

ARTICLE 4.- The exemptions granted the enterprise under this Decree Law exclude:

- a. Social Security quotas, contributions or taxes, Revenue Stamps, notarizing and registry; and public service assessments established by the Government.
- b. Commercial licenses, liquor and bar taxes, and income taxes.
- c. Material, equipment, furniture or fixtures which might have a different use from that established in the contract and are not essential for the good performance of the hotel or motel, or which can be bought in the country at a reasonable price.
- d. Exempted goods imported by the enterprise cannot be sold in the Republic until after two (2) years after their arrival, and only after the charges from which they had been exempted have been paid on the basis of the current value of the goods.
- e. Payment of the assessment established in Article 29 Law 25 of 1957 is not included in the exemptions (2% of taxes and charges from which the enterprise is exempted).
- f. With regard to contracts authorized under this Decree-Law, taxes, fees and charges established by the Municipalities are not included.

ARTICLE 5.- The Ministry of Finance and Treasury will establish the regulations governing the mechanics for the authorization, administration and control of tax exemption referred to in this Decree Law.

ARTICLE 6.- The enterprise will under obligate to:

- a. Begin the investment within the period established in the contract with the Government, it being understood that it will exceed one year, and to maintain the investment for the duration of the contract.
- b. Begin operations within the maximum period of the three years from the date on which the contract is published in the Official Gazette.
- c. Furnish a performance Bond equivalent to 1% of the total capital (paragraph A).

ARTICLE 7.- Once the hotel's operations begin its administration will be entrusted to professionals in the field, or of recognized ability in accordance with criteria established by the National Executive Organ.

ARTICLE 8.- The enterprise will give job preference to Panamanian employees and workers, except for such experts and specialized previous approval has been granted.

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ARTICLE 9.- The enterprise will be under obligation to develop the technical skill of Panamanians and to maintain scholarships under which nationals may pursue training courses abroad, if it is not possible to do so in local industrial and educational establishments.

The enterprises renounces all rights to diplomatic claims in case of disagreement or conflicts with the Government, and any such disagreement must be submitted to the jurisdiction of national court.

ARTICLE 10.- The enterprise which plans to establish hotel or motel activities for the development of tourism, and would enjoy the privileges granted by this Decree-Law shall present to a petition wherein all information related to the enterprise and the capital to be invested, will be clearly and accurately defined to the Ministry of Agriculture, Commerce and Industry.

ARTICLE 11.- The Executive Organ is hereby authorized to grant the Government's guarantee for investments and the financing of investments in the new hotels, motels and other projects aimed at attracting the tourists, provided they comply with the following conditions:

- a. That the applicant has acquired title, free and clear of encumbrances, to the land on which construction is to be undertaken.
- b. That investment in improvements be not less than one hundred and fifty thousand Balboas (B/150,000) in the interior of the Republic and in Colon, and two million Balboas (B/2,000,000) in Panama City. In no case will the Government's Guarantee be for an amount in excess of five million Balboas (B/5,000,000).
- c. That the applicant sign a contract with the Government, granting a first mortgage in favor of the Government on the land improvements to be made.
- d. The guarantee contract in no case will be for a period over twenty (20) years.
- e. The applicants must prove a paid-up capital investment of at least 25% of the value of the proposed improvements in the interior of the Republic and Colon City, and of 30% on investments in Panama City.
- f. In case the Government grants the guarantee, the Minister of Finance and Treasury, and the Comptroller General of the Republic or the persons designated by them, will act as principal members of the Board of Directors of the Enterprise.

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g. The corresponding construction project requires prior approval by the Panamanian Institute of Tourism (IPAT) or the corresponding official entity, and the Cabinet Council.

Paragraph: The Government guarantee is also applicable to such persons who have received the usufruct of national or municipal lands intended for the construction of hotels, motels, and other touristic attractions works.

ARTICLE 12.- The Ministry of Agriculture, Commerce and Industry is empowered to inspect the installations, operations, processes and administration of the enterprise in order to determine whether contractual obligations are being complied with. This function could be delegated by the Executive Organ to the corresponding official entity.

ARTICLE 13. Non compliance by the enterprise of the obligations stipulated in Article 6 (a) will result in loss of the performance Bond, and the exemptions and other concessions stipulated in the contract. The Executive Organ will apply this penalty administratively, unless the enterprise proves that force majeure was its impediment for compliance, in which case, it will have the right to an extension for only one period of equal duration as the original one.

ARTICLE 14.- Violation of Article 4, paragraph (d) or any other improper use of their cancellation and a fine shall be imposed equal to five times the value of the imports which have been exonerated, which will be imposed separately on the enterprise and on those private individual who in any way may have benefitted through the violations committed.

ARTICLE 15.- Existing contracts for the operation of hotels and motels at the time of the promulgation of this Decree-Law, based on previous legal provisions, shall be valid until and up to the termination of their respective periods.

Contracts formalized under this Decree Law do not require Legislative approval and will be effective upon publication in the Official Gazette.

These contracts will require the approval of the Cabinet Council for their validation.

ARTICLE 16.- In addition to the other requirements demanded of the enterprise, a detailed plan of the location or locations where the hotels and motels will operate, and description of the project shall be submitted to the Ministry of Agriculture, Commerce and Industry. In each instance it will be necessary to have the favorable opinion of the proper official entity.

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ARTICLE 17. Any natural or juridic person who acquires, either by purchase or lease, a hotel or motel which enjoys the benefit and exemptions granted under this Decree-Law will also assume the responsibilities and obligations contracted by it.

ARTICLE 18.- The enterprise will assign and maintain available a special room for the guests of honor of the Government, and without any rental charge to the Government.

ARTICLE 19.- The rights and concessions granted by contract to any specific enterprise, do not constitute privileges, and shall be granted similarly to enterprises engaged in the same economic activities and which have contracted similar obligations.

ARTICLE 20.- The Executive Organ, with prior approval of the Gambling Control Board, may authorize the establishment of casinos or the provisions of this Decree-Law provided that their location have been classified as tourist areas by the proper authority.

These operations will remain under the administration, control and supervision of the Gambling Control Board.

ARTICLE 21.- Duration of these contracts will be twenty (20) years, beginning from the date of their publication in the Official Gazette.

ARTICLE 22.- Enterprise which at the moment of enforcement of this Decree-Law operate hotels or motels within the territory of the Republic, can enjoy its provisions provided they meet the conditions and requirements therein stipulated.

ARTICLE 23.- The Government can grant the usufruct of or lease for a reasonable period of time buildings of its property within the perimeter of Tocumen Airport, for the purpose of making improvements to said Terminal, intended to provide services and to encourage the transit of passengers through said Airport. The use intended to be given to such buildings and improvements in subject to current legal regulations.

ARTICLE 24.- This Decree Law will become effective from the date of its publication in the Official Gazette.

Given in the City of Panama, on the 27th day of the year one thousand nine hundred and sixty seven.

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THE PRESIDENT : RAUL ARANGO Jr.

Members of the Committee:

**Rene Crespo
Edwin Lopez
Pascual Urefia
Ramon Pereira
Ovidio Diaz
Rigoberto Paredes
Carlos Ivan Zuñiga**

The Secretary General:

Alberto Arango N.

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Tourism Institute
Balance Sheets as of December 31
 (\$000's omitted)

	<u>1967</u>	<u>1968</u>	<u>1969</u>	<u>1970</u>
<u>Assets</u>				
Current Assets				
Cash	25	21	31	237
Accounts Receivable	7	17	284	3
Total Current Assets	<u>32</u>	<u>38</u>	<u>315</u>	<u>240</u>
Fixed Assets				
Land	220	365	534	534
Buildings	902	902	1047	1047
Equipment	126	128	191	232
Leasehold Improvements	4	4	11	13
Total Fixed Assets	<u>1252</u>	<u>1399</u>	<u>1783</u>	<u>1826</u>
Less: Accum'd Dep'n & Amort.	130	140	86	73
Net Fixed Assets	<u>1122</u>	<u>1259</u>	<u>1697</u>	<u>1753</u>
Other Assets				
Investment-Hotel Wash.				270
Investment-Mobile Homes			675	1034 (1)
Investment-Land				528 (1)
Other	43	49	141	76
Total Other Assets	<u>43</u>	<u>49</u>	<u>816</u>	<u>1908</u>
Total Assets	<u>1197</u>	<u>1346</u>	<u>2828</u>	<u>3901</u>
Liabilities & Capital				
Current Liabilities	11	9	691	136
L-T Liabilities			100	1632 (1)
Capital	1186	1328	2037	2133
Total Liabilities & Capital	<u>1197</u>	<u>1346</u>	<u>2828</u>	<u>3901</u>

(1) Subsequent to December 31, 1970, Mobile Homes and Land were sold. Proceeds used to pay off long-term liabilities associated with the Homes and Land.

Proposed Disbursements By Loan Project

(\$000's omitted)

	<u>Year 1</u>		<u>Year 2</u>		<u>Year 3</u>		<u>Total</u>	
	<u>AID</u>	<u>Tourism Institute</u>	<u>AID</u>	<u>Tourism Institute</u>	<u>AID</u>	<u>Tourism Institute</u>	<u>AID</u>	<u>Tourism Institute</u>
Land		1,000						1,000
Construction			1,975		100	910	2,075	910
Furniture & Equipment			100	50	474	194	574	244
Architect/Engineer Services	259		122		89		470	
Administration		26		26		20		72
Contingency			264	6	102	138	366	144
Tourism/Convention Center	259	1,026	2,461	82	765	1,262	3,485	2,370
Technical Assistance	95		95		70		260	
Training	125		105	20	125		355	20
Total	479	1,026	2,661	102	960	1,262	4,100	2,390

**TOURISM/CONVENTION CENTER
PRO-FORMA BALANCE SHEET
(\$000's omitted)**

	Y E A R												
	CONSTRUCTION				-----					OPERATIONS			
	1	2	3	4	5	6	7	8	9	10	11	12	13
Assets													
Current Assets													
Cash			100	390	410	420	673	741	826	915	999	1083	1167
Accounts Receivable				40	45	62	63	65	70	70	70	70	70
Total Current			100	430	455	482	736	806	896	985	1069	1153	1237
Fixed Assets													
Construction in progress (1)	290	287											
Land	1000	1000											
Building			1056	1056	1056	1056	1056	1056	1056	1056	1056	1056	1056
Furniture & Equipment			4703	4703	4703	4703	4703	4703	4703	4703	4703	4703	4703
Total Fixed	1290	387	5983	5983	5983	5983	5983	5983	5983	5983	5983	5983	5983
Accum. Dep'n (2)			(136)	(272)	(408)	(544)	(680)	(816)	(952)	(1088)	(1224)	(1360)	
Net Fixed	1290	387	5983	5847	5711	5575	5439	5303	5167	5031	4895	4759	4623
Other Assets (3)	224	433	660	610	560	510	460	410	360	310	260	210	160
Total Assets	1514	4320	6743	6887	6726	6567	6435	6519	6423	6326	6224	6122	6020
Liabilities & Capital				4	6	7	8	9	15	20	20	20	20
Current Liabilities													
L-T Liabilities													
ADB Loan	479	3140	4100	4100	4100	4100	4100	3842	3576	3302	3021	2731	2432
ODP Loan			1000	1000	1000	1000	1000	900	800	700	600	500	400
Total L-T	479	3140	5100	5100	5100	5100	5100	4742	4376	4002	3621	3231	2832
Gov. Contribution	1035	1180	1643	1643	1643	1643	1643	1643	1643	1643	1643	1643	1643
Retained Earnings			140	(23)	(183)	(116)	125	389	661	940	1228	1525	
Total Capital	1035	1180	1643	1783	1620	1460	1527	1768	2032	2304	2583	2871	3168
Total Liabilities & Capital	1514	4320	6743	6887	6726	6567	6435	6519	6423	6326	6224	6122	6020

(1) Interest during construction (\$128,000) has been capitalized and added to construction in progress.

(2) Straight line depreciation based on IRS guideline lives of
40 years = Building
12 years = Furniture and equipment

(3) Costless of training & technical assistance capitalized and written off over 13 years.

Net Working Capital	---	---	100	426	449	475	728	797	881	965	1049	1133	1217
Debt/Equity	32:88	73:27	76:24	74:26	76:24	78:22	77:23	73:27	68:32	63:37	58:42	53:47	47:53

ANNEX IV
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 TABLE III
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 Revised
 Nov. 8, 2014

TOURISM/CONVENTION CENTER
Proforma Income Statement
(\$000's omitted)

	* 4	5	6	7	8	9	10	11	12	13
Rental Income										
Ground Floor	113	141	169	169	169	169	169	169	169	169
Trade Shows & Conventions	20	35	50	50	60	75	75	75	75	75
Upper Floor Offices	248	286	321	321	321	321	321	321	321	321
Institute Offices	39	39	39	39	39	39	39	39	39	39
Restaurant	34	34	34	34	34	34	34	34	34	34
Other	5	10	15	20	20	20	20	20	20	20
Total	459	545	628	633	643	658	658	658	658	658
Out of Pocket Operating Expenses	51	78	89	91	93	93	93	93	93	93
(a) Cash Flow - Operations	408	467	539	542	550	565	565	565	565	565
Interest	82	82	82	82	123	115	107	100	91	82
Cash Flow After Interest	326	385	457	460	427	450	458	465	474	483
Non Cash Expenses										
Depreciation	136	136	136	136	136	136	136	136	136	136
Amortization	50	50	50	50	50	50	50	50	50	50
Total	186									
Net Income	140	199	271	274	241	264	272	279	288	297
(a) Cash Flow After Interest	326	385	457	460	427	450	458	465	474	483
Loan Principal Repayment					358	366	374	381	390	399
Transfer to Tourism Fund **		362	431	207						
Cash Retained by Tourism Center **	326	23	26	253	69	84	84	84	84	84

* No income nor expense during the construction period of three years.
Interest on loan during this period has been capitalized.

** Initial capitalization of tourism fund will be \$1,000,000. When this figure is reached, (presumably in the seventh year) the remainder of the seventh year surplus will revert to the contingency reserve for the years 8 through 12. In year 13, if the Convention Center operations continue successfully, this amount, plus excess accumulations in the normal contingency reserve account, will revert to the tourism loan fund as they are needed. To the extent that the tourism loan fund is unable to utilize additional funds, these monies will be used to accelerate payments on the AID loan.

Tourism/Convention Center
 Present Value Analysis
 (\$000's omitted)

Present Value of Investment

<u>Year</u>	<u>Outlay</u>	<u>Discount Factor</u>	<u>Present Value</u>
1	1,285	1,000	1,285
2	2,543	.959	2,439
3	<u>2,127</u>	.889	<u>1,889</u>
	<u>5,955</u>		<u>5,613</u>

Present Value of Cash Flow

<u>Year</u>	<u>Cash Flow</u>		<u>Discount Factor</u>	<u>Present Value</u>
4	408		.823	336
5	467		.762	356
6	539		.705	380
7	542		.653	354
8	550		.605	333
9-33	565	11.061 x	.560	3499
33	<u>1100</u>		.088	<u>97</u>
	<u>17731</u>			<u>5355</u>

Discount factor of 8% used

Key Assumptions:

- 1) Project has an economic life of 30 yrs.
- 2) Cash flow from operations annualizes at \$565 starting with 9th year.
- 3) Land can be sold at end of project life for input value of \$1,000.
- 4) Working capital of \$100 is required for duration of project.

TOURISM/CONVENTION CENTER
A.I. D. Financed Portion Only
(Convention Hall, Ground Floor, Institute Offices, Restaurant)
Proforma Income Statement
(\$000's omitted)

	4	5	6	7	8	9	10	11	12	13
Rental Income:										
Ground Floor	113	141	169	169	169	169	169	169	169	169
Trade Shows & Conventions	20	35	50	50	60	75	75	75	75	75
Institute Offices	39	39	39	39	39	39	39	39	39	39
Restaurant	34	34	34	34	34	34	34	34	34	34
Other	5	10	15	20	20	20	20	20	20	20
Total	211	259	307	312	322	337	337	337	337	337
Out of Pocket Operating Expenses	40	50	60	62	64	67	67	67	67	67
Cash Flow Operations	171	209	247	250	258	270	270	270	270	270
Interest	82	82	82	82	123	115	107	100	91	82
Cash Flow After Interest	89	127	165	168	135	155	163	170	179	188
Non Cash Expenses:										
Depreciation	102	102	102	102	102	102	102	102	102	102
Amortization	50	50	50	50	50	50	50	50	50	50
Total	152	152	152	152	152	152	152	152	152	152
Net Income	(63)	(25)	13	16	(17)	3	11	18	27	36
Cash Flow After Interest	89	127	165	168	135	155	163	170	179	188
Loan Principal Repayment					258	266	274	281	290	299
Cash Flow	89	127	165	168	(123)	(111)	(111)	(111)	(111)	(111)

- No income nor expense during the construction period of three years.
Interest on loan during this period has been capitalized.

Tourism/Convention Center

A.I.D. Financed Portion Only

(Convention Hall, Ground Floor, IPAT Offices, Restaurant)
 Present Value Analysis
 (\$000's omitted)

PRESENT VALUE OF INVESTMENT

<u>Year</u>	<u>Outlay</u>	<u>Discount Factor</u>	<u>Present Value</u>
1	1,195	1,000	1,195
2	2,451	.979	2,400
3	913	.941	859
	<u>4,559</u>		<u>4,454</u>

PRESENT VALUE OF CASH FLOW

<u>Year</u>	<u>Cash Flow</u>	<u>Discount Factor</u>	<u>Present Value</u>
4	171	.905	155
5	209	.870	182
6	247	.837	207
7	250	.805	201
8	258	.774	200
9-33	270	15.906 x .744	3,197
33	1,100	.367	404
	<u>8,985</u>		<u>4,546</u>

Discount factor of 4% used.

Key assumptions:

- 1) Project has an economic life of 30 years.
- 2) Cash flow from operations annualizes at \$270 starting with ninth year.
- 3) Land can be sold at end of project life for input value of \$1,000.
- 4) Working Capital of \$100 is required for duration of project.

LOAN AUTHORIZATION

Provided From: Alliance for Progress Fund

PANAMA: Tourism

Pursuant to the authority vested in the Deputy U.S. Coordinator, Alliance for Progress, by the Foreign Assistance Act of 1961, as amended, and the delegations of authority issued thereunder, I hereby authorize the establishment of a loan ("Loan") pursuant to Part I, Chapter 2, Title VI, Alliance for Progress, of said Act to the Instituto Panameno de Turismo ("Borrower") of not to exceed four million one hundred thousand dollars (\$4,100,000) for the United States dollar and local currency costs of goods and services to assist Borrower in the development of the tourist industry in Panama by constructing a tourism/convention center, providing technical assistance for the tourist industry, and creating a revolving fund to provide seed capital for small tourist-related businesses ("Project"). The Loan shall be subject to the following terms and conditions:

1. Interest and Terms of Repayment

- (a) Borrower shall repay the Loan to the Agency for International Development ("A.I.D.") in United States Dollars within twenty (20) years from the first disbursement under the Loan, including a grace period of not to exceed seven (7) years. Borrower shall pay to A.I.D. in United States Dollars on the disbursed balance of the Loan interest at the rate of two percent (2%) per annum during the grace period and at the rate of three percent (3%) per annum thereafter.
- (b) If, prior to the date on which the first interest payment is due, the Government of Panama ("Government") so elects, Borrower shall fulfill its dollar obligations under the Loan by paying to Government in the currency of Panama, the equivalent, determined as of a time and in a manner satisfactory to A.I.D., of the United States dollar amounts payable to A.I.D. under 1(a) above, and in such event Government shall pay to A.I.D.:
 - (i) the equivalent in United States dollars, determined as of a time and in a manner calculated to obtain repayment of all dollars disbursed plus interest, of all amounts paid to Government as follows:

- (A) all interest immediately upon receipt subject to Government's right to retain all payments in excess of two percent (2%) per annum during a grace period of not to exceed ten (10) years from the first disbursement under the Loan ("Government Grace Period") and all payments in excess of three percent (3%) per annum thereafter;
 - (B) principal within forty (40) years, including the Government Grace Period; and
- (11) interest in United States dollars at the rate of two percent (2%) per annum during the Government Grace Period and at the rate of three percent (3%) per annum thereafter on all amounts of outstanding principal paid by Borrower to Government from the respective dates of such payments of principal.

2. Other Terms and Conditions.

- (a) Government shall guaranty repayment of the Loan in United States dollars.
- (b) Goods, services (except for ocean shipping) and marine insurance financed under the Loan shall have their source and origin in Panama or in countries included in Code 941 of the A.I.D. Geographic Code Book. Marine insurance may be financed under the Loan only if it is obtained on a competitive basis and any claims thereunder are payable in any country included in Code 941 of the A.I.D. Geographic Code Book.
- (c) United States dollars utilized under the Loan to finance eligible local currency costs shall be made available pursuant to procedures satisfactory to A.I.D.
- (d) Prior to the first disbursement or issuance of any commitment documents under the Loan, Borrower shall submit in form and substance satisfactory to A.I.D. evidence that Borrower has contracted for the architectural engineering services necessary for the preparation of plans, specifications and bid documents for, and for the supervision of the construction of, the tourism/convention center with a firm or firms acceptable to AID.
- (e) Prior to any disbursement or to the issuance of any commitment document under the Loan for other than architectural engineering services, Borrower shall submit to A.I.D., in form and substance satisfactory to A.I.D., evidence that

Borrower has contracted for the services of management consultants to provide technical assistance in the final stages of design of the tourism/convention center, to review the final plans and specifications of the building complex, and to provide technical assistance in the managerial operations of the tourism/convention center both prior to and after completion of the complex.

- (f) Prior to any disbursement or to the issuance of any commitment document under the Loan for construction of the tourism/convention center, Borrower shall submit to A.I.D. in form and substance satisfactory to A.I.D. the following:
- (i) a plan for the creation, funding and operation of a tourism development fund, which plan shall include, without limitation, the criteria for making sub-loans from the fund;
 - (ii) evidence that the management consultants have reviewed the plans and specifications for the tourism/convention center and find them adequate for sound operation of the project;
 - (iii) plans and specifications, bid documents, cost estimates and time schedules for construction;
 - (iv) evidence of contractual arrangements with a firm satisfactory to A.I.D. for construction services.
- (g) Prior to any disbursement or to the issuance of any commitment documents under the Loan for technical assistance and training, Borrower shall submit to A.I.D. in form and substance satisfactory to A.I.D.:
- (i) evidence of contractual arrangements with a firm satisfactory to A.I.D., for consulting services;
 - (ii) a training program plan.
- (h) Except as A.I.D. may otherwise agree in writing, Borrower shall retain a private business firm or firms to manage and operate all those parts of the tourism/convention center which are appropriate for private management.

- (1) The Loan shall be subject to such other terms and conditions as A.I.D. may deem advisable.

Deputy U.S. Coordinator

Date