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C. B. I.

IMPLEMENTATION PLAN

PANAMA

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I. INTRODUCTION

The Caribbean Basin Initiative provides a number of opportunities to Panamanian business the most important of which is preferential access to U.S. markets. This C.B.I. implementation plan is designed to assist the Panamanian private sector to:

1. Respond to these preferential markets.
2. Develop industrial and agricultural capacity to serve other export markets.

Fundamental to the stategies and activities which will constitute the U.S. assistance inputs is the assumption that the private sector, if permitted to operate within a favorable National Policy, legal and administrative framework, will respond to the opportunities provided by the C.B.I. The rapidity and effectiveness of that response however, will be conditioned by the technological, informational, and resource gaps which now impede production for export markets. The U.S. program will provide support to those governmental and private sector entities which are addressing the various constraints to successful export efforts.

The timing and nature of such support will necessarily be contingent upon Panamanian perceptions of the constraints; and the actions of both the government and private sector to remove them. The desired coalescence of governmental purposes with private sector purposes hinges upon successful accommodation of business requirements to the continuing extension of the benefits of the Panamanian Revolution. The accommodation process has begun. Issues are emerging from a continuing

private sector/governmental dialogue, institutions are being established, activities planned, analytic processes initiated and measures to remedy production and marketing problems are being developed.

The country team has maintained close contact with governmental and private sector entities, and to the degree appropriate, has increasingly supported and participated in the evolution of Panamanian response to the C.B.I. The strategy and substance of the C.B.I. Implementation Plan has been derived from announced Panamanian initiatives and is designed to strengthen and support those initiatives.

The apparent confluence of governmental and private sector interests is fully consistent with the U.S. country program objectives. The extension of social and economic benefits through efficient private enterprise has been anticipated by the USAID employment generation program, and other project elements of the USAID. The C.B.I. provides an additional tool for the release of private sector energies and substantial employment creation throughout the entire social spectrum.

This implementation plan will build, in large part, on existing program and institutional resources, now in place; and will be conditioned by the capabilities and limitations of those resources. The Panamanian program will be successful only if can elicit appropriate response from the Business Community. To this end U.S. strategies and actions are designed to help the Government of Panama and the private sector develop program elements and resources that are practical, timely and readily accessible.

II. ASSESSMENT OF THE CURRENT SITUATION

The assessment of Panamanian socio-economic, political and institutional factors which follow highlight the domestic constraints and domestic assets which bear upon the private sector's ability to respond to the C.B.I.; and directly relate to the U.S. program rationale.

A. Socio-Economic Ambiance

1. C.B.I. Political Factors

Since 1968 the Panamanian government has been characterized by an amalgam of populist ideological forces. During its early phase the Torrijos government supported and organized poor farmers, competed with established private agricultural producers and discouraged production through price controls. In urban policies, there was complex legislation emphasizing government regulation and the exiling of some businessmen. In recent years, however, fiscal policies have been more pragmatic; production, rather than distribution, has begun to be emphasized and the private sector's role has become increasingly recognized. The facts of economic life have turned the nation's attention to domestic finance, national economic growth and investment--there is an acceleration of interest in the stimulation of business and investment. For example, the U.S. and Panama are presently negotiating a bilateral investment treaty, the first of its kind in the region. Private sector leaders have expressed their pleasure at this turn of events.

The Government of Panama remains generally committed to the continuation of the "revolutionary process" which emphasizes redistribution of national wealth and resources. It seeks to enlist the energies and resources of the private sector in extending that process.

While some Government leaders do not share fully the private sector's pragmatic views, most Panamanian leaders are aware of the need to have a strong private sector supporting their efforts to redistribute the nation's wealth. They appear to recognize the need for an expanding tax base from which to finance various government programs. There have been significant indications that restraints, either real or imagined, are being removed from the private sector. There are also indications that top GOP officials understand that the revolutionary process cannot be expected to continue without the support and assistance of a vital private sector to complement and finance the work of the public sector.

The Cabinet changes announced in April indicate that the GOP is continuing to turn toward a more balanced approach in its relationship with the private sector, and offer the prospect that the GOP will favor private enterprise even more in the coming years. In addition, the National Guard continues to exercise a strong voice within the nation's political process, and its new Commander, Gen. Paredes, has advocated a strong private sector in the nation's economy.

The C.B.I. has apparently quickened the Governments' interest in accommodating the private sector and has led to a more focused dialogue between them. The Office of the Vice President has assumed the responsibility for directing the efforts of the Government in

respect to the C.B.I. and it will clearly continue to receive serious attention at all levels of Government.

2. The Economy

a. Recent Peformance and Near-Term Prospects

After three years of relatively high growth, economic activity slowed in 1981. In large measure the slow down was due to the effects of world-wide recession, particularly in the hard-hit economies of neighboring Latin American countries, and the resultant decrease in demand for Panamanian exports of goods and services. In addition, the construction boom that Panama has experienced since 1978 finally slowed as a consequence of sustained high interest rates and reduced demand for luxury apartment housing and commercial office space. Current trends indicate slightly lower real growth in 1982, probably less than two percent. High unemployment and low agricultural productivity continue to be serious problems. Panama's success as an international banking center nevertheless continues to grow, with 120 banking entities currently licensed in Panama. The sectors of the economy which advanced in relative importance in 1981 were commerce, banking and other finance, various services, and transportation and communications. The "productive sectors" of agriculture, manufacturing, and construction declined in relative importance.

b. Investment

Total real investment started to fall in 1973 at the beginning of a recession which lasted until 1978. In 1975-76, public sector investment was expanded to compensate for declining private investment. Then in 1978 and 1979, public investment dropped as the

private sector recovered. By 1980, total gross investment in real terms had just barely reached the same level as in 1972. By 1981, private investment began to drop again as a new recession took hold. High interest rates and reduced profits are important factors currently inhibiting new investment.

New domestic investment was 23.3 percent of GDP in 1980, the last year for which data are available. The share of total investment accounted for by the private sector declined in 1980 from 65.2 percent to 57.2 percent.

Much of the private investment was not in industry and agriculture but was in financial and other services, commerce, and real estate speculation. In 1980, 57.2 percent of new investment was in housing and other construction, twelve percent was in transportation and communications equipment, and only 30.5 percent was in machinery.

Although credit grew in 1981, the largest rate of expansion was in credit to the public sector, followed by commerce (trade). The lowest rate of growth was in construction loans. Agricultural loans showed good growth, better than in 1980, but loans to industry increased at a slower rate than the previous year. Credit outstanding to agriculture constituted only 6.5 percent of the total in 1981, and loans to industry comprised only 9.0 percent of the total.

In the years 1975-78, net foreign investment usually was negative, but in 1979 it turned positive, in the amount of some $49.7 million, according to GOP figures. The bulk of the foreign investment is in the fields of industry, commerce, and agriculture. A much higher proportion of foreign investment is in industry than is locally generated

investment. U.S. cumulative investment in Panama was about $1.8 billion in 1980, according to Department of Commerce data ($2.2 billion if investment in offshore firms registered in Panama is counted). This puts Panama in third place, behind only Brazil and Mexico, in U.S. investment in Latin America, remembering that a large proportion is in financial institutions.

c. Investment Climate

The climate for foreign investment in Panama is very positive. Government attitudes and incentives encourage foreign investment, especially in sectors which will provide significant employment opportunities for Panamanian workers. Use of the U.S. dollar and the absence of mechanism for controlling financial transactions guarantee unrestricted foreign exchange flows. This is one of Panama's most important assets in attracting foreign investment. In addition, Panama makes virtually no legal or practical distinction between foreign and domestic private investment. There are no restrictions on foreign ownership of industry, only retailing is limited to Panamanian nationals. A number of tax and other incentives are available for foreign investors in export industries. A more complete description of the investment climate in Panama will be the subject of a separate section.

d. Export Industries

As of 1979, a survey of manufacturing establishments in Panama with five or more workers listed 628 such establishments. Total employment in those establishments was 29,547 and the payroll was $110.9 million. Sales value was estimated at $1.2 billion and local

value added was $379.8 million. In 1981, manufacturing accounted for 12.9 percent of the GDP and employed about 10 percent of the work force. Industry in Panama is mainly oriented toward the domestic market and is concentrated in Panama City, Colon, and the province of Chiriqui. At least half of the output is accounted for by products related to agriculture. By value, the largest industries are in food processing and beverages, followed by metal fabrication, non-metallic minerals such as cement and other construction materials, clothing and shoes, paper and paper products, petroleum products, various chemicals such as soap, detergent and alcohol, printing, and wood furniture.

Between 1960 and 1970, the average annual growth rate of industrial output was 9.0 percent in real terms. The growth rate fell off in the 1970's, experiencing a steep decline in the recession period of 1974-76, then a resumption of growth in 1977. Industry grew 5.5 percent in real terms in 1979, 4.0 percent in 1980, but fell 2.3 percent in 1981. The drop in 1981 was partly due to the effect of the temporary suspension of oil refinery production that year because of a glut in the world fuel oil market. The rest of the manufacturing sector registered a real growth of 2.8 percent, versus growth of 6.0 percent (not including the refinery) in 1980. The drop-off in the rate of growth of manufacturing activity in the last year or so is due primarily to reduced demand for several important export products and to reduced demand for construction materials.

The most rapid growth in recent years has taken place in food processing and beverages (both alcoholic and carbonated) and in clothing. Paper and paper products production has also expanded.

Nevertheless, by 1979, output had only regained the level already achieved in 1970. Among the more serious problems industry faces are a small domestic market, strong international competition, and small production units. Outside of agricultural and fishing products such as bananas, sugar, shrimp, coffee and meat, Panama has very few other significant exports. The largest manufactured export is clothing, which has shown sustained expansion in the last several years, growing from a value of $8.6 million in 1978 to $14.0 million in 1981, and moving into fifth place in 1981 among Panama's exports. Other important processed or manufactured exports include petroleum products (mostly fuel oil residual to the refining process), condensed milk, fish meal, fish oil, banana puree, rum, paper products such as cartons, leather products, canned seafood, mayonnaise, mustard, and tomato products.

Other than beef and repairs to vessels and aircraft, there are few identified production services (non-GSP, non-duty free, not-textile) that could benefit from a one-way free trade zone as proposed under the CBI. No locally manufactured export of this type to the United States exceeded $50,000 in 1980.

e. Potential for Expansion of Non-Traditional Exports

Probably the most important opportunity for Panama is the establishment of more light assembly industries, such as those under a "Maquila" program. Panama's Maquila Program has been in existence for several years, but has produced only modest success. The program provides for a wide range of tax and other incentives. To date about a half dozen firms have been established under the program, the largest of which is a factory making women's undergarments. Panama has many

advantages in comparison with other countries in the region, such as absence of exchange and repatriation risk and relative political stability. One interesting possibility is the development of a Far East-Panama-United States investment and trade triangle, with the establishment of assembly industries in Panama by Far Eastern firms for export to the United States. This could be an important supplement to investment attracted from Europe and the United States and could be expected to grow in the future as several countries in the Far East develop higher technology products and encounter increased labor costs.

Further expansion of agro-industry and food processing for export has good potential. Besides agricultural products, seafood processing could be expanded significantly and efforts are underway to attract more investment in this area. Frozen and processed meat, fruit and vegetable products not now exported, and spices and condiments have good potential.

Another comparative advantage for Panama is its geographic location and huge volume of ship traffic through the canal. Expansion of ship and aircraft repair facilities serving international customers, such as the drydock and repair yard now being expanded under the management of a French firm, and other marine services offer special possibilities.

The major factors tending to restrict further development of export industries probably are, labor laws and attitudes, governmental pricing and subsidy policies, governmental bureaucracy, and possibly, disadvantageous freight rates. The labor practices are most frequently cited by visiting businessmen as reason for not locating

manufacturing activities in Panama. Labor costs may be higher than a few countries in the Caribbean Basin, but probably not much out of line with most of the others. Panama's minimum wage for unskilled labor is 75 cents an hour in metropolitan areas and 65 cents in the interior. A major disincentive is a perceived lack of consistency and fairness in application of GOP labor laws and regulations and difficulty in using the appeal process. This situation has improved recently, however, with new leadership in the Ministry of Labor and increased governmental efforts to improve its relations with the private sector. Price control policies are becoming more flexible , and in any event, these controls do not apply to exported products. The establishment of a one-stop investment coordination center should help in overcoming any bureaucratic obstacles presented to foreign investors. If this agency also is willing to extend assistance to enterprises already established in Panama the result could be a sharp reduction in complaints about difficulties in dealing with the bureaucracy. Apparently conference freight rates are somewhat high for shipments to and from Panama and the United States, especially in comparison with some competitor nations. Conversations with local shipping agents indicate that the rates are highly negotiable and that an exporter should be able to obtain an attractive rate on request if he plans to ship in quantity.

f. Government's Role in the Economy

Water, power, and telecommunication services are state-owned, along with some financial services (the Banco Nacional, a savings and mortgage bank, and agricultural and industrial development banks). Also state-owned are the railroad, port facilities, the national

airline, a bus transport company (although most public transportation remains private), some tourist facilities, the National Casinos and Race Track, and the Colon Free Zone.

The Government owns two industrial operations, the La Victoria Sugar Corporation and the Bayano State Cement Enterprise, and operates Citricos de Chiriqui, a large juice concentrating plant and citrus growing operation. In the agricultural field, the Government distribute grains (except wheat) and some vegetables through the Agricultural Marketing Institute. It also owns a flour mill, a meat processing plant, and banana planations and has been involved in the formation of collective farms and cooperatives.

The Government's current policy is not to expand any further than necessary into areas that are traditionally thought of as belonging to the private sector, although it continues to enter into partnerships with private foreign investors for the development of large projects, such as the Trans-Panama Oil Pipeline and the Cerro Colorado Copper Mine.

The GOP has indicated that it would like to sell or otherwise dispose of some of its less profitable enterprises, such as the Contadora Island Hotel, an oil palm plantation project, and the National Machinery Corp. It already has closed its Pacific Banana operation. Others such as the large La Victoria Sugar Corporation are important employers and cannot be phased out in the short term, although current policy is to examine various alternatives and, if possible, to move in that direction.

g. Longer Term Prospects

In view of the limited domestic market the development of export industries, light assembly, manufacturing and agro-industry is receiving much attention. GOP policies appear to be developing in directions appropriate to achieving this objective. New incentives for investments in both industry and agriculture have high priority, such as concessional finance to small and medium businessmen and farmers, and establishment of industrial zones. A major effort to attract more foreign investment is being prepared. In agricultural policy, there is a movement away from the priority accorded in past years to collectives toward provision of credits, re-establishment of agricultural extension services, and promotion of improved technology. An agricultural incentives law now under consideration aims to promote investment in this sector through tax incentives and other measures. There is also consideration of revising the system of import quotas in favor of a rationalized tariff system.

In general, a shift of emphasis to the private sector is evident. This has been confirmed in recent policy statements by governments officials and by the recent round of Cabinet changes. Some improvement in the price control system is being attempted although there are no plans to abolish price controls altogether. Milk price increases recently announced evidently are part of this new flexibility.

Panama is in a good position to take advantage of the opportunities offered by the CBI through its geographic location, good port facilities and other infrastructure, its monetary system and absence of exchange or convertibility risk with respect to the U.S. dollar, its

banking center, the Colon Free Zone, its pool of educated manpower, and its attractive political and social climate.

Financial management should continue to be conservative over the next few years. Continued high interest rates and a drop in anticipated tax revenues due to the economic downturn probably will force even greater budgetary austerity. The GOP has engaged a consortium of financial advisors and is heeding their advice, along with that of the IMF.

3. Labor

Of a total workforce of about 550,000 more than 20% are employed by government. Agriculture and Industry, the sectors on which the C.B.I. is expected to have most impact employs only 27% and 20% respectively. The industrial labor force numbering only about 53,000 counts only about 34,000 of its members as permanent employees, and less than 600 as proprietor/managers. The trained industrial labor pool is thus small and will undoubtedly constitute a bottleneck in industrial expansion. Such expansion is expected to be the main absorber of the unemployed who now are estimated by USAID to number close to 100,000.

While such a national rate of unemployment is in itself cause for concern, large pockets of higher unemployment dot the urban areas.

In Colon, for example, unemployment may be as high as 25%-35% of the workforce, up from IBRD's 1970 estimate of 17.4%. In 1979-80, an AID survey in four low-income neighborhoods in Panama City and Colon found unemployment rates among low-income families of almost 40%. Unemployment, at 24% for this survey sample as a whole, rose to 39%

for individuals from families with per capita incomes of $500 or less. For women and young people unemployment rates were 45% and 65%.

Policies and programs to reverse growing unemployment are now beginning to take shape, the workforce is growing, nowhere more so than in the Metropolitan Area surrounding the Canal. As a result of a declining birth rate, from over 3% in the late sixties to an estimated 2.2% in 1980, the labor pool is growing faster than the non-working population (under 15 and over 64). Therefore, whereas the labor pool was 53% of the population in 1970, by 2,000 it will be in the 63-67% range. The economically active population (which is about 60% of the labor pool) is forecast to double in the 25 year period, from 537,000 in 1975 to 1.1 million in 2,000.

The Metropolitan Area will soon comprise half the nation's population -- and no abatement in immigration is expected. According to the latest understated official data, some 58% of the total national economically active population is located in the Metropolitan Area.

The GOP estimates that 14-19% of the work force was underemployed in 1975 and that this is a critical problem in the agricultural sector. A 1974 study by ILO/PREALC estimated that 30-50% of the economically active population was underemployed, with the greater incidence occurring in the rural areas.

Although its character is different than rural underemployment, urban underemployment is equally serious and widespread.

A substantial percentage of identifiable underemployment is "modern" or "wage and salary sector", and particularly high for workers in small firms (with five or less employees) and for the self-employed.

Three factors presently work to keep unemployment high; the first is the impact in Panama of the 1975-77 recession, caused in part by worldwide dislocation due to sharp increases in OPEC's oil exports, but also by a drop in domestic investment resulting from unfavorable reaction to a series of government policies (e.g., price controls, labor code, exiling of business leaders) and leftist rhetoric. Not until 1979 did the economy reattain 1974 employment levels, while the EAP steadily increased. The second factor, already mentioned, is the growth of the labor pool at a rate faster than overall population growth. The third factor, is the relative capital-intensivity of the economy and the policies which govern it, which translates into fewer jobs per dollar invested.

Using alternative assumptions about the GNP growth rate, it appears that if unemployment is to be held at reasonable levels, the economy must average an annual GNP growth rate in excess of 8%. At a growth rate of 6%-8% GNP the nation could absorb sufficient labor only by increasing its labor-intensity.

Failure to achieve growth rates under conditions noted above could bring about unemployment rates ranging from 10%-29.5% over the 20 year period from 1980 to 2000. The 3.6% GNP growth rate experienced in 1981 and the lower rate predicted for 1982 fall far short of meeting the employment requirement.

Information concerning the supply of skilled labor is not readily available, however, it is generally assumed that skilled workers are in short supply.

Labor productivity is another area in which reliable statistics are not available. The Panamanian work force is, however, considered to be as productive as the work force in other Central American countries. As shown by the recent record production levels of the Panama Canal Commission, the Panamanian worker is responsive to incentives. Informal comparisons of a Panamanian plant with a nearly identical plant in Costa Rica show slightly higher per worker output in Panama.

Although approximately 15 percent of the workers are unionized, unions are politically influential. Unions have concentrated their organizing efforts in the transport and service sectors of the economy, but with strong support also in the banana plantations. Some important sectors, such as banking and the Colon Free Zone, are not well organized.

Minimum wage rates are established by the Government, and differ on the basis of type of industry and geographic location. While this gives the government a strong role in the wage setting procedure, collective bargaining plays its own important role in certain industries. The present minimum wage in the Panama City/Colon area is $0.75 per hour, with most workers actually earning somewhat more than this rate. In the rural area it is $0.65 per hours. In July the minimum may be increased to $0.95 per hour. Most industries tend to pay slightly higher hourly wages that the minimum for unskilled workers.

Fringe benefits, many of which are legal requirements of the Labor Code, add approximately 40 to 45 percent to the average wage costs.

Little information is available on the work conditions and the industrialization climate, especially on a sector by sector basis. Compliance with the standards of protection offered to the workers by the Labor Code is generally considered better by foreign-owned industries than by locally owned companies, perhaps because of stricter regulation by the GOP of these standards in foreign-owned enterprises.

4. Finance

a. Financial Services Sector

The International Financial Center was legally established by Cabinet Decree No. 238 of July 2, 1970. Setting a series of reforms in the banking system and creating the National Banking Commission for the purpose of promoting adequate conditions for the development and establishment of banks in Panama.

The Financial Sector in Panama has been the most dynamic and rapidly growing sector in the economy. During 1981 it grew up 22.1% and constituted about 9.2% of the total Gross Domestic Product (GDP). The number of banks licensed to do business in Panama have increased to 120 and the total assets of all the banks rose to over $46.3 billion by the end of 1981.

Due to the small size of the domestic financial market Panama does not have a stock market, bonds are used in a relatively limited manner. Financial intermediation is done within the offshore banking system, directly on a bank to bank basis.

Of the 120 banks established in Panama, 65 have general licenses which permits them to do business inside and outside of the country. About 30 of these participate actively in the local market while the rest do it in a limited fashion as is the case of those established in the Colon Free Zone.

Prior to 1981, local loans had to be partially financed from external deposits in the banking system because of limits in the availability of funds. During the first quarter of 1981, a new phenomenon took place and local deposits covered, in its entirety, the local loans. By December 31, 1981, we have resources for the value of $46.3 billion of which $3,146 millions are placed in local loans while $3,201 millions are local deposits. This reserve trend is viewed as part of economic and political stability which seems to be occurring after the signing of the Panama Canal Treaties, democratization of the political process, and investor preference for high yielding time deposits over riskier investments.

Since the largest volume of domestic loans are made for trade and commerce, the commercial banking sector is accustomed and structured to handle short term working capital types of risk. Government financial institutions, are the principal source of medium and long term funding, in particular to medium and small enterprises.

b. Agricultural Credit

In the agricultural Sector, one problem has been difficult in obtaining funds for medium and long term. The short term commercial credit extended to the Agricultural Sector comes from a limited number of private banks (Bank of America, Chase Manhattan Bank,

Banco Fiduciario and Banco de Colombia), which lend on a commercial scale, primarily for production, processing and marketing of such products as sugar, rice, coffee and beef. Medium and long term credit is supplied almost exclusively by the official agricultural development bank, Banco de Desarrollo Agropecuario (BDA) and the Banco Nacional de Panama (BNP). In the period 1976-80, bank credit to the agricultural sector increased at an average annual rate of 4.9% (nominal rate). In addition commercial bank credit to the agricultural sector grew at a rate of 1.3% from 1976-80, which represents a negative rate of growth in real terms.

In 1974, USAID/Panama granted a loan for $8.1 million (Project 525-T-041), which consisted in the establishment and operation of a cooperative revolving fund with the BDA to provide credit for three established federations of cooperatives in Panama.

In 1982, the Interamerican Development Bank (IDB) provided a $29.5 million loan to the BDA oriented toward meeting credit requirements for agricultural and livestock producers.

In 1977 the BNP, received a World Bank loan for $8.0 million, in order to continue the livestock development program that began in 1973. In 1979, the World Bank approved an Agricultural Credit Progrtam amounting to $19.0 million for coffee, cocoa, oil palm and banana, which included a special component for irrigation and draining.

The National Banking Commission is presently interested in promoting the creation of a Private Agricultural Bank to funnel funds from the

different Banks who themselves do not have the administrative capacity and expertise to manage a program due to the specialization required in this activity.

c. Industrial Credit

The commercial banks in Panama generally prefer short-term trade credits, and are normally reluctant to provide longer term financing for fixed assets, although some of the banks do provide medium term (3 to 5 years) credits for their largest and most reliable customers. Most of the loans granted by the banking system for industrial purposes have consisted of short term credit for working capital, or to finance purchase of raw material and other inputs required by companies for production. Industrial term lending is basically undertaken by two GOP-owned institutions, the Banca Industrial window in BNP and the Corporacion Financiera Nacional (COFINA).

The IDB has collaborated with the GOP since 1964 through 5 loans granted to the BNP to help develop Panama's private industrial sector. In the period 1977-79, BNP approved 123 industrial loans for a total of $9.6 million and in the first half of 1980, BNP's industrial lending increased sharply to $8.2 million for 24 projects.

COFINA has recently received a $20.0 million loan from IDB and with these resources it will primarily finance fixed assets, leaving working capital finance to the commercial banks. COFINA will concentrate on the financing of manufacturing industries.

IDB has estimated that over the 1981-83 period, total industrial investment in Panama, excluding large projects may be about $165 million, of which $20.0 million will be covered by the BNP, $60.0 million by

retained earnings and equity contribution, leaving uncovered demand for funds of $85 million, to be provided by the commercial banks and COFINA.

The Private Sector has an Industrial Development Institution (DISA) which was created for the purpose of channeling medium and long term resources to private enterprises. Unfortunately, it scarcely operates, principally because Decree No. 62 of February 1971 set its industrial development loan interest ceiling at 9% for DISA.

Financing has been made available to small business through two programs funded by A.I.D. and B.I.D. which are administered by BNP and the Small Business Division of the Ministry of Commerce and Industry. These programs lend amounts from $1,000 to $100,000 on terms of up to 5 years at 12 percent fixed interest and include technical assistance in preparing feasibility studies and financial structuring.

d. Trade Finance

Most of the credits approved locally are directed, as expected, to commerce and a large portion of this goes to firms established in the Colon Free Zone. As can be observed in the following chart, 38% of the interest credit balance is utilized by the Commerce Sector.

Internal Credit Balance by Activity

December 31, 1981

(In millions of dollars)

Public Institutions	$ 572
Financial Enterprises	77
Agriculture	89
Livestock	104
Fishing	11
Commerce	1,196
Industry	283
Housing	512
Other Construction	147
Personal Consumption	150
TOTAL	$3,141

Source: Comision Bancaria Nacional

e. Regional Financing

At the regional level, the Banco Latino de Exportaciones (BLADEX) which is a multinational consortium bank, promotes and finances exports through the discount of trade paper. BLADEX was legally constituted in September 1977 and commenced operation in January 1979. The institution is developing a program to complement, on a regional basis, the export promotion activities undertaken by individual member countries. USAID/ROCAP is also negotiating a project with BLADEX

which will provide a source of foreign exchange that can be used to help address the economic crisis and balance of payment deficits in Central America.

B. Program Assets

1. GOP Institutions' Plans and Activities

Since 1976 the GOP has given intermittent attention to measures designed to stimulate investment in the private sector, primarily through fiscal incentives to attract light industry. Among the incentives are complete exemptions from: import duties, mandatory contributions, tax encumbrances on machinery, equipment and spare parts used in the assenbly process; import duty exemption on all raw materials or semi-finished components used in the assembly process; total income tax exemptions, including any capital gains generated by exports. One of the principal aims of the fiscal incentive package is to make the Republic a processing as well as a distribution center. To further stimulate the location of light assembly in Panama, the Government grants "in bond" licenses for assembly plants anywhere in the Republic so that these can be located near available labor pools outside urban areas.

The light assembly program, which started in the first quarter of 1979, has seven companies with signed contracts by the end of June 1980, for a total investment of $24.4 million and the creation of 1,612 jobs. Negotiations with twelve foreign firms are currently taking place.

As an encouragement to export industry, GOP regulations provide for granting negotiable tax credit certificates valued at up to 20% of the value added in the production process. The regulations have

recently been amended so that these certificates are now fully negotiable nine months after their date of issue. Legal and administrative measures have been approved to promote the export of meat, sugar and other products.

In 1976, the Government established a public development bank, Corporacion Financiera Nacional (COFINA), which has subsequently financed some sixty private sector projects involving investments of nearly $49 million.

The response by the private sector to the incentives of the 1976-80 period has been less than might have been expected due to the antagonism that developed between the private and the Government sectors in the early 1970s over the latter's incursion into private sector activities (e.g., nationalization of the utility companies, and financing of state cement and sugar industries) and the promulgation of a very pro-labor Labor Code. Eliminating the suspicions and doubts, which inevitably arose as a result of these incursions, has been a slow and difficult process for the GOP. Since 1981, however, there have been unmistakable signs that the Government and the private sector are moving toward a workable relationship: the labor code has been favorably amended and both sectors have begun a series of dialogues that augur well for rapprochement.

Not in recent memory has a Panamanian Government taken such an active role in presenting and explaining its new budget, and future investment and development plans to the nation as it did with the 1982 budget. Newspapers carried a series of articles explaining the plans, costs and benefits. And, underscoring the importance the GOP

places in gaining acceptance and cooperation among the many elements of society, high government officials, with the Vice-President taking the lead, took the message directly to leading financial, industrial, business and labor groups, many of whom have been openly skeptical of government intentions in the past.

While it is unlikely that the GOP will ever consider totally eliminating price controls and interest rate subsidies, there is an apparent commitment to improve these policies. The GOP is keenly aware of the problems that price controls can create and have created in Panama. Yet, it also recognizes that a small economy like Panama tends to contain monopolies and oligopolies which require some regulation. Several plans for establishing a new pricing policy are circulating within the GOP.

The GOP, in light of the CBI, has intensified its interest in export industrial development. It is reviewing the capabilities and limitations of the existing institutions and programs which bear upon the export sector; and is seeking to establish new institutions and coordinating mechanism to improve public sector performance. In pursuing these interests it is continuing to consult with private sector representatives and with international organizations. Recent Government initiatives include the following:

- Agricultural Policy Development: Several initiatives are being undertaken or being designed. Principal among them is the upgrading of MIDA's planning division capability to analyze the impact of pricing and other policies.

- Issuance of MIDA's Basic Lines of Action, in which concern for the entire food system and the institutions that service it is manifested. This is an important change from past programs which tended to focus on food production problems in isolation.
- Issuance of a Draft Agricultural Incentive Law which recognizes the need to make the sector responsive to market forces and private investment.
- Creation of Industrial Development Extension Services: The BNP has initiated technical extension services for small-medium businesses to strengthen their technical, financial and sales and management procedures.
- Employment and Industrial Policy Review and Development: Through a BID-financed industrial sector study, industrial policies will be examined to assess changes needed to attract more investment. Price and interest rate policy analyses will be key elements of the study; through the Policy Analysis and Research Systems (PARS) unit, a manpower study will be mounted to define the parameters of the labor pool so that adequate programs can be developed to them.

Institutional modifications also appear on the Government agenda.

As a result of a GOP funded feasibility study, a proposal has been advanced for the establishment of a National Investment Council which would provide a "one stop" service to private investors governed by a board consisting of government and private sector representatives; it would have research and policy formulation functions and offer a continual formal channel for governmental/private sector interchange. A budget, reportedly, has been approved for the Agency, and it awaits the appointment of a chairman before beginning to function.

It has not yet been decided whether the NIC will be an operational or coordinating body. The functions which it may control are at this time dispersed throughout several agencies.

An export promotion function is carried out in the Ministry of Commerce and Industry (MICI); in a department which also has a foreign investor search function. Although the division has overseas representatives in Zurich, Tokyo, Miami, Los Angeles and Washington, these are generally non-professional. The Agency is basically passive, in that it responds to inquiries generated by a UN funded network and the International Trade Center in Switzerland. It publishes the substance of these inquiries in a weekly paper which is distributed to the industrial community.

Companies which invest under the provision of laws administered by this department may receive export bond payments.

The Maquila Program also has export industry promotion functions. It provides special incentives, such as exemption from certain aspects of the labor code, a "one stop" investor assistance, service assistance in acquiring access to finance and in compliance with

export formalities. Firms investing in Panama under the provisions of the "Maquila Law" are not eligible for participation in the export bond program. This ineligibility has limited the attractiveness of the Maquila Program to investors, but the organization has provided excellent and rapid service to foreign firms who have used its facilities and is well regarded by those firms.

The export promotion and investment promotion activities of MICI and Maquila are underfunded and understaffed. Their absorbtion in to the NIC has been proposed, but counter proposals have also been advanced which call for the absorbtion of Maquila by MICI and coordination of MICI by the NIC. Consideration is being given to strengthening both Maquila and MICI Export Promotion Department so that they will be effective instruments in any event.

The recently established Policy and Research Unit (PARS) within the Ministry of and Commerce Industry is also being considered for integration into the NIC. The analysis and research undertaking planned by the PARS have since the CBI been increasingly focused on those areas of inquiry which may bear upon Panamanian ability to export competitively.

The Corporacion Financiera Nacional (COFINA) has recently funded a feasibility study for the establishment of a cooperative bank, which is intended to supply credit to small agriculturists and small and micro industry throughout its country.

It also plans to establish a discount window for export loans of the commercial banks. A local consultant is preparing a project paper which will provide the basis for a loan request to BID for funding of the window.

2. Private Sector Organizations and Activities

Panama's Private Sector Organizations (PSO's) are grouped in a relatively sophisticated network which effectively represent the full spectrum of business interests. Prior to 1968, these organizations worked closely with GOP institutions towards the improvement of business conditions related to their specific activities. Membership was limited mainly to the larger better capitalized companies that could afford to belong. High government officials were on the whole drawn from these groups and the upper stata of professionals, thereby providing a natural and continuous link between the two sectors.

With the establishment of the Revolutionary Government and the subsequent proscription of political parties, cooperation faded. GOP institutions were reorganized to reflect the aim of the Revolution to effect socio-economic development through direct government participation in all sectors.

To open the way for this new system legislation was enacted from 1969-1974, which substantively restricted market forces and business practices. Oppressive price controls were put on everything from beef to lumber. Rents on residential and commercial properties were frozen and existing contracts had to be modified to agree with new laws and regulations.

A complex and productivity-limiting labor code was enacted into law. This tended to exacerbate labor unrest and, in some cases, contributed to collapse of previously profitable companies.

These legal and fiscal uncertainties forced the business sector to look to the PSO's for leadership and help, in moderating the government's position. The 1973-74 construction slump and record high interest rates intensified tensions. PSO membership increased rapidly and attendance was high.

The Camara de Comercio, Sindicato de Industriales (SIP), Asociacion Panameña de Ejecutivos de Empresa (APEDE) and Camara Panameña de la Construccion (CAPAC) became meeting places where businessmen could exchange information and devise unified responses to the evolving policies of government.

The PSO's united under the Consejo Nacional de la Empresa Privada (CONEP) became the frontline bargaining representative for business on major issues, while the individual PSO's represented the more specific interests of their memberships.

As friction declined and businessmen learned to work within the new frameworks attendance dropped but membership continued to grow as new investments began slowly to be made. At the same time prominent businessmen and professionals went into government service and worked to improve the business environment.

Today, the PSO's are surprisingly active and positive organizations led by a new generation of managers and proprietors tempered by a decade of interaction with their government and by the problem of worldwide inflation.

Following the legalization of the political parties in 1979, and a series of government actions intended to accomodate the private sector, the government, this year, has taken steps to intensify the dialogue with the private sector, through their representative organizations.

The Vice Presidency has invited PSOs to review the Government's Investment Plans for 1982-86; the Ministers of Agriculture and Commerce and Industry held a day-long conference, attended by the President, to explain to the private sector 1982 plans of the public sector agriculture agencies; the President of the Republic has met with the Inter-American Council of Commerce and Production (CICYP) to discuss economic development and collaboration; high Government officials (Ministers, Ambassadors and heads of autonomous institutions) have participated in the Annual Conference for Executives explaining their programs and projects; and a program is under development to stimulate and coordinate private investment through the creation of the National Investment Council, which will include PSO representation. In fact, the Private Sector Organizations now have such an active role in GOP policy making, that it is important to know and understand their particular areas of interest. A short background on each PSO follows:

a. Consejo Nacional de la Empresa Privada (CONEP)

(The National Council of Private Enterprise

The Consejo Nacional de la Empresa Privada was organized in 1964 as the political arm of the Private Sector. Its major objective is to promote and strengthen the free enterprise system in Panama. CONEP is organized as an institution of institutions, representing the major business and professional organizations in the country, which follow:

(Insert List)

In 1965, AID assistance was provided to CONEP to survey the training needs of the Panamanian private sector to develop an appropriate solution in meeting its manpower requirements. The survey was carried out and as a result of CONEP's recommendation, a semi-autonomous training organization, the Instituto de Formacion y Aprovechamiento de los Recursos Humanos (IFARHU) was created to coordinate skills training effort.

Currently CONEP is active in formulating broad policy positions in representation of the private sector and consulting on both a formal and informal basis with the GOP.

b. Sindicato de Industriales de Panama (SIP)

Industrialists Union of Panama

The SIP was founded on August 10, 1945. Its objective is to promote social and economic development throught the advancement of industrial activity in general. SIP started out with 22 manufacturing firms and now has 278 members. One of its major activities has to do with its representation in joint Private/Public Sector Commissions which shape economic policy. Work is underway on improvement of such diverse legal systems as the Labor Code, Social Security Laws, Tariff Code, etc.

SIP has been very active in promoting an open dialogue between the public and private sector and has hosted a series of meetings at the highest level in the GOP. Early this year they sponsored a day-long conference attended by the President and his cabinet to discuss major issues affecting Government/Private Sector relations.

At present SIP is promoting the creation of a productivity center, and USAID/Panama, at their request, is providing technical assistance, through the American Productivity Center, to help conceptualize such a project.

SIP also provides training courses for supervisory personnel of member companies.

c. Camara de Comercio, Industrias y Agricultura de Panama (Panama City Chamber of Commerce

The Camara de Comercio is the oldest business organization in Panama (founded in 1915), and is the principal representative of the merchandising and service companies in the Panama City area.

In recent years the Camara expanded its function as an institution to provide legal and commercial services, to representing the businessman's point of view before the GOP. This new responsibility has brought in young concerned businessmen interested in revitalizing the economic environment through private initiative.

At the present time the Camara has representatives in several joint (Public/Private Sector) commissions dealing with such areas as tariffs, customs duties and procedures, bilateral trade agreements and price policy. These representatives are supported by salaried Camara employees and volunteer work committees.

Also, as the largest Chamber of Commerce in the country, the Camara is providing resources to the National Federation of Chambers of Commerce in an effort to strengthen the organization and raise its effectiveness as an operating entity.

The Camara has recently "twinned" with U.S. Chambers in Spokane, Washington and Tulsa, Oklahoma, and projects underway include a scholarship program for graduate business studies in these cities. The candidates will be selected on a basis of individual need and financial

support will be provided by the Camara and AID under a matching grant. And, as is usual, commercial and investment promotion programs are being organized.

The Panamanian Chamber of Commerce is enthusiastic about the CBI and is willing to lend its assistance in whatever way seems appropriate. It has already publicized the CBI among its membership and has indicated its desire to work with the Embassy, AID and other elements of the U. S. community to advance CBI objectives. The local U. S. business community is also eager to help. The American Chamber of Commerce of Panama has several ideas and already has contributed valuable assistance in lobbying through its Washington contacts for passage of the CBI legislation without major dilution. The AmCham has offered its assistance to the GOP in intensifying and making more effective promotion efforts in the United States. It plans to proceed with preparation of promotion materials that will be more effective with corporate decision-makers than those used to date and to use the resources of its membership to disseminate this information.

d. Asociacion Panameña de Ejecutivos de Empresas (APEDE)

(Panama Business Executives Association

The APEDE was founed in 1958, by a group of Panamanian businessmen meeting at the Centro de Desarrollo y Productividad Industrial (CDPI). The Centro was a government institution conceived to introduce technological and management practices to existing Panamanian industries. During the 60's the CDPI became inactive and APEDE developed the Centro de Estudios Superiores de Administracion

(CESA) which began offering courses in business administration and finance. CESA today is the principal non-profit institution offering management training in Panama.

In September of 1980, APEDE received a USAID Operational Program Grant to provide training, technical and management assistance to small entrepreneurs. To date the project has conducted an analysis of the management and training needs of small enterprises in all areas that it is operating in, conducted a one-year sequence of training courses with follow-up management assissance. APEDE has already reached over 120 entrepreneurs which extends beyond the 100 entrepreneurs which were originally slated to be assisted during the initial institutional building grant. In addition, APEDE once again ahead of schedule has begun directly linking their services with credit programs for small enterprises under the Banco Nacional de Panama and Ministerio de Comercio e Industrias programs receiving financial assistance from AID and BID.

In April of this year, APEDE hosted a two-day Government/Private Sector conference in investment stimulation and policy alternatives, which did a lot to establish personal contact between individuals and to identify common goals.

e. Camara Panameña de la Construccion (CAPAC)
(Panama Construction Chamber

The Camara Panameña de la Construccion (CAPAC) was organized in 1961 as a private organization which grouped builders, suppliers and professionals in the construction industry for the purpose of promoting, developing and protecting the sector's activity. Its membership is large and active.

As the representative organization for one of the most important sectors in the Panama economy, the CAPAC has been very active in the formulation of government fiscal and legal policy related to new residential construction.

Moreover, CAPAC works closely with the Sociedad Panameña de Ingenieros y Arquitectos (Panama Society of Engineers and Architects) SPIA, in preparing data for use by different government agencies in the setting of standards for building codes and regulations, and for planning large infrastructure projects.

Since Panama does not have craft unions to oversee and administer the tr ining and licensing of skilled workers, the CAPAC, together with the construction workers union, have established basic skill categories in each specialty. CAPAC carries out training programs and seminars for laborers aimed at improvement of manual and supervisory capability.

The CAPAC also publishes a monthly newsletter containing up-to-date statistics on building activity, information on public tenders, and editorial comment on issues related to the construction industry.

f. Asociacion Nacional de Ganaderos (ANAGAN) (National Cattlemen Association

The ANAGAN was founded in 1958, and presently incorporated about 3,000 members in the country. The association was established for the purpose of voicing the interest of the cattle sector and participates actively in a series of GOP commissions. The ANAGAN also promote activities which tend to keep informed the general public on

the development of this sector. Recently, this institution has teamed up with the Camara de Comercio for the purpose of exploring the possibility of creating a Private Agrobank (Banco Agro-Ganadero de Produccion y Desarrollo).

g. Asociacion Bancaria de Panama (ABP)

(The Panama Banking Association)

Eighty percent (80%) of the banks established in Panama are members of the ABP. This organization's basic objective is to promote the interests of its affiliates in the Panamanian Banking System. The ABP represents its members in a series of GOP commissions where it has an opportunity to voice its opinions on matters pertaining to the development of the International Banking Center.

The ABP also hosts technical training courses for member bank employees and organizes an annual banking convention which attracts many domestic banks from Central and South America, as well as banks unrepresented in Panama from the industrialized countries.

h. Asociacion Panameña de Exportadores (APEX)

(Panamanian Exporters Association)

The APEX is an organization which was established in 1976 primarily by members of SIP to represent exporters. The association recently became active and, with the announcement of the CBI, steps have been taken to explore the possibilities of forming a Trading Company. APEX has requested USAID support to help finance a feasibility study on the subject.

i. Consejo Interamericano de Comercio y Producción (CICYP)

(Interamerican Council on Commerce and Productivity)

The CICYP is an Interamerican Federation established in 1941. Its local membership in Panama include about 40 key business people who have been former presidents of other business organizations. CICYP plays a low key role, promoting activities which encourage and increase private sector participation in economic policy analysis and programs in general. This organization will be sponsoring, with USAID/Panama support, a seminar for private sector leaders in July 1982. The participants will review the role of the private sector in the economic and social development of Panama and devise an action plan to strengthen that role.

j. Desarrollo Industrial, S. A. (DISA)

DISA ~~is an industrial development finance company~~ was established in 1963 by a group of Panama's leading industrialists and businessmen who raised $1.0 million in capital and received a $5.1 million soft rate term loan from AID. Active at the outset, DISA soon applied for and received additional funding in 1966 with the drawdown of a second loan for $4.0 million.

DISA's principal market tool is to make medium and long term loans at special fixed rates; in addition, they are able to participate in equity.

In 1971, the GOP set DISA's maximum lending rate to 9% and coupled with the difficult investment environment the company became virtually inactive in new venture financing, although it has

remained profitable and currently shows over $2 million in equity and a very strong balance sheet.

k. Fundacion Panameña para el Desarrollo (FUDAPE)

(The Panamanian Foundation for Development

The FUDAPE is a private volunteer organization which was created in August 1981 and is aimed at helping micro-enterprises through credits and technical assistance. FUDAPE is just in the process of organization and is working very closely with the Pan American Development Foundation (PADF) in its initial stages.

Drawing upon PADF experience elsewhere this organization can be used to channel assistance to cottage industries and cottage contractors in an effective manner.

l. Small Scale Enterprise Organizations (SSEO)

Union Nacional de Pequeñas Industrias (UNPI)

(National Union of Small Industries)

Sindicato Nacional de Pequeñas Empresas (SINAPE

(National Union of Small Enterprises)

At present, there exist in Panama two established SSEO's, the Union Nacional de Pequeñas Industrias (UNPI) and the Sindicato Nacional de Pequeñas Empresas (SINAPE). UNPI was established in July 1979 and at that time was the only SSEO. In 1980, because of differences in opinion as to what UNPI should do for its members, a major portion of UNPI members split off and formed SINAPE.

UNPI and SINAPE are essentially voluntary organizations. They have Boards composed of members elected to office and have no paid staff members. It is difficult to distinguish between UNPI and SINAPE, since they have the following common objectives:

- Established a fund for financing SSE's
- Create a technical assistance service for members
- Create a legal department to serve members
- Promote changes in various laws which adversely affect SSE

Since they both have relatively small memberships, and are competing for recognition as the principal representative of small industry, they have been largely unsuccessful in getting the institutional support needed to move into a productive stage.

m. Compañeros de las Americas (Panama-Delaware)

The Compañeros have recently initiated joint programs with their counterpart in the State of Delaware embodying a wide range of areas of cooperation.

- The Panama-Delaware group will exchange commercial information on a regular basis principally to stimulate investor interest in locating in Panama and in identifying markets for Panamanian exporters in Delaware.

- Under an arrangement between the University of Delaware and the University of Panama, a scholarship program has been formulated under which Panamanian students will study business administration in Delaware.
- The Compañeros have met with officials of the Port of Wilmington in order to develop communications with Panamanian businesses with potential to use the port for import or export.

3. USAID Programs

Many of the Mission's current and proposed projects will complement the industrial development, export promotion thrust of the Caribbean Basin Initiative (CBI). The two current projects providing the most direct link to the CBI are the Growth and Service Centers Development (URBE), and the Employment Planning and Generation (EPG) projects.

The URBE project has developed industrial sites accompanied by a small business loan fund in the urban areas of the interior for the purpose of stimulating small and medium scale industrial growth, especially agro-industry, away from the metropolitan corridor. A new loan, Small Business Credit, will be placed in the institution formed under the URBE project in order to provide credit for small business not included in other programs.

The EPG project provides three elements which should enhance the probability of success of the CBI: a supervised credit portion for small business for raising the skill level of managers,

technicians and manual laborers; a policy and analysis research unit which should help the GOP focus on the impact of its various policies and lead to changes favorable to industrial and commercial development; and a manpower information system which should lead to a better matching of the supply and demand of skills needed by the economy.

The new projects under consideration by the Mission will add important elements to the CBI process. The Workforce Development project will attempt to rationalize the training provided by the economy with the demands from the new commercial/industrial investments expected as a result of CBI activities and normal Panamanian economic growth. Another training program will attempt to improve managerial level skills. Two projects, National Investment Council and Export Promotion, will provide technical assistance for developing an institution to provide sophisticated investment services. Of these two, the successful development of the former (or a similar group) will be crucial to the success of the CBI in Panama.

To complement these mostly urban oriented initiatives, a project is being developed to help accelerate and rationalize the process of bringing the ex Canal area lands into productive use. Finally, in the area of agro-industry and future agricultural exports, three projects are being developed which should lead to more efficient and hopefully competitive agricultural products: Rural Cooperative Marketing, Agricultural Technology Transfer, and Agricultural Planning.

4. Other Programs and Resources

a. U. S. Department of Commerce

The U. S. Government is working with Caribbean Basin Governments to design private sector development strategies which combine private, public and voluntary organizations' resources. The Commerce Department established a business information center to promote the Administration Caribbean Basin Initiative. On March 17, 1982, the Assistant Secretary of Commerce, Raymond J. Waldmann, announced the establishment of a Caribbean Basin Trade, Investment and Business Information Center within the International Trade Administration's (ITA) Central America Office. The Center's activities are coordinated with the U. S. Commercial Service Office in 47 major U. S. cities and with Foreign Commercial Service posts located in participating Caribbean countries. The Center currently provides one-stop service to American and Basin businessmen. The following are some of the services provided by the Center:

- Information Kits - Including a summary of the CBI trade data and directories of U. S. and foreign public and private business contact points.
- Legislative Information Service - Reports on Congress' consideration of the CBI legislation, and copies of the legislation and Congressional testimony by Administration and private sector representatives.

- Country Trade and Investment Information Service - Data on the trade and investment policies and practices of individual Caribbean countries. Information on general economic conditions and trends and on the best trade and investment opportunities.
- Business Facilitation Service - The information center will be working with the U. S. Foreign Commercial Service and appropriate government agencies in the Caribbean countries to facilitate the resolution of specific problems faced by U. S. businesses in the Caribbean Basin.
- Speakers Bureau - The Center provides U. S. businesses with Commerce Department speakers to discuss the Administration's Caribbean Basin Initiative and the opportunities for U. S. firms in the Initiative.

b. Overseas Private Investment Corporation (OPIC)

The U. S. A. will work with multilateral development banks and the private sector to develop insurance facilities to supplement the non-commercial investment risk insurance operation of OPIC.

The OPIC currently offers political risk insurance for U. S. investors in approximately 100 developing countries. To expand insurance coverage available to elegible investors, OPIC is working with private sector insurers to establish informal consortia where appropriate, on a project by project basis. Mixed coverage of this kind is currently being discussed for major projects in the basin. The OPIC

can also make direct loans for certain kinds of investments and has organized missions of U. S. business representatives to explore investment opportunities.

c. The Export - Import Bank (EXIMBANK)

The Export-Import Bank has been providing medium-term credit or credit guarantees through U. S. exporters and banks to borrowers in the Caribbean Basin which meet Eximbank's statutory standard of "reasonable assurance of repayment". This amounted to $365.5 million in FY 1981. In addition to an intensification of efforts in this field, Eximbank will expand its present protection by considering cover for short-term credits to indigenous commercial banks in creditworthy markets.

d. Caribbean Central American Action (C/CAA)

The C/CAA is a Washington based PVO playing an active role in helping to shape the current climate of discussion and decision-making on U. S. policy directions in the Caribbean Basin. C/CAA has been participating in an on-going dialogue with Administration, Congressional and Caribbean Officials, as well as U. S. business leaders. By touching base with key players and presenting its own recommendations, C/CAA seeks to insure that Caribbean concerns and priorities, and the practical steps to meet them, are reflected as decisions emerge.

The C/CAA is presently requesting support from the Latin American Caribbean (LAC) Bureau of AID to develop a program that would support the creation of a Caribbean databank and information

system, establish a technical assistance clearinghouse and a basic support mechanism for the recently established U. S. A. Caribbean and U.S.A. Central America chamber twin network.

The C/CAA heartily encouraged a Regional Conference on Trade and Development which took place in Panama during the month of May, with the participation of key people from the private and public sector of the Caribbean Basin Areas.

e. Pan American Development Foundation (PADF)

The Pan American Development Foundation is a private non-profit organization dedicated to development assistance in the Americas through the local private sector. In Panama, PADF is working closely with the Fundacion Panameña de Desarrollo (FUDAPE) on programs involving credits and direct assistance to community level self-help programs.

f. International Executive Service Corps (IESC)

IESC is a New York based non-profit corporation offering specialized consulting assistance to applicants worldwide. The IESC consultant pool consists of thousands of retired men and women who represent special talents available in the U. S. A. for short-term assignment overseas.

g. International Assistance in the Caribbean Basin

From the beginning, the Caribbean Basin Initiative has been a multilateral effort. In 1980, Venezuela joined Mexico in formulating an oil facility for the energy poor nations of the Caribbean Basin and Panama is benefitting from this agreement. Under the facility's terms, the two donors agreed to extend loans (5 years at 4%)

to the recipients to cover 30% of their oil bill. If the loan proceeds are used for economic development projects the terms change to 20 years at 2% interest.

France is providing technical assistance in various areas in Panama. Presently it is providing technical and financial assistance to Panama's repair shipyard. Japan has been providing technical and financial assistance as well as other donors from the European Community. Different countries have organized investor exchange visits to and from Panama for the purpose of promoting trade and investment opportunities. Bilateral programs consist primarily of procurement credit, training assistance and scholarships.

h. The International Finance Corporation (IFC)

The International Finance Corporation (IFC) established in 1956 is a World Bank affiliate to further economic development by encouraging the growth of productive private enterprises. In addition to providing and helping raise loan and equity capital, the Corporation works to strengthen the confidence of investors and to promote investment opportunities in the developing world. It uses its own resources to assist investors assemble the necessary financing technology and management needed for the establishment of productive enterprises.

Over the last two years, the World Bank has committed about $700 million to Caribbean Basin countries. The World Bank recently began some structural adjustment lending in selected basin countries, conditioning drawings from their loans to progress on specific economic reforms agreed by the borrowing governments.

The World Bank chairs the Caribbean Group for Cooperation in Economic Development, which has served to coordinate aid policy by the donors and self help efforts by recipient Caribbean countries.

i. Other Donors

As of June 30, 1981, the IDB and IBRD pipeline was about $370 million. The IBRD has focused on highway, power and energy planning loans. It has contributed $35 million to the five-year $120 million Colon redevelopment progra, $70 million of which is to be provided by a consortium of Japanese banks. Objectives of this program include increasing permanent employment in the depressed Colon area through expansion of the Colon Free Zone and creation of an industrial park, as well as construction of some 3,700 low-income housing units. The IBRD has placed relatively little emphasis on policy development, however.

The IDB has also focused on highways and power generation plus industrial and agricultural credit. IDB's program, focused on capital assistance to strengthen agricultural production, marketing and processing, pure seed production and perhaps forestry, technology transfer and institutional strengthening, may become a more focused approach including for the first time by the IDB, support for more fundamental GOP policy and program reorientation.

The UN system in 1980 provided about $4.6 million in technical assistance, and $1.5 million from the UNDP with $1.9 million in energy studies financed by the World Bank through the UN and $1.1 million from the UNFPA. UNDP assistance had been provided to help draft the

1981-85 Five Year Plan, work on which remains incomplete. During 1982 UNDP plans a $2.8 million program in Panama. Of special interest are plans to resume assistance in preparing parts of a five-year investment budget, conducting a poverty study update and an income distribution study using data now becoming available from the 1980 census.

III. PROGRAM RATIONALE

A. Goals

The Panamanian response to the CBI initiative must overcome political/social legacies so that the business community can operate in a favorable and stable ambiance. With the creation of such an ambiance, the private sector, with encouragement and assistance from the Government, must act to improve its ability to compete in international markets, gain access to those markets and to muster the resources required to do so.

The detailed requirements, are subsumed under four goals to which the GOP and the private sector have, in principle, committed themselves. The U. S. CBI assistance program will be directed to support achievement of these goals.

1. Creation and maintenance of a favorable business ambiance.
2. Creation of market penetration mechanisms and channels.
3. Improvement of the collective competence of the private sector organizations and of its individual components.

4. Mobilization of adequate financial resources.

Of these, only the last is susceptible to precise quantification, but performance criteria will be established for each goal so that progress toward the attainment of the goals can be objectively verified.

B. Program Requirements

It should be emphasized that actions for the achievement of these goals rest primarily with the Panamanian Private Sector and, in certain critical aspects, with the GOP. Thus, any strategy available to the USAID and other U. S. agencies is limited to selection and support of appropriate instruments and processes which the private sector and cooperating elements of the GOP may be expected to utilize effectively.

The strategy is further conditioned by the need to extend the benefit of the CBI to a broad social and economic spectrum and be seen to do so. Such dissemination serves GOP commitments to social justice and is consistent with U. S. Congressional mandates. Ironically, the established firms and families which represent highly visible special interest groups possess the skills, knowledge and resources to respond most effectively to the new export possibilities.

Yet, should it appear that these are the main or only beneficiaries of the program, serious social political obstacles could be engendered. It is essential that the potential of this group be released and that the employment generation results inherent in their projects be

realized; but, their participation must be perceived as merely one part of a program in which medium, small, micro industry, artisans, small household producers, agriculturists and commercial interests of all sizes participate and derive visible benefit.

The program strategies will also be conditioned by the capabilities and limitations of existing institutional resources now in place. These, to the extent practical, would be rationalized and consolidated through a central coordinating mechanism.

The institutional assets are complemented by a number of ongoing USAID projects. These projects, which support employment generation through commerce, industry and agriculture, are clearly consistent with the purposes and instruments which serve CBI goals.

The institutional and project assets-in-place, along with physical assets acquired by Panama as a result of the Canal Treaty, provide a useful initial resource base. With judiciously applied supplementary resources, the program should prove cost effective and consistent with other economic and social objectives of the GOP, and with basic USAID assistance rationale.

Finally, the strategy is conditioned by the assumption that private entities, acting in behalf of their own perceived interests, would respond most rapidly, pointedly and cost effectively to the opportunities presented by the CBI. Therefore, to the fullest extent practicable, the program will use private sector instruments and attempt to mobilize private resources. Moreover, to assure that the design and

operation of program instruments is compatible with business needs and practices, that private sector must participate, in varying degree, in establishing those instruments.

Nevertheless, governmental participation is required on at least three levels: Creation of an ambiance in which the potential of the private sector can be realized; an increase in and improvement of the data base upon which economic and business strategies can be devised; and as a source of assistance to small enterprise which at this time remain unsophisticated and resource poor.

1. Goal 1 - The Creation and Maintenance of a Favorable Business Ambiance

The CBI has already achieved some success in that it has focused the attention of concerned elements of Panamanian society upon agriculture and industrial export potential with a degree of intensity hitherto absent. Panama, as well as other Basin countries, has over the past two decades initiated programs to establish export-based agriculture and industry. The efforts have, for the most part, been peripheral to other developmental activities which preocuppied the governments and the international agencies which supported those activities. The CBI has induced a state of mind in the political and industrial community which offers opportunities to organize heretofore dispersed and uncoordinated elements into a coherent national program.

To plan and carry out such a program requires participation of both the public and private sectors and strong motives to do so. The potential for economic growth offered by the CBI with concomitant increase in the revenue base, foreign exchange earnings and

employment generation, has not been lost on the GOP. The potential for business expansion and profit has stimulated the private sector. This uniquely visible coalescence of private and public purposes augurs well for increased cooperation between the two sectors. Yet, at this point, the assent of each sector to commit to full cooperation with the other is notional. It will be necessary to convert notionality to reality.

For the business community to make commitments, they will require a government commitment which offers them a secure and honorable role in national life, provides a stable and predictable legal and administrative environment and economic access to national resources including the labor pool. In practice, this requirement entails a cessation of anti-business rhetoric, public definition of the positive role of business, relief from various legislation, an even handed administration of the laws affecting Commerce and Industry and, supplementary, enabling legislation to overcome certain constraints affecting export industry.

For the Government to make such commitments, it will be necessary for the private sector to convince the Government that its activities will be in harmony with national political and social objectives, and that the growth of the private sector will not create an inbalance in the political structure. Most important, the private sector must deliver social benefits quickly.

Delivery on the latter requirements can pave the way for and accelerate the accommodation between government and business. The process of accommodation will undoubtedly be hesitant and erratic, but fed by the momentum now evidenced by pronouncements of both sectors, and

supported by appropriate informational inputs and demonstrated early successes the process should continue.

The Country Team can build on that momentum by assisting the GOP on one hand, and the private sector on the other, to recognize the unique opportunities and the government/private sector interaction which is necessary to exploit these opportunities. This would be done primarily by dissemination of information and the provision of technical assistance to define and analyze the key requirements for effective government and private sector participation. Further, as the accommodation process advances, the team can offer additional resources to consolidate those elements of accommodation which require studies, new regulations, adjustments in administrative procedures, etc.

The process itself is two tiered, at one level it will be manifested by increasing mutual confidence, at another by specific action. The successes obtained by its actions are expected to give rise to further increases in confidence. The instruments available to this country team are indirect and can be employed sequentially as the accommodation process unfolds and produces desirable results.

The more direct instruments which will be utilized in meeting other goals, however, will also contribute to the accommodation process to the degree that they can produce demonstrable and desirable results. Should it be possible, for example, to induce early investments in Panama with highly visible employment generation effects, it is likely that GOP attitudes would be influenced positively.

The other pole of the accommodation process, the business and agricultural community, is organized into many formal associations

and informal groups and some elements are not organized at all. The country team must select those organizations which best represent the totality of business interests as the focal point of its activities. Then, design and channel its assistance to those groups for the purpose of improving the quality of its accommodation dialogue.

As in contact with GOP agencies, the country team can make available information, informational channels, and assistance in defining opportunities; and in developing business interest strategies which are consistent with larger national objectives.

Of particular importance to the country team is existence of a higher level apparatus at the Office of the Vice President, and policy analysis capabilities in various ministries; support to these units offers opportunity to clarify issues and make objective recommendations within national policy framework.

The National Investment Council, if organized as originally conceived, could be a most important channel for U. S. assistance inputs, and for resolution of private sector - governmental differences and as a participant in the attainment of all goals. Resources channeled to and through the NIC could be fully effective only if the Agency was (1) the only institution charged with developing export capacity; (2) was manned by an independent staff; (3) was adequately funded and (4) had the unqualified backing of the Government

If the NIC becomes essentially a coordinating and consultative body, U. S. assistance options would be limited to support of the institutions, e.g., PARS, which would perform analytic and policy review functions for consideration by the NIC.

2. Goal 2 - Creation of Market Penetration Mechanisms

The U. S. has offered preferential access to U. S. markets. It is however, the task of Panamanian entities to identify specific segments of the U. S. market, which Panama may competively supply. Market access information systems and mechanisms must be developed and operated by both the private and public sectors. A public system, servicing a broad spectrum of the business community would be required, as well as specialized profit making market service organizations.

The public funded agencies charged with market identification are characterized by weakness in concept, definition of function, technical deficiencies and personnel limitations. Institutional strengthening will be required before this function can be adequately performed. Fortunately, MICI leadership is aware of the need for such strengthening and an "institutional revision" plan has been prepared.

There will undoubtedly be a substantial elapse of time before the MICI division can function with full effectiveness. It will be necessary to provide an interim mechanism which can provide services during the critical first year of the CBI program. Such a mechanism could provide the basis for testing and replication of successful search systems.

Public market search systems are of limited effectiveness in situations where interested buyers and sellers wish to maintain

privacy during early contacts and negotiations. Thus, a variety of private channels will be required to supplement government sponsored channels.

Both formal and informal private channels are desirable. Formal channels, such as those provided by the Japanese and Korean integrated marketing corporations can serve as both information sources and as marketing channels for smaller Panamanian firms which cannot be expected to directly serve foreign markets.

Informal channels through "private sector" organizational neteworks offer especially useful access routes.

MICI, the major agency charged with foreign market identification has requested AID assistance. In the provision of assistance, the USAID would be concerned primarily with direct technical inputs designed to make the identification function cost-effective and practical. But, at the same time it would focus attention upon the end-use of such information. The focus on the capability of the Panamanian private sector to respond to real, specific and quantifiable markets should accelerate the removal of constraints.

To induce the formation of Private Sector marketing instruments, the USAID would take only such peripheral actions as required to add impetus to the inertia of the business community. Groups such as the Asociacion de Exportadores will be provided with information and minor technical assistance. Private profit motive is expected to generate the resources necessary to organize and operate such corporations.

U. S. assistance in support of the formation of other market access channels will be limited to arranging linkups between Panamanian organizations and U. S. organizations and institutions. Peripheral assistance may be given for the purpose of establishing the communication linkups, but all market operations established through such channels would be expected to be self-sufficient.

3. Goal 3 - Improvement of the Collective Competence of the Private Sector and of its Individual Component

The Private Sector organizations must be able to represent the interests of its members within a framework of national interest. To effectively carry out such tasks, the organizations must themselves be informed, convincing and unified. The organizations, individually and in concert, require analytic competence and channels for dissemination of the results of such analysis. The dialogue which will be continuously carried out with government, and the dissemination of information to the public, will only be as effective as the quality of the work underlying such exchanges.

The private sector organizations are placed well to collect, evaluate and disseminate information. Information on the CBI, Panamanian opportunities and competitive advantages may be best communicated by the organizations, who themselves must open channels for the collection and generation of such information. In the early critical stage of Panamanian response to the CBI, the organizations need to help their members appreciate their own potential for participation in international markets. Such participation has not, until recently, been taken seriously by economic planners and the business community. The

latter, especially have responded primarily to the opportunities offered by Canal related activities, by the growth of the banking sector and the resultant demand in the construction sector. The preocupation with these profitable investment areas has led to relative neglect of the export industry sector.

The neglect was reinforced by the comparative complexity and risks of serving international markets vis-a-vis participation in the home market; and by the growing conviction that Panamanian wage rates were so high as to preclude competing in labor intensive production.

In fact Panamanian wage rates are not markedly differ from those of Jamaica and Barbados which are now effective international sellers. More significantly wage rates in the countries which dominate in labor intensive industry, Japan, Korea, Taiwan for example, are considerably higher than those in Panama. Wages do not appear to be a real constraint to the development of an export industry.

Dissemination of information on relative factor costs, and market opportunities is essential to permit firms to evaluate their possible role in the CBI and to heighten their support of their organization. U. S. assistance in developing such information would substantially shorten the acquisition and dissemination time.

If the organizations are to understand and participate in U. S. markets, relationships with U. S. business associations would clearly be helpful. Further, the experience of the U. S. organization in their interface role with government may provide models for Panamanian organizations. USAID will assist in bringing U. S. and Panamanian private sector organizations together.

Programs to increase the productive capacities and competitiveness of individual firms will be necessary. Assistance instruments presently available include the IESE, ITS, and the joint-venture function implicit in the Maquila Program and National Contract program. Technical assistance programs to small industry have been institutionalized but at this time are not effective.

It will be necessary to initiate a program to provide technical information and "hands on" assistance to the interested firm. This would probably be devised in conjunction with SIP.

4. Goal 4 - Mobilization of Adequate Financial Resources

Financial resource requirements are expected to be met from four sources; Panamanian equity investment, commercial bank credits, development bank credits and foreign equity investment.

Commercial and Development bank resources appear adequate for the purposes of the program, but terms and conditions, particularly for export lending, are reportedly inadequate. The inadequacy apparently is tied to bankers perceptions of the ability of exporters and export producers to comply with specification requirements and delivery schedules. It is further handicapped by uncertain insurance regulations and availability of insurance at reasonable costs; these handicaps are being addressed by the Asociacion de Exportadores (APEX). At this point, no U. S. assistance appears to be required. However, it would be prudent to follow efforts of APEX, especially as it may relate to the efforts of COFINA to establish a re-discount window for export lending.

USAID resources would be directed primarily to assistance in a foreign investor search program, the only element which cannot be satisfactorily undertaken by Panamanian entities at this time.

Because of uncertainties about the level of financial requirements for the program, a constant monitoring of credit availability should be maintained.

C. Beneficiary Characteristics and Program Implications

Two groups will be directly impacted by the USAID supported programs. The first include Governmental and Private Agencies; the second includes a wide range of productive entities whose needs and response potentials vary considerably.

1. Direct Beneficiaries

a. Government and Private Sector Institutions

Government and private institutions are expected to play important roles in formulating and carrying out major elements of the Panamanian CBI response. Yet, existing institutions are frequently weak. The main "motor" institutions, the NIC, is not yet in existence. The various private sector organizations are without precise orientation and appear to be in some disarray. The major USAID program inputs will be directed to and/or through these institutions. It is, therefore, prudent to induce strengthening of these institutions through the USAID assistance package and to formally recognize institution building as an intermediate objective, providing direct operational benefits to those institutions.

A clear definition of policies, goals, responsibilities, functions, channels, required for elaboration of the Panamanian effort, will be established by the NIC. These could provide a framework for appropriate institutional adjustments. The framework would also provide a basis for the elimination of certain functions of some agencies and for enlarging certain functions in others. To reinforce the institutional adjustment process, the USAID would reassess its present projects and, where appropriate, reform, amend or eliminate projects.

b. Private Sector Productive Entities

The productive entities have been classified for program purposes into six categories:

(1) Large locally owned

(2) Medium locally owned

(3) Small locally owned

(4) Individuals

(5) Foreign owned

(6) Joint-ventures

Entities in each category will have differing degrees of capability, sophistication and knowledge and, thus, will differ in their assistance needs. The following matrix illustrates the probable assistance need patterns.

Assistance Needs	Large	Medium	Small	Individuals	Foreign Firms	Joint Ventures
Mktg. Info	yes	yes	yes	yes	no	no
Mktg. Access	yes	yes	yes	yes	no	no
Concessionary Financing	no	yes	yes	yes	no	no
Business Planning	no	yes	yes	yes	no	no
Technical Operations	yes	yes	yes	yes	no	no
Administrative Operations	no	yes	yes	yes	no	no

From the matrix, it is apparent that foreign firms and joint-ventures are self-sufficient. The firms are responding to known markets have access to adequate financing, possess appropriate technology, and are assumed to have adequate administrative knowledge and experience.

Actions to attract foreign firms to serve export markets, either on their own, or in partnership with domestic investors, appear to offer the most cost-effective and rapidly implementable element of the program.

Of local firms, the largest appear to require the least assistance. They will need market information and market access and possibly assistance in productivity improvement. These appear to offer excellent returns on program investment, but will have longer

implementation horizons than start-up operations of foreign firms or joint venture firms.

Medium and small firms and individual entrepreneurs in varying degree will require assistance in all the listed functions. The intensity and breadth of assistance required will undoubtedly be highest for individuals and small enterprises which represent the least experienced, educated and resource endowed elements of the business community.

It is probable that these categories of productive entities will also require the services of special trading companies if they are to participate in international markets. Their ultimate ability to participate should not be discounted. The average export producing firms in Japan during the period 1930-1960 had approximately seven to eight employees. New trading companies may similarly provide local small business with access to international markets.

In any event, these firms will require special and intense assistance; quite distinct, in most respects, from that provided to medium and large firms.

A review of the matrix indicates that local firms of all sizes require marketing assistance. Thus, that element of the program should be designed to locate markets for products ranging from mass merchandised items to specialty goods.

Special financial programs appear to be required only for small firms and individual entrepreneurs. Some programs assisted by the USAID have already been designed for this purpose. These will be subject to review and adjustment.

Business planning assistance, may in fact be needed by all local firms, but the large and medium sized firm would only draw upon the general economic data and model data provided by participating agencies. Some of the medium sized firms and all of the small firms and individuals would need "hands on" assistance in feasibility work, project preparation and implementation.

Production assistance of a more sophisticated nature relating primarily to improved productivity would be required by the large and medium sized firms: Small firms and individuals will require assistance in production techniques, cost and quality control, scheduling, inventory control, etc.

No assistance in business administration is anticipated for the large and medium firm, but it is clearly needed for small firms and individuals. Elementary business training and direct assistance will be required to assure their eligibility for loans, for participation in both local and international markets, and to provide a basis for survival and growth.

Selected members of the workforce will require training in certain skill areas (yet to be determined). In the export industries of Hong Kong, about 5% of the workforce possesses special skills, in the Philippines about the same, in Mexico it is nearly 10%. and in the U. S. about 13%. Given the probable export mix anticipated by this program, training for about 8% of the export industry workforce is projected. The relative high education standards of Panama should facilitate intensive short period training to be offered in the work place and in specialized courses.

c. Indirect Beneficiaries

The indirect benefits of the program constitute its most important contribution to the Panamanian society. These are employment generation and foreign exchange earnings. The latter redounds to the economy as a whole. The former also has special social and political impact.

Job creation will be induced mostly by the new or expanded operations of large and medium local firms, joint ventures and foreign owned firms. Jobs directly generated by those operations should make a significant impact on the labor market. Of almost equal significance will be the secondary employment effects of increased purchasing power in the hands of consumers, and generation of demand for materials and services. It is likely that the secondary effects may be an important contributor to the success of small enterprise and informal sector programs now in effect or contemplated. The program for large industry takes on additional justification as a result of those effects.

IV. PROGRAM DESIGN

A. Attainment of Goal I (Creation and Maintenance of a Favorable Business Ambiance)

USAID will support the newly formed National Investment Council, potentially the major instrument of the Panamanian program and it would, when operational, be the major focus of U. S. assistance. The USAID assistance to council will begin prior its operations and continue for a period of three years. Assistance beyond that period will be considered. Should there be delays in starting NIC operation, or should it become purely a coordinating agency, U. S. assistance will be directed

to other agencies charged with appropriate operational function. The assistance is intended to help define priorities, develop policy analysis capability and to provide special technical competence as needed. USAID assistance inputs would consist of foreign and locally procured consultant and technical services, provision of equipment and materials for installation and operation of a data processing system, and support for special demonstration projects.

In order to strengthen the coordination function of the Council, USAID assistance to the agencies being coordinated would be frequently channeled through the Council.

At this time it has not yet been decided if the PARS project will be brought directly under control of its Council or if it will be coordinated by the Council. In either event, the USAID will continue to support the PARS project, as a research and policy analysis arm of the Council. The PARS personnel will begin analysis of present price control laws and their impact on export possibilities. They will also begin research on the economic effects of present labor laws. USAID will contract with internationally recognized experts to assist in their analysis and subsequent policy recommendations.

The Council will operate a "one stop" investment center. Among its functions will be the elimination of "red tape and bureaucratic dispersion". The center will provide information services to potential local and foreign investors. The center is intended to provide utilitarian demonstration of the GOP's willingness to accommodate foreign investors and to facilitate their compliance with legal requirements. (Other functions of the Council are discussed under the goals which they

support.) The USAID will provide technical assistance to the center in the form of advisory services and funding of local technicians.

The USAID will also lend support to various private sector organizations including SIP, the Chamber of Commerce, SINAPE and UNPI to increase their effectiveness as CBI respondents. Through seminars and publications the USAID and ICA will periodically assist in design and dissemination of information enabling the organization to respond to CBI opportunities within national policy guidelines.

The physical ambiance in which the private sector operates is also in need of improvement. The supply of adequate industrial facilities has been noted as a constraint to rapid start-up of new operations. The USAID is assisting presently in an analysis of those needs utilizing the services of specialized consultants. The mix of infrastructural requirements to permit development of industrial sites and linking those sites to effective transportation and other services will be identified directly by USAID provided technical assistance. The actions undertaken by the USAID should permit more rapid financing of Maquila sites by the IDB by other international donors. The continuation of the USAID funded IPUP project will provide such facilities in the interior of Panama.

Through inducements and support, the USAID would seek to accomplish the following measurable or definable objectives:

1. A reduction in the number of price controlled items. It would specifically expect to induce removal of controls on items which are not normally included in the "market baskets" of Panamanian consumers; and those in which controls impede the development of exports.

2. Greater flexibility in labor regulations. It would be specifically desirable to extend the labor provisions of the Maquila laws to a wider spectrum of economic activities. In addition, provisions would be made to permit wages to reflect production rates and levels.

3. An increase in positive governmental actions. These would include signing of the bilateral investment treaty. Adequate government funding of CBI related programs. Rapid development of Canal Zone resources. A reduction of governmental participation in production of goods may be included by the psychological and economic effect of the center program.

4. Accelerated building of industrial facilities by the private sector and the GOP.

Specific actions to be taken and the expected results of those actions are as follows:

PURPOSE Strengthen GOP's institutional capacity to analyze, develop and evaluate policies and direct resources for the stimulation of private investment.

OUTPUTS

1. Establishment of a Policy Analysis and Research System (PARS).
2. Establishment of a National Investment Council (NIC).

INPUTS

Note: The PARS may be included under the NIC once this institution starts operation.

Technical Assistance

Senior Advisor for PARS and NIC

Consultants to execute studies and assist in institutional design.

Commodities

Vehicles

Technical Equipment (micro-computer)

Training

Seminars and publications with private and public sector long and short term U.S. and Third Country.

Coordination

The U. S. Embassy Economic Section will support overall aspects of the program's local implementation in cooperation with AID and other elements of the U. S. Mission.

Bi-Lateral Agreements

Executi[illegible] of commercial treaty between U. S. and Panama.

Financial Assistance	Grant	Loan
1. Ongoing Projects		
PARS (AID)	$ 625,000	-
Private Enterprise Seminars (AID)		-
2. New Projects		
NIC (AID)	_____	_____

Tentative Time Schedule	From	To
1. Ongoing Projects		
PARS	August 1981	August 1985
Private Enterprise Seminars		
2. New Projects		
NIC	1982	1985
3. BIT	1982	

B. Attainment of Goal 2 (Creation of Market Penetration Mechanisms and Channels)

The USAID will support market penetration efforts by assisting the NIC, the Chamber of Commerce, Associations and private companies in the design and operation of several market identification activities.

As an adjunct to its investor search activities, the NIC will begin a permanent program of market assessment. The program will commence in the U. S. and then be enlarged to include Europe. The USAID will finance consultant services to establish analytic procedures for identifying products and product lines which are undergoing cost pressures, and could be competitively produced in Panama. Major buyers will be identified and contacted by the consultants. The terms and conditions of purchasing by those buyers will be established and communicated to appropriate Panamanian private sector entities. The market identification effort will not rely on the NIC activities alone.

Indeed, those activities will be intended to support and assist in the establishment of marketing channels which can, thereafter, be serviced and expanded by the private sector entities.

The USAID will support the "twinning" the Panamanian Chamber of Commerce with the Chambers of Spokane and Tulsa. This activity generated by the CCA Action Program will provide an additional channel for development of market information and market channels. The USAID will assist in its "twinning" process with support activities designed to focus attention of the Chambers on market opportunities and to insure an active information exchange. USAID will support an information newsletter to be circulated among the three chambers, through which commercial offerings and needs may regularly be made known.

The contact fostered between the individual businessmen of the U. S. and Panama will undoubtedly give rise to private channels of market information exchange. Such exchanges are now taking place. The twinning program should greatly expand these channels.

The USAID will, in conjunction with the Panamanian Chamber of Commerce and local banks foster the founding of one or more trading companies and arrange contacts with these and U. S. trading companies now being formed in the U. S. The USAID will fund a study to determine the feasibility of establishing a trading company with members of APEX and DISA or a cooperating financial institution. The trading company would, in response to international market demand derived from its contacts with foreign trading companies, seek local sources of supply.

The activities outlined above will be considered successful if they collectively identify annually $50 millions in appropriate markets for actual or high potential Panamanian production, and identify specific buyers for such production.

Specific actions to be taken and the expected results of those actions are as follows:

PURPOSE Promote investment opportunities by bringing together U.S.A. and host country businessmen.

OUTPUT

1. Establish a program of market assessment within the NIC.
2. Twinning U. S. and the Panamanian Chamber of Commerce.
3. Estsablish a privately owned trading company.

INPUTS

Technical Assistance

1. Consultant to establish procedures for identifying products in NIC.
2. C/CAA will develop coordinated program with the Chamber and AID.
3. Consultant to determine feasibility of trading company.

Institutional Assistance

U. S. Department of Commerce (Foreign Commercial Service)

The Commercial Section of the Embassy, in cooperation with the U. S. Department of Commerce and the Economic Section, will play a role in facilitating investment in Panama, particularly that investment that would involve exports of U.S.-sourced machinery, equipment, raw materials, and services.

U. S. International Communications Agency (USICA)

USICA will develop an ongoing promotional campaign which will initially stress the availability of the U. S. market and the efforts being made by public and private institutions in both countries to improve conditions for Panamanian exports. Specific examples of successful export industries selling into the U.S. will be used to bolster the credibility of export oriented investments as a vehicle for near and long term profit.

When and if CBI legislation is enacted, then the additional benefits under the program will be promoted as a further incentive to invest in an already propitious environment.

U. S. Business Community/American Chamber of Commerce of Panama

The U. S. Business Community will work with the Embassy and with the Government of Panama in expanding and making more effective promotional efforts in the United States aimed at attracting investment to Panama. The AmCham will publish economic reports on Panama and distribute them and other information to its membership in support of the overall program.

International Executive Service Corps (IESC)

The Country Team will cooperate with local IESC field representatives, and through them with IESC headquarters, to draw upon IESC expertise to attract new investment to Panama and establish and expand export activity in Panama.

U. S. Military Forces and Panama Canal Commission

The Military Forces and PCC will organize seminars and workshops on how to do business with their agencies and will seek to assist local businessmen to comply with procurement procedures and sanitary and quality requirements for sales to the Forces and to U. S. markets. Experience gained in selling to the U. S. Forces in Panama could be valuable in helping to penetrate U. S. markets.

Commodities

Vehicles

Technical Equipment (micro-computer)

Short-Term Training

Financial Assistance	Grant	Loan
1. NIC		
2. Twinning Program		
3. Trading Company		

Tentative Time Schedule	From	To
1. Ongoing Projects		
Twinning Program	May 1982	Continuing Basis
2. New Projects		
NIC	Sept. 1982	December 1982

C. Attainment of Goal 3 (Improvement of the Collective Competence of the Private Sector and of its Individual Components)

In view of the disparity of competence within the private sector, USAID supported activities will be selective and targeted at different segments of the business community. The major firms require assistance primarily in adaptation of technology and improvement in production practice. The USAID will fund a productivity and technology transfer center proposed by the SIP. The Center will primarily function as a channel for technology advances, developed elsewhere, to all levels of Panamanian industry. It is expected to play a useful role in increasing the competitive position of Panama.

Business planning assistance will be required in some degree by medium size firm and in high degree by small firms and individuals proprietorships. The USAID will support activities in the NIC designed to assist middle level firms in carrying out feasibility studies, marketing strategies, resource management, etc. The role of the NIC would be to provide information on techniques, the supply of certain data and to utilize their computer facilities to process business data on behalf of firms. The firms themselves would be responsible for all planning operations.

Small firms and individuals would require education and training in business planning. The USAID would adapt ongoing projects which it now supports to provide such assistance. The projects, APEDE, IPUP, URBE all provide assistance to small firms and individuals. The

USAID will continue to support these projects and to gradually reform some of the elements to specifically serve firms and individuals with export possibilities.

At the same time, the USAID will expand the business planning assistance role of MICI (one of the administering agencies of the URBE project) so that its personnel can assist small business and individuals to comply with commercial bank requirement for business loans.

The USAID will support the efforts of the Chamber of Commerce to expand access to high level business training and to increase the supply of highly trained business personnel. The USAID plans to match privately funds collected by its Chamber with grants to fund business training scholarships for teachers of business administration and business administrators.

The supply of skilled personnel necessary for filling critical positions in export industry is apparently severely limited. The USAID will support a Workforce Development Program to remedy workforce deficiencies. This is presently in its design stage. We anticipate, however, the project will identify for workforce needs based upon probable industrial development patterns, followed by job-specific training through short courses, and in-plant training.

Specialized business and/or production training to middle and small size industry will be contracted from the IESC. The USAID will introduce the IESC as a service resource at all levels of its program activities, and will seek to secure greater participation for IESC at the productivity center, the Chamber of Commerce and as a special resource for start-up of new small industry.

This goal will be deemed to have been achieved when the component instruments are adequately delivering services to their target groups, specifically when:

1. A Productivity Center or technology transfer is funded, housed, managed, linkaged, established and providing assistance to the business community at acceptable and economic rates of return.

2. The business scholarship project is designed, funded and students are in the educational pipeline.

3. The MICI element of the URBE project devoted primarily to, and providing business planning (specifically loan application assistance) to small business and individuals.

4. APEDE has designed special training for small export oriented firms, and has extended its business training to those firms.

5. An extension services network is in existence, which includes IECS, elements of MICI and IPUP providing useful and cost effective production assistance to medium firms, small firms and individuals in the export sector.

6. A workforce training program is functioning.

Specific actions to be taken and the expected results of those actions are as follows:

<u>PURPOSE</u> Help to establish managerial and technical programs to support private sector development and linkages between the U. S. and local private sector.

OUTPUTS

1. Establishment of a Productivity Center.
2. Establishment ot a Business Scholarship Program.
3. Establish an Extension Service for Small Business.
4. Establish within APEDE special training for small export oriental firms.
5. Establishment of a Coordinated Workforce Development Program.

INPUTS

Technical Assistance

Consultants will be provided to conceptualize the different programs and identify activities to be carried out by each output.

Commodities

Technical Equipment

Audio Visual Equipment

Training

Short-Term training in U. S. and Third Country.

Financial Assistance	Grant	Loan
1. Ongoing Projects		
APEDE Training		
Extension Service URBE		
2. New Projects		
Productivity Center		
Business Scholarship Program		
Workforce Development Project		

Tentative Time Schedule	From	To
1. Ongoing Projects		
APEDE Training		
Extension Service URBE		
2. New Projects		
Productivity Center	Sept. 1982	December 1982
Business Scholarship Program		
Workforce Development Project		

D. Attainment of Goal 4 (Mobilization of Adequate Financial Resources

The USAID will assist in mobilization of adequate investment capital through (1) support of intensive efforts of the NIC and the Maquila project to induce a high level of foreign investment-Panama, (2) to adjust ongoing USAID supported lending programs to serve the needs of small export industry, (3) if further demand analysis justifies it, to establish a loan guarantee fund, (4) establish linkages with OPIC for loan insurance and OPIC lending, (5) establish linkages with the IFC for lending, (6) design for the effect and utilization of newly created financial resources of PRE, and (7) stimulation of local equity investment through the joint-venture program of the NIC.

The NIC, in cooperation with the Maquila project, will intensify its efforts in investment promotion. The USAID will support the programs by providing funding and technical assistance for an investor search program directed primarily and initially at the U. S. Through funding consultant services and technical staff, the USAID will influence the design and operation of the investor search function. Upon its initiation, the USAID will fund a demonstration of investor search techniques. From the demonstration, the staffing and operational method will be established and maintained. The NIC, within the programs context, will also seek to identify local investors who may be appropriate partners for identified potential foreign investors, and also local investors who may be willing and competent to invest in production facilities which respond to market opportunities revealed by the NIC market search program.

Within the design and functioning of the NIC, channels for information and procedural arrangements will be made with the IFC and with OPIC so that their participation as lenders or insurers may be readily obtained as appropriate. Channels for application of PRE funds will be established by the USAID.

Present USAID-provided small loan funds are disbursed at this time by governmental agencies which also provide technical assistance. This arrangement presents conceptual and operational difficulties. The USAID will attempt to phase out the lending function in government agencies and transfer these increasingly to the banking system; leaving governmental agencies to concentrate on T.A. to small business. The USAID has funded the PNB as a course of loans to the small business sector. The project appears most promising and will be expanded or replicated as demand levels may require.

In response to intermittant complaints of the non-availability of adequate and adequately termed medium and long-term financing, the USAID will undertake a study of the supply of and demand for loan financing. Should the study indicate the need for additional loan funds, the USAID will consider a loan for such purposes or for the establishment of a loan guarantee fund to induce the availability of required credit.

The goal will be considered achieved when:

1. The investor-search mechanisms have been designed, tested and are operational.

2. The procedural linkages between the NIC and OPIC and the IFC have been formally established.

3. Local investment has been induced through joint-venture promotion of the NIC and by its market search programs.

4. More than 75% of new business loans to small business are made by the banking system.

5. Long and medium term credit availability conforms to effective demand.

Specific actions to be taken and the expected results of those actions are as follows:

PURPOSE Facilitating private sector packaging and financing through financial institution which will provide capital for private sector development.

OUTPUT

1. Establish an institutional mechanism to promote and implement a light Assembly Industry (MAQUILA) Program.
2. Establishment of a financial program for small export industry.
3. Establishment of a self-sustaining credit guaranty mechanism.
4. Phase-out lending functions in GOP.

INPUTS

Technical Assistance

Consultants for an investor search program.

Technical Staff to design system.

Financial Assistance	Grant	Loan
Maquila		
Small Export Ind. Fund		
Credit Guaranty Mechanism		

Tentative Time Schedule	From	To
Maquila		
Small Export Ind. Fund		
Credit Guaranty Mechanism		