

PD-ABE-289

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UNITED STATES INTERNATIONAL DEVELOPMENT COOPERATION AGENCY
AGENCY FOR INTERNATIONAL DEVELOPMENT
Washington, D. C. 20523

PANAMA

PROJECT PAPER

TRADE AND INVESTMENT DEVELOPMENT

AID/LAC/P-817

PROJECT NUMBER: 525-0309

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APPENDIX 3A, Attachment 1
Chapter 3, Handbook 3 (TM 3:43)

AGENCY FOR INTERNATIONAL DEVELOPMENT
PROJECT DATA SHEET

1. TRANSACTION CODE: **A** (A = Add, C = Change, D = Delete)
Amendment Number: _____ DOCUMENT CODE: **3**

COUNTRY/ENTITY: **PANAMA**

3. PROJECT NUMBER: **525-0309**

4. BUREAU/OFFICE: **LATIN AMERICA AND THE CARIBBEAN (LAC)** [05] 5. PROJECT TITLE (maximum 40 characters): **TRADE AND INVESTMENT DEVELOPMENT**

6. PROJECT ASSISTANCE COMPLETION DATE (PACD): MM DD YY **03 31 95**

7. ESTIMATED DATE OF OBLIGATION (Under "B" below, enter 1, 2, 3, or 4)
A. Initial FY **92** B. Quarter **2** C. Final FY **92**

8. COSTS / 3000 OR EQUIVALENT \$1 = _____

| A. FUNDING SOURCE | FIRST FY 92 | | | LIFE OF PROJECT | | |
|------------------------|-------------|--------|-------------|-----------------|--------|-------------|
| | B. FX | C. L/C | D. Total | E. FX | F. L/C | G. Total |
| AID Appropriated Total | 1000 | | 1000 | 2500 | | 2500 |
| (Grant) | (1000) | () | (1000) | (2500) | () | (2500) |
| (Loan) | (-) | () | (-) | (-) | () | (-) |
| Other . 1. | - | | - | - | | - |
| U.S. 2. | - | | - | - | | - |
| Host Country | 400 | | 400 | 867 | | 867 |
| Other Donor(s) | - | | - | - | | - |
| TOTALS | 1400 | | 1400 | 3367 | | 3367 |

9. SCHEDULE OF AID FUNDING (\$000)

| A. APPROPRIATION | B. PRIMARY PURPOSE CODE | C. PRIMARY TECH. CODE | | D. OBLIGATIONS TO DATE | | E. AMOUNT APPROVED THIS ACTION | | F. LIFE OF PROJECT | |
|------------------|-------------------------|-----------------------|---------|------------------------|---------|--------------------------------|---------|--------------------|---------|
| | | 1. Grant | 2. Loan | 1. Grant | 2. Loan | 1. Grant | 2. Loan | 1. Grant | 2. Loan |
| (1) PSEE | PETT | | | | | 1000 | | 2500 | |
| (2) | | | | | | | | | |
| (3) | | | | | | | | | |
| (4) | | | | | | | | | |
| TOTALS | | | | | | 1000 | | 2500 | |

10. SECONDARY TECHNICAL CODES (maximum 6 codes of 3 positions each)
CIT _____ DRG _____ EXP _____ PRT _____ PSD _____ TWN _____

11. SECONDARY PURPOSE CODE _____

12. SPECIAL CONCERNS CODES (maximum 7 codes of 4 positions each)
A. Code _____ B. Amount _____

13. PROJECT PURPOSE (maximum 480 characters)

(1) To adopt policy changes that reorient Panama's economy away from import substitution and towards free trade.
(2) To develop exports of selected products in the light industry and agribusiness sub-sectors.

14. SCHEDULED EVALUATIONS: Internal MM YY Final MM YY **03 94**

15. SOURCE/ORIGIN OF GOODS AND SERVICES: 000 941 Local Other (Specify) _____

16. AMENDMENTS/NATURE OF CHANGE PROPOSED (This is page 1 of a _____ page PP Amendment.)
USAID Controller has reviewed and concurs with the methods of implementation and financing included herein.

Signature: *Harry Dorcus* 3/30/92
Harry Dorcus, Controller

17. APPROVED BY: *Thomas W. Stukel*
Title: Director, USAID/Panama Date Signed: MM DD YY **03 31 92**

18. DATE DOCUMENT RECEIVED IN AID/W, OR FOR AID/W DOCUMENTS, DATE OF DISTRIBUTION: MM DD YY _____

March 25, 1992

TABLE OF CONTENTS
TRADE AND INVESTMENT DEVELOPMENT
PROJECT (525-0309)

| | | |
|-------------|---|-----------|
| I. | SUMMARY AND RECOMMENDATION | 1 |
| II. | BACKGROUND | 5 |
| | A. The Setting | 5 |
| | B. Project Rationale | 13 |
| | C. Priorities and Strategy | 14 |
| III. | PROJECT DESCRIPTION | 17 |
| | A. Goal and Purpose | 17 |
| | B. Project Strategy | 17 |
| | C. Project Operation | 18 |
| | D. End of Project Status | 19 |
| | E. Project Components | 19 |
| | 1. Policy Advocacy | 19 |
| | 2. Export Development | 23 |
| | 3. Project Monitoring | 29 |
| IV. | PROJECT IMPLEMENTATION | 29 |
| | A. Obligation Arrangements | 29 |
| | B. Implementation Coordination | 29 |
| | C. Cost Estimates and Financial Plan | 32 |
| | D. Methods of Implementation and Financing | 34 |
| | E. Implementation Schedule | 35 |
| | F. Evaluation and Audit Plan | 35 |
| | G. Project Procurement Plan | 36 |
| | H. Training Plan | 37 |
| V. | PROJECT ANALYSES SUMMARIES | 40 |
| | A. Technical Analysis Summary | 40 |
| | B. Financial Analysis Summary | 40 |
| | C. Economic Analysis Summary | 41 |
| | D. Social Soundness Analysis Summary | 42 |
| | E. Institutional Analysis Summary | 43 |
| | F. Environmental Soundness Analysis Summary | 44 |
| VI. | CONDITIONS, COVENANTS AND NEGOTIATING STATUS | 44 |

- 10 -
B
1

ANNEXES

- A. Logical Framework
- B. Statutory Checklist
- C. Grantee Request for Assistance
- D. Technical Analysis
- E. Financial Analysis
- F. Economic Analysis (on file in the Mission's Private Sector Development Office)
- G. Social Soundness Analysis
- H. Institutional Analysis
- I. PID Approval Cable
- J. IEE Project Clearance

ACRONYMS

| | |
|------------|--|
| AID | United States Agency for International Development |
| AMCHAM | American Chamber of Commerce and Industry of Panamá |
| ANADECO | National Association for Economic Development |
| APEDE | Panamanian Association of Business Executives |
| APEX | Panamanian Association of Exporters |
| BDA | Agricultural Development Bank |
| CCIA | Chamber of Commerce, Industry and Agriculture of Panamá |
| CDSS | Country Development Strategy Statement |
| EPZ | Export Processing Zones |
| EXITOS | Export Industry Technology Support Project |
| FECI | Special Fund for Interest Compensation |
| GOP | Government of Panamá |
| GREXPAN | Gremial of Exporters of Non-traditional Products of Panamá |
| IESC | International Executive Service Corp |
| IMA | Agricultural Marketing Institute |
| LDC | Less Developed Country |
| MIDA | Ministry of Agricultural Development |
| ORP | Office of Price Control |
| PDF | Panamanian Defense Forces |
| PID | Project Identification Document |
| PIL | Project Implementation Letter |
| PIO | Project Implementation Order |
| SIP | Panama Industrialist Association |
| USDA/APHIS | United States Department of Agriculture/Animal and Plant Health Inspection Service |

I. SUMMARY AND RECOMMENDATIONS

A. Summary

The goal of the Project is to diversify and increase the level of trade by Panama. The purposes of the Project are: (1) to adopt policy changes that reorient Panama's economy away from import substitution and towards free trade; and (2) to develop exports of selected products in the light industry and agribusiness sub-sectors. The two-fold project strategy is: to enlist local private sector organizations to promote policy changes which move the economy away from an import substitution approach to that of an open economy; and to address specific constraints to diversifying the economy into export producing activities that will reduce its traditional dependence on certain activities in the service sector. The Project will finance a three year grant to the Chamber of Commerce, Industry and Agriculture of Panama (CCIA).

Project activities generally have been divided along the lines of the dual purpose as follows:

1. The Policy Advocacy component will support a private sector directed program of economic policy and regulatory reform, by working with a group of private sector organizations (Fundación ANDE) through the CCIA to carry out activities in the areas of problem identification and technical analysis, as well as public education in support of policy reform.

2. The Export Development component will promote the export of selected products in the light industry and agribusiness sub-sectors. This will be done by addressing specific production and export constraints through the provision of product development plans as well as firm specific and general technical assistance.

A Commercial Service Center (the Center), located in the CCIA, will be responsible for the day-to-day operation of the Project. Its governing committee will provide general oversight. The committee's membership is made up of representatives from the seven private sector organizations (including the CCIA) that currently belong to Fundación ANDE. The committee, with assistance from the Fundación's member organizations, will review and approve yearly work plans and budgets as well as provide guidance on all activities carried out under the Project. The CCIA will be responsible for providing financial and administrative support to the Project.

As part of Panama's most recent arrears clearing effort, the Government, in 1991, agreed to an Economic Recovery Program with the World Bank (IBRD) and the Inter-american Development Bank (IDB). This Program calls for a reduction of tariffs, the elimination of import quotas and price controls and improved efficiency in public utilities and other parastatal corporations through privatization. Previous attempts at similar types of reform in 1983 and 1986 ended largely in failure due to opposition by various special interest groups. The Trade and Investment

— page 1 —

USFDA

United States Food and Drug Administration

USEPA

United States Environmental Protection Agency

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Development (TID) Project will complement the new Economic Recovery Program by fostering support through studies, analyses and public education efforts on the need for policy reform. It will also assist the private sector to take advantage of the trading opportunities that occur as the reforms of the Recovery Program become effective. Finally, depending on the results of the Project's policy studies, it may extend the scope of some of the Recovery Program's policy reforms.

TRADE AND INVESTMENT DEVELOPMENT PROJECT (525-0309)

B. Project Inputs (\$3,367,240)

| <u>Project Components:</u> | <u>USAID Grant</u> | <u>C.P. Funds</u> | <u>Project TOTAL</u> |
|----------------------------|------------------------|-----------------------|--------------------------|
| Policy Advocacy | 1,073,200 | 658,740 | 1,731,940 |
| Export Promotion | 913,000 | 183,500 | 1,096,500 |
| Evaluation and Audit | 200,000 | 0 | 200,000 |
| Contingencies | 313,800 | 25,000 | 338,800 |
| <u>Project Totals</u> | <u>2,500,000</u> | <u>867,240</u> | <u>3,367,240</u> |

C. Recommendation

The Project Development Committee recommends that a grant in the amount of \$2.5 million be authorized to the Chamber of Commerce, Industry and Agriculture of Panamá to assist in financing the thirty-six month Trade and Investment Development Project. In STATE 205352, LAC/W provided program concurrence to the Mission to approve the Trade and Investment Development Project.

D. Project Development

USAID/Panama Project Development Committee:

Kermit C. Moh, PSD
David S. Gardella, PSD
Felipe Frederick, PSD
Robert Mathia, PPD

Project Design Team:

Fundación ANDE:

Joseph Salterio, President Fundación ANDE
Guillermo Fernández, President CCIA
Darío Selles, President SIP
Dominator Kaiser Bazán, President of ANADECO
Juan Antonio Niño, President of APEDE
Richard Wainio, President of AMCHAM
Enrique Chang, President of APEX
Ricardo Koyner, President of GREXPAN

Private Sector Representatives:

Ricardo Alemán, CCIA
Ricardo Cazorla, AMCHAM
Ing. Vicente Pascual, SIP
Mario Jaramillo, APEDE
Juan Francisco Pardini, ANADECO
Luz Striem, APEX
Jaime Tedman, GREXPAN

Carlos Hoffman, APEX
Virgilio Correa, ANADECO
Fred Denton, AMCHAM
Rolando Gonzalez S., CCIÀ
Carlos Gustavo de Obaldía, Fundación ANDE
Domingo de Obaldía, APEDE
Daniel Vega, SIP/APEX

II. PROJECT BACKGROUND

A. The Setting

1. Economic Setting: Panama has advantages over the other countries of Latin America essentially derived from its geographic position as the most convenient transit point from the Atlantic to Pacific Oceans. Since its separation from Colombia in 1903, Panama's economic structure has been shaped first by the construction and then by the operation of the Inter-oceanic Canal. This special geographic position created potential for the development of a completely open and internationally competitive economy. However, this has not occurred. Instead, Panama has a dual economy. On the one hand, there are sectors which are not protected by the government, but that do have an appropriate and stable business environment and, on the other, there are sectors largely isolated from international trade because of legal and administrative barriers protecting them from outside competition.

Panama is a small country in terms of both area (75,517 square kilometers) and population (just under 2.4 million). Of the latter, about one-half reside in the Colon-Panama metropolitan zone. Per capita income in current prices was estimated at US\$2,007 in 1990. In real terms, per capita income has only returned to the 1979-80 level after a sharp period of decline during the economic and political crisis of 1987-89.

In comparison with 1980, Panama's economy had begun to show renewed growth in 1985; a recovery which lasted into 1987. From 1985 to 1989, there was friction between the Panama Defense Forces (PDF) and civil authorities, which progressively intensified. These internal conflicts led Panama into a severe foreign policy conflict with the United States, eventually provoking economic sanctions by the United States. The internal strife plus economic sanctions contributed to a sharp economic downturn. Depositors in the international banking center lost confidence in the Government and withdrew their deposits on a massive scale. Income and employment declined as did government revenues. Real GDP contracted by 17.7 percent. Although imports declined sharply, export activities remained relatively stable during the crisis. In 1989, real GDP fell by another 3.0 percent. Gross domestic investment as a percentage of current GDP also fell sharply, from a high of 30.1 percent in 1981 to only 2.6 percent in 1989, with public sector investment at 1.8 percent. Events were brought to a climax in December 1989 with Operation Just Cause. In the day following, businesses suffered from widespread looting.

Since early 1990, recovery has been rapid. During 1990, economic activity in Panama was brisk, with the private sector, contributing the most to the economic recovery. Real GDP growth for 1990 is estimated at 4.6 percent, while a preliminary estimate for 1991 suggests real growth of 9.3 percent.

2. Sectorial Picture: The composition of Panama's GDP from 1984 to 1991 is presented in Tables 1 and 2. The figures clearly show the heavy reliance on the service sector.

**TABLE 1. PANAMA - SECTORAL
SHARE OF GDP (PERCENT)**

| | 1985 | 1988 | 1989 | 1990(p) | 1991(e) |
|--|--------------|--------------|--------------|--------------|--------------|
| Agriculture & Mining | 10.3 | 11.4 | 11.9 | 11.9 | 11.7 |
| Manufacturing | 8.9 | 8.2 | 8.7 | 9.3 | 9.4 |
| Construction | 4.4 | 2.0 | 1.3 | 1.8 | 3.3 |
| Commerce | 12.5 | 10.3 | 10.7 | 11.7 | 12.1 |
| Banking | 14.1 | 15.5 | 15.2 | 14.8 | 14.3 |
| Transport and Communication | 25.5 | 27.6 | 26.3 | 25.1 | 25.3 |
| Other Services, including public sector and utilities | 26.5 | 28.0 | 28.5 | 27.0 | 26.2 |
| TOTAL | 102.2 | 103.0 | 102.6 | 101.6 | 102.3 |
| Adjustment Factors | | | | | |
| Subtract: Imputed Bank Commissions | 4.0 | 3.9 | 3.5 | 3.3 | 3.7 |
| Add: Import Taxes | 1.8 | 0.9 | 0.9 | 1.7 | 1.4 |
| TOTAL | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |

p = preliminary
e = estimated

TABLE 2. - SECTORAL ORIGIN OF GDP
(PERCENTAGE CHANGE AT 1980 PRICES)

| | 1984 | 1985 | 1986 | 1987 | 1988 | 1989(p) | 1990 (Est.) | 1991 (Est.) |
|---------------|--------|------|-------|-------|--------|---------|----------------|----------------|
| GDP | (0.4) | 4.8 | 3.3 | 2.3 | (15.6) | (0.9) | 4.6 | 9.3 |
| Agriculture | 1.7 | 5.0 | (2.2) | 7.4 | (5.0) | 3.1 | 4.2 | 5.0 |
| Manufacturing | (0.5) | 2.1 | 2.2 | 3.7 | (22.6) | 5.5 | 11.9 | 11.2 |
| Construction | (17.4) | 0.1 | 7.5 | (2.8) | (60.7) | (33.8) | 38.9 | 104.2 |
| Services | (0.7) | 5.1 | 3.5 | 2.2 | (12.1) | (2.0) | 2.6 | NA |

Source: GOP Office of the Comptroller General

Over 50 percent of Panama's merchandise exports consist of traditional agricultural products such as bananas, shrimp, coffee and sugar. The relative importance of these four products can be seen from the following figures for 1990 export values:

- Bananas \$89 million
- Shrimp 44 million
- Sugar 37 million
- Coffee 14 million

Other agricultural products generate exports in the range of \$30 million annually, the most important of which are exports of other seafood (\$16.8 million in 1990), livestock (\$5.5 million), fruits and nuts (\$3.1 million), and tobacco (\$3.4 million). Exports of agroindustrial products amounted to \$16.6 million in 1990, whose most important components were milk products (\$6.1 million) and banana puree (\$6.7 million).

Although agriculture, including livestock and fishery, accounts for only 11 percent of GDP, it provides employment to 25% of the labor force, and contributes 50 percent of the merchandise exports of Panama. The value added of the agricultural sector rose by an average annual rate of 3 percent in the period 1984-1987, and declined by 5.0 percent in 1988. The decline was largely a consequence of a drop in crop and forestry production related to problems in the procurement of agrochemicals from foreign suppliers, and a reduction in agricultural credits from the banking system and government lending agencies. Some improvement in the foreign supply of inputs during 1989 helped increase agricultural value-added by an estimated 3.1 percent.

3. Constraints to Export Development: There are a number of constraints to the development of Panamanian products for export. The following is a description of the major problems which must be overcome.

a. Agricultural Activities:

Over the years, a number of overlapping and often interwoven policies have been put into effect by the Government of Panama to protect domestic production from foreign competition. The present system of controls and regulations have promoted import substitution instead of export production. Almost all items produced for domestic consumption have been subjected to some level of Government control. The distortions which have resulted from these policies have constituted a major constraint to increased production for export, especially in the agriculture sector.

One means by which the GOP has exercised control over production for the domestic market is through a system of import quotas. The Instituto de Mercadeo Agropecuario (IMA) is the GOP organization responsible for controlling import quotas of agricultural goods. Prior to 1990, a total of 42 food products were regulated by a quota system. IMA worked with a committee composed of representatives from the Ministerio de Desarrollo Agropecuario (MIDA), as well as importers and producers to determine what level of imports would be permitted. The issuance of import permits for an additional 23 products has been less formal than the assignment of quotas, but it also was based on an examination of the market to ensure that domestic production would not be adversely affected. Under the recently agreed upon World Bank program, price and quantitative controls are being eliminated for nearly all agricultural products.

In addition to import quotas and permits, imported food items are assessed tariffs. Depending on the product, the rate ranges from 0 to 90 percent.

The GOP Office of Price Regulation (ORP) has regulatory control over prices of 35 food products. Other products have an "agreed price" or a "reference price" at the producer stage, in addition to controlled prices at wholesale or retail. The act of setting prices, as does the issuance of import quotas, often becomes embroiled in political controversy. The ORP is expected to be transformed into a consumer protection agency under the World Bank's Economic Recovery Program as domestic price controls on industrial and agricultural products are removed.

In addition to import constraints and price controls, several export restrictions also exist. Bananas, Panama's major export crop, are subject to an export tax and export permits are required for beef and coffee.

The cost of agricultural inputs is abnormally high. This situation appears to arise from structural impediments to competition, and results despite freedom from import duties. In the case of fertilizer, there is no domestic production, and the GOP does not interfere in the importation. However, two companies dominate the market, and farmers complain of high prices. In the case of farm chemicals, the process of registering a new product is lengthy, but once registered, products from the approved supplier

and country of origin can be imported relatively easily. However, similar products from different suppliers or different countries of origin must be re-registered. This acts as a barrier to competition. In the case of crop seeds, any new variety imported for commercial sale must be tested by the appropriate Government agency for approximately a two year period. However, new seed that will be used by a grower for his own use, with phytosanitary certificate, can be readily imported.

Because of the policy and structural distortions in the agricultural sector, there are few banks that actively lend to the sector. Bankers as a whole consider the agricultural sector to be high risk and prefer to lend to other sectors such as commerce and housing.

As a result, a universal complaint that is heard in the agricultural sector is about the lack of credit. Any agricultural portfolio that a commercial bank might have is generally limited to traditional agricultural crops. It should also be noted that there is a generalized lack of sophistication within the agricultural community as to how to make a polished, professional credit application.

An additional negative effect on the availability of credit arises from the mechanism employed to subsidize credit for agriculture. Through the mechanism of the "fondo especial de compensación de intereses" (FECI), personal and commercial loans in Panama are charged 1% more than the prevailing market interest rate. The accumulated amount accrues to a fund which is used to subsidize agricultural loans by an amount of 3%. The majority of these funds have been used by the government-owned Agricultural Development Bank (BDA). Most of the loans made by the BDA during the military dictatorship were questionable at best. As a result, the BDA today suffers from a lack of liquidity. Private commercial banks have been unwilling to access the FECI citing "rules of the game" that are not clear.

Government protectionist policies may well have benefitted Panamanian farmers producing goods for domestic markets, but they have been costly for the consumer and have been a deterrent to agricultural exports.

Another major constraint to the development of export agriculture in Panama is the lack of market information which can be used to make investment decisions and for production planning. There is generally a lack of awareness of how the market functions in developed countries for agricultural export products and what import requirements must be met. For example, agricultural exports from Panama must meet the requirements of a number of United States regulatory agencies, such as the Department of Agriculture (USDA - APHIS), the Food & Drug Administration (USFDA), and the Environmental Protection Agency (USEPA). Access to United States markets is currently denied for many potential exports from Panama. In some cases this is because potentially harmful pests are present in Panama (i.e., the Mediterranean fruit fly) and treatment

facilities in Panama required to prepare the product for entry into the United States do not exist. In other cases, products which have not been previously approved by U.S. agencies for entry into the U.S. from Panama have to enter into procedures for obtaining permits and approvals for these new items which are lengthy, complex, and burdensome. Panama must apply for authorization to export each item to the United States without consideration given as to whether or not similar products are permitted entry from neighboring countries. Considerable work will be required to bring Panama's agricultural products with export potential to the United States into compliance with United States import regulations.

Finally, technical assistance, guidance, and training is needed to assist in the start-up and production of new crops for which there is limited experience in Panama. There is a great need for "applied research" - the adaptation to conditions in Panama of practices which have been developed and tested in other locations. Further, there is a need to enhance the existing level of technology for crops with export potential which are already grown in Panama. The requirement is to increase yields, to reduce production costs, to diversify into new crops, and to implement sound agricultural practices required for sustainability. For example, the services and infrastructure required for packaging, cooling, and transporting fresh products from the farm to the point of export needs to be upgraded. Some products (i.e., cantaloupe melons) which could be produced in Panama are not grown because there is no means of pre-cooling the product, and of keeping the product stored under refrigeration. In many cases, packaging material is not available locally, and must be imported at a high cost. Refrigerated transport is limited and is expensive. On the positive side, there appears to be sufficient refrigerated containers in Panama, and refrigerated shipping service is readily available.

b. Non-agricultural Activities:

Business corporations in Panama may operate anywhere they wish and pay taxes only on operations within Panama. Bearer shares are legal and registration requirements simple: an estimated 130,000 corporations have been established in Panama.

The Panamanian flag merchant fleet is the world's largest, generating about \$40 million in government revenues and \$8 million for the international services sector annually.

The Colon Free Trade Zone which began operations in 1952 has evolved into the region's largest merchandise transshipment and distribution center employing an estimated 9,000 people and generating over \$6 billion in operations in 1990 alone.

Starting with enabling legislation in 1970 which permitted banks to be established freely in Panama and pay no taxes on operations outside the country, Panama's international banking center peaked in about 1981 with 121 banks and total assets of approximately 49 billion dollars. Presently, over one hundred

banks remain with total assets of \$21 billion. Panama's insurance industry has also developed well with 34 companies now operating in Panama. Of these, a third are foreign owned.

While the above activities were allowed to operate relatively free of government intervention, the production of industrial and agricultural goods has been subject to development policies which protected these domestic sectors, thereby creating a strongly anti-export bias. Laws affecting industry establish high levels of import protection, favor high cost local industries and inhibit the entry of new firms into existing product areas. Support services tend to be high priced owing to such factors as oligopolies in transport and warehousing and state monopolies in electrical power, telecommunications, water and ports.

During the military dictatorships, the government bought political favor through a series of populist, but uneconomic measures, such as expanded health care and low retirement ages for the Social Security System, extensive benefits for labor embodied in the labor code, extensive price controls to keep the cost of the market basket low, state ownership of major enterprises including the power, telecommunications and port facilities and the concession of service monopolies particularly in the transport field.

Many industries in Panama are quite familiar with the export market of Latin America. In the early 1980's these industries exported to Central America and the Caribbean. The majority of these exports were in clothing, chemical products and petroleum derivatives, rubber and plastic products and processed food products. Manufacturers focussed on targets of opportunity such as filling in when the normal supply sources to Nicaragua and El Salvador were disrupted due to the conflicts there. However, when the original supply sources were restored, Panama lost these export markets. Also, during this time, many manufacturers encountered problems collecting their bills in hard currency due to the restrictions that many Central banks throughout Latin America imposed on hard currency transactions. As a result, selling to the local domestic market became more and more attractive.

Today, manufacturing operations in Panama are primarily directed at the domestic market. Most manufacturers benefit from high levels of import protection which more than compensate for Panama's relatively high cost of inputs. In general, Panamanian industry is not competitive in world market terms, with only a few firms exporting successfully without benefit of incentives/subsidies or using the artificially high prices of domestic sales to be able to sell at lower prices abroad.

Manufacturers are hampered by a rigid labor code. This code has several restrictions that increase the cost of doing business in Panama. One, in particular, does not permit temporary layoffs. During times when the demand for a company's product is low, employers have to maintain workers on the payroll or try to fire them which is an arduous and expensive task. The result is

that companies forgo opportunities that arise to carry out short term contracts for foreign companies. The costs of staffing up to carry out such an activity and then having to continue to employ idle workers once the contract is over are simply too high.

It is generally recognized that the cost of fuel and electricity in Panama is high. This is especially disadvantages to those industries whose fuel costs make up a large percentage of the inputs to a manufacturing process and it has had a stifling effect on those wishing to produce for the export market. The problem was recently alleviated somewhat because the Government reduced electric rates by 10% and hopes to make further reductions as efficiency improvements are achieved. The Project's export development component can assist firms to take full advantage of these cost reductions.

The inefficiencies and resultant costs of transportation add a high price to agricultural and industrial goods. Currently, there are transportation monopolies which only allow trucks to travel one way when fully loaded. Greater flexibility in these transport regulations must be sought in order to decrease costs.

Finally, port facilities must be made more efficient. Currently, clearing a container of goods through customs can take as long as 40 days. There is a high risk of a container's contents being pilfered and the actual loading and unloading of ships takes much longer than at other ports in the region. Costs of processing a container through either Balboa or Cristobal are also high. In order to resolve this, the Government is beginning the process of granting concessions within the ports to the private sector.

Because of the above constraints, increased local as well as foreign investment has been minimal in the light industry sector. Export Processing Zone (EPZ) legislation is being proposed that would act as an incentive to establish more industries, but the constraints in transportation, fuel and port costs will also have to be addressed. A program of reform in the port sector which will include privatization of some port functions will be initiated in 1992 with assistance from the Inter-american Development Bank.

The end result of the above is that services provide approximately 80 percent of Panama's gross domestic product, agriculture about eleven percent and manufacturing about eight. Panama requires a more balanced economy in order to cushion it from any fluctuations in the service sector. Further, in order to take fullest advantage of opportunities created as other countries open their markets to free trade, Panama must reorient its policies. This requires that efforts in support of economic growth be directed at removing constraints affecting the agricultural and industrial sectors. Many if not most of those constraints will be addressed in the World Bank's Economic Recovery Program. However, similar programs were tried in the past with little or no success. This Project will complement the World Bank's Program by garnering support from the private sector. It may, in some instances, extend the scope of the policy reforms of the Recovery Program. Finally,

it will also assist the private sector to capitalize on the trading opportunities that are created as the policy reforms of the Program take effect.

B. Project Rationale

The Trade and Investment Development Project is designed to form an integral element of USAID/Panama's efforts to support local initiatives directed at the liberalization of international trade. Panama's unique economic dependence on services as described above is no longer sufficient as an engine of growth to provide employment to a growing population or to overcome troublesome pockets of urban and rural poverty.

The thrust of the Project is to move Panama's traditionally highly protected, high cost and noncompetitive industrial and agricultural sectors towards a more efficient operation similar to its services sector. To make itself ready for the coming liberalization of international trade and to achieve economic growth, Panama must make better use of its human and natural resource bases, a process most effectively assisted through changes in the policy and regulatory environment. The Project will enlist the private sector to promote these necessary changes.

The Project Identification Document (PID) anticipated that the Project would undertake three broadly defined activities: providing specialized managerial and technical assistance to improve export oriented production and marketing capabilities; generating investment in labor intensive private enterprises; and supporting private sector-led policy dialogue for international trade liberalization. Originally, the Project would have had a life of project of five years with A.I.D. contributing \$8 million to this effort.

However, during Project Paper development, it became clear that policy reform had to be implemented before a major effort in export and investment promotion could be successfully carried out. It was noted that while the Economic Recovery Program agreed to with the IBRD and IBD provides for substantive reform in trade policy, public enterprises, tax policy, public sector banks and domestic regulation, its implementation will take place over a three-year period and, in addition, in some areas (e.g. labor policy) proposed reforms are not extensive. As a result, the project's focus has been narrowed to concentrate on supporting private sector-led policy dialogue to smooth the way for implementation of the Economic Recovery Program, to create consensus for needed reforms not included in the Program and to set the stage for further policy improvement beyond the Program's time frame. In addition, the Project's IOP has been reduced to a three-year effort with an A.I.D. contribution of \$2.5 million. Still, a limited amount of more direct export development activities in selected product areas is also planned. The latter include technical assistance in such areas as market studies and improved plant layout with an eye toward increased productivity for specific agribusiness and industrial firms involved in export production.

These will assist the private sector take advantage of existing as well as new trading opportunities that will occur from policy reform.

A follow-on project concentrating on export development and related investment at the micro level is contemplated provided the momentum of policy change is maintained, the Panamanian economy remains strong and a better investment climate results in expanded opportunities for trade. Any new project would be subject to the availability of funds. It is estimated that such a project would have an LOP of four years and require approximately \$5.5 million in funding.

Accordingly, the Trade and Investment Development Project proposes to work closely with key private sector organizations. It will support changes in policies which define the legal, judicial and regulatory initiatives which will liberalize the trade regime and remove internal constraints to increased production for export. It will also selectively assist companies in promoting agricultural and light industrial exports.

By the end of the three year period (or before this if warranted), an evaluation will be conducted to determine whether sufficient policy reform has occurred to warrant more direct activities in trade and investment development. As part of the evaluation, companies will be interviewed to determine whether trade policies have changed enough to attract increased foreign and domestic investment.

C. Priorities and Strategy

1. USAID Policy Guidelines: A.I.D.'s policy paper entitled "Trade Development" dated July 1986 provides direction in the encouragement of appropriate LDC trade policies and a framework for the design of trade-related programs and projects. It states that A.I.D. will focus its trade development efforts to:

- a) Establish a policy environment that is conducive to private enterprise and expanded participation in international trade,
- b) Encourage the transfer of technology, skills and information required to expand and diversify LDC agricultural and industrial bases for export production in areas of comparative advantage,
- c) Support trade and investment promotion efforts,
- d) Introduce or expand private sector competition in the export or import of essential or economically important commodities,
- e) Broaden the scope of export development projects to provide for greater U.S.-LDC two-way trade opportunities, and
- f) Encourage prudent investments in infrastructure to improve

an LDC's trade position.

This Project is fully consistent with the efforts described above especially in the area of creating an improved policy environment so that the private sector has increased opportunities to export. It will both directly and indirectly work to improve the country's policy environment and make it more conducive to trade. A policy advocacy component will directly seek policy revisions through studies, analyses and public education activities such as seminars. The Project will indirectly effect policy changes by complementing the Economic Recovery Program of the IBRD and IDB. The intended results of those changes include a reduction in import protection measures which will lead to greater competition. The development of product development plans and the provision of specific and generalized technical services will support trade promotion efforts, the transfer of technology and an expansion of the country's economic base.

2. USAID Mission Objectives: The Mission's CDSS lays out three strategic objectives that it will seek to accomplish from 1991 to 1996. These are:

- Consolidation of democratic processes and institutions, including all elements of the judicial system;
- Economic diversification and export-led growth; and
- Successful implementation of the Canal Treaties.

The Project will support the second objective by encouraging policy reform towards free trade as well as working to increase agricultural and industrial exports.

3. Complementary USAID Activities: This Project complements several on-going activities within the USAID/Panama portfolio.

The Economic Policy Development (EPD) Project includes approximately \$2.5 million for technical assistance to the Government of Panama in the area of economic studies. An additional \$1.0 million is budgeted for studies relating to the transfer to Panamanian ownership of the Canal and related assets. All EPD Project components include funding to disseminate study results, where appropriate, to the public. While the EPD Project is principally oriented toward assisting the GOP to implement its medium-term economic program, the TID Project seeks to identify regulatory and other policy issues which affect trade, but which are not explicitly included as part of the existing program of reform. Members of the TID Project team will insure that their private sector counterpart institutions have access to the information generated by the EPD Project for extensive review and discussion. Studies that the Policy Project intends to carry out will not be duplicated by the TID Project.

USAID also has the EXITOS Project managed from ROCAP and the AID/W funded Farmer-to-Farmer Program which will complement TID

activities; especially in the nontraditional agricultural export area. The TID Project will access both EXITOS and the Farmer-to-Farmer Program to provide short term technical assistance.

4. Relationship to Other Donors: In late 1991, Panama reached agreement with the World Bank and the Inter-American Development Bank on a comprehensive program of economic policy reform, the Economic Recovery Program, whose broad objective is to increase Panama's competitiveness as a supplier of goods and services to the international market place. The chief elements of policy reform to be implemented are:

- Reduction in public sector current outlays, to increase budgetary resources available for productive investment.
- Efficiency improvements and partial privatization of parastatals in the power, water and port sectors, with the objective of reducing prices via cost reductions.
- Privatization of the national telephone company.
- Tax reform to simplify and modernize the tax code, and improve incentives to investment.
- By 1993, tariff reductions to a maximum of 40 percent for industry and 50 percent for agriculture.
- Elimination of all specific tariff rates by 1993.
- Elimination of import restrictions for agricultural products.
- Elimination of all export restrictions.
- Elimination of domestic price controls.
- Actions to make domestic petroleum product prices internationally competitive.
- Development of a labor policy reform program.
- Reform of the Social Security Program.
- Reform of the public sector banks, including restructuring of the Agricultural Development Bank.

If implementation of the Recovery Program proceeds satisfactorily, the World Bank, with possible cofinancing from the IDB, will consider, over the 1992-96 time horizon, initiating sector specific policy reform-based lending operations. Areas the IBRD is currently studying for such operations include the transport sector, including deregulation, further trade reform and labor market reform. The World Bank is also considering a proposal to finance a Capital Markets Reform Project on a regional basis, including Panama.

The TID Project will complement this Program by promoting public support and by seeking to carry out some policy reforms not covered by the Recovery Program. Its studies and public education activities will assist with developing and maintaining public support for the changes sought under the Program and some of the policy changes that it will identify would build upon changes already proposed under the Program. Finally, the Project would assist the private sector take advantage of new trade opportunities that open up as a result of the reforms.

III. PROJECT DESCRIPTION

A. Project Goal and Purpose

The goal of the Project is to diversify and increase the level of trade by Panama. The purposes of the Project are: (1) to adopt policy changes that reorient Panama's economy away from import substitution and towards free trade; and (2) to develop exports of selected products in the light industry and agribusiness sub-sectors.

B. Project Strategy

The two-fold project strategy is: to enlist local private sector organizations to promote policy changes which move the economy away from an import substitution approach to that of an open economy; and to address specific constraints to diversifying the economy into export producing activities that will reduce its traditional dependence on certain activities in the service sector. The Project will entail a three-year grant to the CCIA.

Project efforts will be divided between policy advocacy and export development activities. Under the policy advocacy component, problem identification efforts will be carried out followed by analyses to determine alternative courses of action and their effects, and, ultimately, operation of public education programs to obtain broad based support for proposed policy changes. Under the export development component a promoter approach will be utilized for many of the component's activities. That approach is based on the assumption that when major constraints are placed on local producers and investors, success in overcoming those constraints requires substantial but narrowly targeted technical assistance in marketing and production. Therefore, the component will provide enterprise-specific technical assistance services to a limited number of producers in a limited number of product areas. In addition, the promoter approach will be complemented by inputs of generalized technical services and data bases.

An A.I.D. Evaluation Special Study titled "Promoting Trade and Investment in Constrained Environments: A.I.D. Experience in Latin America and the Caribbean" concludes that even in a less than ideal policy framework, a program of specialized technical assistance on a firm and product specific basis could increase export sales significantly and that a promoter approach is best used when in such an environment.

C. Project Operation

The CCIA will support a governing committee, made up of representatives from the seven private sector organizations (which includes the CCIA) that currently belong to Fundación ANDE. That organization was recently reorganized to assist with implementation of the Project. The committee will oversee the operation of the Commercial Service Center. The Center, which is already established, will serve as the principal implementing/coordinating vehicle for the Project. It will be responsible for the day to day operations of the Project while the CCIA will be responsible for all financial and administrative matters for the Project. The individual member organizations of Fundación ANDE and the governing committee will review and approve yearly work plans and budgets and provide guidance to all activities carried out under the Project. The organizations that make up Fundación ANDE include:

- O - The CCIA.
- O - The Panama Industrial Association (SIP).
- O - The Panamanian Association of Business Executives (APEDE).
- O - The American Chamber of Commerce of Panama (AMCHAM).
- O - The National Association for Economic Development (ANADECO). (This group represents the 100+ businessmen who are individual members of Fundación ANDE).
- O - The Guild of Non-traditional Agricultural Exporters (GREXPAN).
- O - The Panamanian Association of Exporters (APEX).

Membership in Fundación ANDE is not limited to the above organizations. Others may join as the Project is implemented. In addition, the governing committee may invite other private sector organizations to participate in Project activities on an ad hoc basis. In particular, it will be encouraged to include those organizations whose members would be directly affected by a policy change that it is considering.

The CCIA mostly represents the commercial sector of Panama while SIP and APEX represent the industrialists. APEDE operates analogously to the American Management Association and attracts company managers rather than owners. The AMCHAM is interested in the development of the tourism sector and offers close contacts with potential U.S. investors. GREXPAN is a newly formed organization of non-traditional agricultural exporters based in western Panama. ANADECO represents more than 100 prominent businessmen who are interested in Panama's economic development.

The core costs of the Center (office space, salaries of the Executive Director and secretary, etc.) are borne by these private sector organizations. The Project will finance discrete activities which lead to policy reform and export development. In addition, the Project will fund the salary, for the first year, of an

administrative assistant who will work in the Center as well as some of the Center's office equipment and supplies.

The offices of the Center are physically housed within the CCIA. The Center's staff will consist of an Executive Director (who is already on the job), an administrative assistant, a management information specialist and a secretary. The Executive Director is tasked with implementing the Project and reports to the governing committee of the Center. The CCIA will be responsible to A.I.D. for all activities to be carried out under the Project. Within this context, the Center will be responsible for the programmatic execution of the Project.

D. End of Project Status

1. Private sector-led policy dialogue and public education activities will result in a reduction in both the:

(a) legal and regulatory barriers to imports and exports in six product areas; and (b) legal, regulatory and/or cost constraints to export related investment and production. Baseline data, developed as part of a master study of policy reform needs, will be used to measure results over the Project's life.

2. Through a process of debate and discussion within the private sector and eventual actions of policy advocacy with the Government of Panama, the private sector will have assumed an increased, better organized role in determining Panama's policy environment. The sector's role will include: (a) identifying policy constraints not included in the GOP reform program and making concrete proposals for change; (b) conceptualizing longer-range policy reform directions beyond the time horizon of current reform efforts; and (c) contributing to effective implementation of trade reform efforts underway.

3. At least six non-traditional products or services are introduced and/or their production increased for world markets as a result of product and firm specific assistance provided under the Project. Baseline information for each product studied and each firm assisted will be compared with exports achieved.

4. A group of entrepreneurs and production managers are familiar with and are applying newly acquired export and production technologies in their firms.

E. Project Components

1. Policy Advocacy

a. Objective: The objective of this component is to support a private sector directed program of economic policy and regulatory reform. It will assist private sector organizations to carry out a program of problem identification, technical analysis and, public awareness efforts in support of desirable policy reforms.

b. Activities: Traditionally, the organizations that make up the Center have focussed on working towards changes to regulations, laws and other constraints that most directly had a major impact on their members. There was not a concerted effort to identify policy constraints which were cross cutting in nature and affected the majority of the members in many adverse ways.

The project will attempt to accomplish this by bringing the most important organizations of the private sector together under Fundación ANDE. There they will discuss cross cutting problems and unite as a group to work with the GOP for changes which will create an improved trade environment in Panama.

Members of the seven organizations that belong to the Center have recently met and agreed that their efforts should initially focus on streamlining government procedures and working towards doing away with laws, rules and regulations that create constraints to trade. The CCIA will spearhead this activity.

To assist with this effort, the Project will finance a master study and a series of seminars and workshops to identify key laws, regulations and other constraints that adversely affect investment. As part of the study, surveys will be carried out with existing investors to determine the impediments that they have found to increasing their investment in Panama. Existing studies pertaining to investment impediments will be reviewed and updated. Additional analysis will be carried out in areas that require it.

With the master study in hand, the governing committee of the Center will then meet to draw up a plan of action on how to eliminate some of the key constraints to investment. Member's of the Mission's Private Sector Development Office will observe and participate, as necessary, in the development of the plan. Each member of the committee will take the lead in addressing constraints in their particular area of expertise and the CCIA will be responsible for obtaining the necessary technical assistance to assist each member with their efforts. For example; APEDE will work to make changes in the transport sector and encourage a well defined and transparent privatization process for parastatal corporations, the CCIA will work for changes to laws and regulations that affect commerce and services as well as the overall labor issue, the SIP for modifications to laws and regulations affecting the industrial sector, AMCHAM for changes in the tourism sector, etc. It should be noted that the changes to policies that each organization takes the lead in will have the backing of the other members of the Center.

In addition, there are areas which are so important that several member organizations would be heavily involved in working for change. In this event, the Center will serve as the coordinator of all the activities.

Areas that will be addressed include:

- O - Reform of the existing "Export Processing Zone" law to make Panama competitive with other countries in the region.
- O - Improving the industrial incentives law.
- O - Modifications to the labor code to allow for increased productivity.
- O - Continued dismantling of government control of the agricultural sector through reform or elimination of export licenses, price controls and agricultural marketing regulations.
- O - Continued promotion of privatization of basic services such as port management, electricity generation, air transport and telecommunications with the purpose of increasing efficiency and reducing costs.
- O - Elimination of policy constraints to tourism development.

It should be noted that A.I.D. will require formal review and approval of the scope of work for the master study. A.I.D. will also closely review the selection and scopes of work of the follow-on studies to ensure that Agency policy, legal and regulatory requirements are met.

Through a series of seminars, workshops, a campaign of public dissemination, the drawing up of draft legislation and public education efforts, the members of Fundación ANDE as well as the Center will work to create an improved trade climate in Panama. In particular, the following will be carried out:

- O - Seminars and workshops that will bring together experts and interested participants to build consensus in support of specific policy reforms.
- O - Media releases designed to promote public support for desired policy or regulatory changes.
- O - Quick response with media information to publications of misleading information.
- O - Organized public education efforts on the part of the Center with the executive and legislative branches of government.
- O - Technical assistance in drafting legislation or conducting research in support of changes of law or regulations.

In carrying out the above activities, there will be close coordination with the ongoing Economic Policy Development Project (525-0313) to insure that there is a sharing of information between projects and to insure that redundant areas of study are not carried out.

c. Outputs:

- o- Master study completed by October 1992.
- o- At least six individual policy studies completed and widely disseminated by July, 1994.

d. Inputs: A total of \$1,073,200 is budgeted for this project component. This includes: \$470,000 for policy advocacy studies. Of this amount, \$150,000 will be used to contract for the master study to review the constraints to investment in Panama and \$320,000 will be used to contract local, Code 941 and/or U.S. firms for follow on detailed studies. There is \$192,000 budgeted for training activities, including seminars; \$316,200 for technical assistance and salaries; \$53,000 for commodities; \$36,000 for travel; and \$6,000 for miscellaneous support costs.

The following training activities will be financed by the Project: a total of eleven (11) policy seminars including the financing of four internationally renowned speakers in such areas as EPZs, industrial productivity, labor, etc. (\$80,000) and two (2) observational trips to countries where trade reform has taken place so that private sector, labor and government officials can see first hand the benefits of these changes (\$12,000). A total of \$100,000 is budgeted for the drafting and printing of publications and dissemination activities in the area of policy reform. The CCIA has a full time public relations staff and the Project will make use of it to help develop and disseminate information on policy reform.

In order to assist the Executive Director of The Center in developing and implementing a policy agenda as well as coordinating short term technical assistance, a long term International Executive Service Corps (IESC) advisor will be contracted for a 24-month period. IESC has a demonstrated track record of providing quality technical assistance in such areas as policy development, firm specific technical assistance and export promotion. The estimated cost of this long term advisor is \$300,000. His/her specific functions will be assisting the Executive Director in developing and implementing plans so that the member organizations can more effectively work towards an improved business environment. He/she will also coordinate the technical assistance necessary to carry out the product development plans as well as the short term, firm specific technical assistance which is described in more detail in the export promotion section. In addition, the project will finance the first 12 months of the salary of an administrative assistant to assist the Executive Director in coordinating project activities at a cost of \$16,200.

The Project will finance the following commodities: a motorcycle, three computers, a computerized data base system, fax machines, office supplies and furniture at a total cost of \$53,000. Finally, the Project will finance miscellaneous office expenses (\$6,000).

2. Export Development

a. Objective: The objective of this component is to develop exports of selected products in the light industry and agribusiness sub-sectors. The promoter approach model will be utilized for many of the component's activities. Assistance will be provided for selected products in the two sub-sectors through the preparation of Product Development Plans. At the same time both specialized, firm-specific and more generalized technical services will be provided to assist businesses desiring to invest in and to increase production of export products. While emphasis is initially being placed on products, non-traditional service exports may also be considered for project assistance.

b. Activities: The following activities will be implemented through this component:

(1) Product Development Plans: This activity will focus on: (a) developing information concerning Panama's existing and potential production and export capabilities; and (b) developing new export products. The basis for a large part of the information to be provided is a product development plan for each export product. A total of six such plans will be prepared -- three each for light industrial and non-traditional agricultural products.

Each development plan will contain specific technical, financial and economic information on the production, export and marketing of each product. For light industrial products, product plans will provide information in such areas as cost of inputs (raw materials, labor, utilities, etc.), grades, standards and other product specifications, manufacturing processes and their costs, local expertise to produce for export and recommendations as to required managerial training, potential market size and the possible export markets. For non-traditional agricultural products, they will provide information on commercial acreage, yields, production costs and exportable supply for each crop, as well as identify specific policy and infrastructure constraints, and the estimated potential for growth of each proposed product. The product plans will be flexible enough to assist both on-going as well as new business ventures in their quest for new export markets for selected products.

The product plans will serve several useful functions: first, they formalize the process of collecting, analyzing, and evaluating information on a particular crop or product. Second, they identify areas of potential product growth, sources of financing, investment requirements, markets, and any restrictions impeding the growth and development of these products.

Third, A.I.D. and the Commercial Service Center can determine the level of effort to devote to a particular product based on its exportable base, potential growth, market opportunities and anticipated investor interest. Fourth, the information derived from the product development plan can be used by potential investors to prepare firm specific, detailed, product profiles and feasibility studies. These product plans will be available to all interested parties at a nominal fee.

During the three years of the Project, it is anticipated that three light industrial product development plans will be prepared. Discussions with Panamanian businessmen and reviews of products produced in the region with a high value added content indicate that there is potential for developing product development plans for the following items in the light manufacturing area:

LIGHT INDUSTRIAL MANUFACTURING

| | |
|---------------------|------------------|
| Data Processing | Luggage |
| Electronic Assembly | Sports Equipment |
| High Value Apparel | |
| Pharmaceuticals | |

The above list is illustrative. A certain level of flexibility must be built into the selection process to account for the vagaries of international markets and changing financial conditions. Therefore, it is anticipated that additional products will be considered as the Project is implemented. The criteria that members of the private sector will consider for selecting industrial products to study include: (a) most importantly, the interest of companies in producing such a product; (b) ease of entry into the targeted market; (c) the amount of capital resources required for production start-up; (d) the technological complexity of the production process and, the need for unique or special types of skilled labor; (e) whether the country's infrastructure that is in place can support such an activity; and (f) the impact on employment.

A total of three product development plans also will be prepared for non-traditional agricultural products. The preliminary list of products shown below was developed by ROCAP's non-traditional agricultural support project, PROEXAG. These products can currently be produced in Panama and have a good export market potential. Detailed product development plans will be prepared for three products selected from the PROEXAG list. The criteria for selecting the three products will include: availability of production infrastructure (suitable land, irrigation, etc.), proximity of handling facilities (packing, cold storage, freezing, etc.) to production areas, relative number of local growers interested in producing the product, existence of intensive production technology for the product, ease of market

entry and, if possible, crops with production cycles that do not coincide with production for the domestic market. As with the selection of light industrial products these plans will be available to all involved parties at a nominal fee.

PROEXAG LIST OF PRODUCTS

| <u>LOWLANDS (Below 800m)</u> | <u>HIGHLANDS (Above 800m)</u> |
|--|-------------------------------|
| Chili peppers | Asparagus |
| Chinese vegetables | Blackberries |
| Ginger | Coffee (niche markets) |
| Tropical fruit (mango, papaya, pineapple) | Flowers; foliage |
| Persian limes | Ornamental plants |
| Rambutan | Garlic |
| Root crops (yams, cassava, malanga) | Naranjilla |
| Melons | Onions |
| | Cole crops |

It is estimated that one plan in each of the two product areas can be completed annually. The preparation of all six plans will be coordinated with the policy advocacy component of the project. For example, a joint action may be necessary to encourage the establishment of an electronic component assembly operation. In this instance a change in the government regulatory framework may be necessary while at the same time some firm specific constraints such as the availability of skilled labor may have to be addressed.

To compliment the development plans, an investment guide prepared with the assistance of the AMCHAM will be published. The guide will describe the business climate of Panama including banking facilities, labor costs and where to go for specific information. It will be useful for both potential investors in the areas of the six product plans as well as those interested in other areas.

(2) Technical Services: The Project will provide both specialized and general technical services in support of increased production and investment in light industry and agriculture, especially non-traditional agriculture as well as non-traditional service exports. This assistance will be made available to existing and prospective Panamanian exporters and to interested foreign investors. At least some if not all of the cost of the specialized technical assistance provided will be borne by the firms requesting this assistance. Firms will be billed for the technical assistance based upon their ability to pay. Depending on the need, and on the available bank of talent, technical services will come from either the IESC, from local Panamanian expertise, or from the general resources of the EXITOS Project and the Farmer-to-Farmer Program. The criteria for selecting firms to receive project funded specialized technical services will include: specific interest of the firm, ability to assume part of the cost

TRADE AND INVESTMENT DEVELOPMENT PROJECT (S25-0309)

of providing the assistance, production for export is contemplated, the product is currently being exported or it is one of the products for which a product development plan has been prepared.

The following type of specific, specialized technical assistance will be provided to producers and exporters:

- o- Assistance with manufacturing and production problems.
- o- Assistance in the planning, development, and start-up of new export production and/or new ventures.
- o- Provision of planting material and assistance with planting trials.
- o- Adaptation of packaging and handling technology.
- o- Guidance to exporters to comply with U.S. import regulations (FDA, EPA, USDA-APHIS), industrial and agricultural grades/standards, product treatments and inspection requirements.

The Commercial Service Center will be responsible for providing generalized technical services. It already has been established by Fundación ANDE and a full time Executive Director has been hired. The Project will provide assistance to increase the Center's service capability. Such assistance will: (a) finance a computerized link to data bases that provide the current prices of different commodities and products which may be exported from Panama; and (b) enable the Center to tie into a data base (such as Dun and Bradstreet) which has the ability to provide financial and market information on companies doing business in the U.S. Besides the Center, both GREXPAN and APEX will have outlets for information contained in the data bases. In this way, Panamanian companies will be able to obtain a clearer picture of the potential companies that they will be doing business with.

The Center, using Project funds, will also have available for businesses:

- o- Information related to U.S. and European import requirements.
- o- A technical library containing feasibility studies of various industrial products, market research information, etc.

The Center's operation is currently funded through dues paid by the member organizations of Fundación ANDE. At the end of the project, those project financed services most

utilized by the memberships of each organization will continue to be financed by the Fundación through the dues it receives.

Because of the unique and often difficult requirements agricultural exports encounters, the Project, through counterpart financing, will also provide the technical services of a resident agronomist to be located in GREXPAN's office in David. This individual will have experience in the production of non-traditional crops and plant quarantine requirements for exporting to the U.S. and other markets. In addition, with the assistance of the EXITOS Project, GREXPAN will complement the information obtained through its data base outlet with the Commercial Service Center by providing the following types of information to producers, exporters and potential investors:

- o- Agricultural prices database.
- o- A technical library including feasibility studies in the agricultural area, market research information, and product information including copies of information related to non-traditional export activity under the EXITOS project.
- o- Information related to U. S. import requirements.
- o- "How-to" information, specifications, and standards.
- o- Information on applied research and technology related to new product development; packaging, cooling, transportation and handling of perishable products.

As a follow-on to the product development plans, the Project will finance six product workshops to organize existing and/or potential producers and manufacturers of these products.

Should observation trips to other countries be required for producers, exporters and potential investors to observe specific export operations, the project will help organize such activities. It is expected that the interested parties will fund their travel costs.

The Mission's project committee will review each product development plan prior to initiation to assure that it meets A.I.D. policy, legal and regulatory requirements, including the Lautenberg and Bumpers Amendments, and that its budget and cost projections are within the guidelines established in the annual workplans. The committee will be made up of representatives from the Private Sector Development Office, the Office of Economic Policy and Programs, the Office of the Controller, and the Office

of Program and Project Development. Further the Mission's technical office responsible for the Project will closely monitor the provision of firm specific and other technical assistance to assure that it also meets the above requirements.

(3) One Stop Business Licensing Center: Currently, anyone wanting to start a business must go to several ministries (Finance, Commerce and Industry and Health to name a few) to obtain the necessary papers that will ultimately lead to a business license. The task is both onerous and time consuming.

The CCIA will work with the GOP to create a one stop business licensing center. Every effort will be made to house it in the CCIA. This Center will be able to accept applications for proposed commercial and industrial activities, send an application to the various ministries for processing and finally obtain and present the license to the applicant. This will save the applicant an inordinate amount of time in obtaining a business license and thereby facilitate improvement of the business environment.

c. Outputs:

- o- A total of six (6) product development plans (3 for light industry and 3 for agriculture) will be prepared by the end of the Project.
- o- A total of fifty (50) firm-specific interventions will be carried out during the 36 months of the project.
- o- The Commercial Service Center will be fully operational, providing the services described in paragraph 2-b-(2) above, by July, 1992.
- o- A one stop business licensing center will be established by December, 1993.

d. Inputs: A total of \$913,000 is budgeted for this project component for: technical assistance (\$482,500); preparation of product development plans and an investment guide to be contracted by the CCIA (\$258,000); training activities (\$75,000); development and maintenance of a data base (\$55,000); and commodities (\$42,500).

The Project will finance sixty-five (65) person-months of short-term technical assistance for producers and exporters. This includes both firm specific and general technical assistance which will be in such areas as: addressing specific manufacturing and production problems; packaging and handling technology; grades and standards; product marketing; export operation management; etc. The estimated cost of this technical assistance is \$422,500.

The Project will fund the preparation of six (6) product development plans and one investment guide. The plans will be contracted for a total cost of approximately \$240,000 and the investment guide for \$18,000.

The Project will finance a total of six (6) product workshops to organize producers and/or manufacturers of specific export products, at a total cost of \$60,000. In addition, \$55,000 will be used to develop and maintain a data base in the Commercial Service Center and \$15,000 will be used for agricultural promotional activities.

A total of \$42,500 will be used for the purchase of commodities. This includes fax machines, two 4-wheel drive vehicles and office supplies.

Finally, the Project will provide technical assistance to aid in establishing the One-Stop Licensing Center at a cost of \$60,000.

3. Project Monitoring

A.I.D. has budgeted \$200,000 for evaluation and audit. Only one evaluation will be completed six months before the end of the Project. The primary purpose of that evaluation will be to determine whether a follow on project should be developed. The estimated cost of that evaluation is \$125,000. In addition, three annual audits will be completed over the Project's life at an estimated cost of \$25,000 each.

IV. PROJECT IMPLEMENTATION

A. Obligation Arrangements

The Chamber of Commerce, Industry and Agriculture of Panama will sign the \$2.5 million Grant Agreement with A.I.D. and be responsible to A.I.D. for proper project implementation.

B. Implementation Coordination

The Commercial Service Center administered by seven key private sector organizations will implement the project. This group of private sector organizations is known as Fundación ANDE. The Center will have its own governing committee consisting of a member from each of those organizations plus any other interested private sector organizations invited by the committee on an ad hoc basis. This committee will approve the annual workplans of the Project and carry out all other functions that a normal governing committee would have. These organizations will share project implementation activities which will vary according to the expertise that they have to offer. The Center will have an Executive Director who reports directly to the committee. That individual, together with the Center's staff, will oversee Project

activities on a day to day basis. The CCIA will be responsible for providing the financial control and other administrative support to the Center.

It is expected that the participating organizations will carry out and coordinate all project activities. Each organization will either take the lead or support activities of the other organizations in the following manner:

1. CCIA:

- o- Review of existing laws that adversely impact on ongoing and planned private sector investment.
- o- Review of legal and administrative procedures that adversely impact on ongoing and planned private sector investment.
- o- Public information and other activities in support of specific policy reform issues.
- o- Establish a one stop business licensing center.
- o- Responsible before A.I.D. for proper project implementation.
- o- Project financial management and accounting.
- o- Contracting of Project-funded goods and services.

2. AFEDE:

- o- Take the lead in carrying out activities leading to a more efficient transportation system.
- o- Public information and other activities in support of specific policy reform issues.
- o- Take the lead in organizing all seminars as required by the activities being carried out by the other members of Fundación ANDE.

3. SIP:

- o- Take the lead in promoting improved industrial productivity so as to make existing industry more competitive with the world market.
- o- Public information and other activities in support of specific policy reform issues.

4. APEX:

- o- Coordination of provisions of technical assistance to producers and exporters of light industrial products.
- o- Establishment of an industrial technology and marketing information outlet
- o- Public information and other activities in support of specific policy reform issues.
- o- Carry out three (3) product development studies.

5. AMCHAM:

- o- Take the lead in advocating changes in the tourism sector to allow for an improved investment climate.
- o- Production of the Investment Guide to Panama.
- o- Public information and other activities in support of specific policy reform issues.

6. GREXPAN:

- o- Coordination of provisions of technical assistance to producers and exporters of non-traditional agricultural products.
- o- Establishment of agricultural production technology and marketing information outlet.
- o- Development of agricultural related promotional materials.
- o- Carry out three (3) product development studies.

7. ANADECO:

- o- Coordinate activities to improve the environment for establishing EPZs.
- o- Take the lead in carrying out two seminars on free trade bringing all major sectors of the country together.

The governing committee may invite other private sector organizations to participate in Project activities on an ad hoc basis. Invitations will depend on the individual organization's interest in and its relevant experience on the particular issue under consideration. The committee will be encouraged to invite other organizations to participate in those activities that would directly impact on their members.

C. Cost Estimates and Financial Plan

The total cost of this three year Project is estimated at \$3.37 million. USAID will provide a grant of \$2.5 million. The CCIA and affiliated private sector organizations will provide approximately \$867,000 in cash and in-kind counterpart to the Project. The Financial Plan by Project Component (Table IV-1) and by Project Input (Table IV-2) are presented below. More detailed cost estimates are found in Annex F.

TRADE AND INVESTMENT DEVELOPMENT PROJECT (525-0309)

TABLE IV-1
FINANCIAL PLAN
BY PROJECT COMPONENT

| ITEMS | USAID | COUNTERPART | TOTAL |
|--|-----------|-------------|-----------|
| <u>POLICY ADVOCACY</u> | | | |
| A. Salaries | 16,200 | 296,240 | 312,440 |
| B. Policy Advocacy Studies | 470,000 | 87,500 | 557,500 |
| C. Training | 192,000 | 90,000 | 282,000 |
| D. Technical Assistance | 300,000 | 0 | 300,000 |
| E. Commodities | 53,000 | 35,000 | 88,000 |
| F. Travel and Per Diem | 36,000 | 0 | 36,000 |
| G. Support Costs | 6,000 | 150,000 | 156,000 |
| SUBTOTAL | 1,073,200 | 658,740 | 1,731,940 |
| <u>EXPORT DEVELOPMENT</u> | | | |
| A. Technical Assistance | 482,500 | 127,500 | 610,000 |
| B. Studies | 258,000 | 46,000 | 304,000 |
| C. Training | 75,000 | 0 | 75,000 |
| D. Database-Development and Maintenance | 55,000 | 0 | 55,000 |
| E. Commodities | 42,500 | 10,000 | 52,500 |
| SUBTOTAL | 913,000 | 183,500 | 1,096,500 |
| <u>PROJECT MONITORING</u> | | | |
| A. Evaluation | 125,000 | 0 | 125,000 |
| B. Audit | 75,000 | 0 | 75,000 |
| SUBTOTAL | 200,000 | 0 | 200,000 |
| <u>CONTINGENCIES</u> | | | |
| | 313,800 | 25,000 | 338,800 |
| TOTAL | 2,500,000 | 867,240 | 3,367,240 |

TABLE IV-2
FINANCIAL PLAN
BY PROJECT INPUT

| ITEMS | USAID | COUNTERPART | TOTAL |
|-------------------------|-----------|-------------|-----------|
| A. Salaries | 16,200 | 296,240 | 312,440 |
| B. Studies | 728,000 | 133,500 | 861,500 |
| C. Training | 267,000 | 90,000 | 357,000 |
| D. Technical Assistance | 827,500 | 127,500 | 955,000 |
| E. Commodities | 95,500 | 45,000 | 140,500 |
| F. Travel and Per Diem | 36,000 | 0 | 36,000 |
| G. Misc. Support Costs | 16,000 | 150,000 | 166,000 |
| H. Evaluation and Audit | 200,000 | 0 | 200,000 |
| I. Contingencies | 313,800 | 25,000 | 338,800 |
| TOTAL | 2,500,000 | 867,240 | 3,367,240 |

D. Method of Implementation and Financing

Table IV-3 contains the methods of implementation and financing for the Project.

TABLE IV-3
METHODS OF IMPLEMENTATION
AND FINANCING

| ITEMS | METHOD OF IMPLEMENTATION | METHOD OF FINANCING | AMOUNT (\$000) |
|--------------------|--------------------------|---------------------|----------------|
| A. Salaries | Grantee Contract | Dir. Reimbursement | 16.2 |
| B. Long Term TA | Grantee Contract | Dir. Reimbursement | 300.0 |
| C. Short Term TA | Grantee Contract | Dir. Reimbursement | 482.5 |
| D. Studies | Grantee Contract | Dir. Reimbursement | 728.0 |
| E. Training | Grantee Contract | Dir. Reimbursement | 267.0 |
| F. Database | Grantee Contract | Dir. Reimbursement | 55.0 |
| G. Commodities | Grantee Contract | Dir. Reimbursement | 95.5 |
| H. Travel & Per D. | Grantee Contract | Dir. Reimbursement | 36.0 |
| I. Office Needs | Grantee Contract | Dir. Reimbursement | 6.0 |
| J. Project Monit. | Grantee Contract | Dir. Reimbursement | 200.0 |
| K. Contingency | | | 313.8 |
| TOTAL | | | <u>2,500.0</u> |

E. Implementation Schedule

A list of key chronological events for the thirty-six months of project implementation is shown below. Annual implementation plans will be prepared by the Center which will be adjusted to reflect the progress achieved in the preceding year.

Implementation Activities:

| | |
|-------------------|---|
| March 31, 1992 | Project Authorization Signed. |
| March 31, 1992 | Cooperative Agreement Signed. |
| April 30, 1992 | PIL No.1 sent to Grantee. |
| June 30, 1992 | Master study contracted. |
| July 15, 1992 | Long term TA contracted. |
| July 15, 1992 | Short term TA contracts begin. |
| August 15, 1992 | First industry and non-traditional agriculture studies begin. |
| November 15, 1992 | Policy advocacy activities resulting from master study begin. |
| May 31, 1993 | Financial review conducted. |
| November 31, 1994 | Full evaluation conducted. |
| April 30, 1995 | Project ends. |

F. Evaluation and Audit Plan

1. Evaluations: One evaluation will be conducted six months prior to the end of the project. The evaluation will: a) ascertain progress attained in meeting project objectives particularly as they relate to the Government's overall policy reform effort; b) identify significant problem areas or constraints which may inhibit such attainment; c) assess the effectiveness of the Commercial Service Center and the CCIA as the implementing agencies; d) assess the effectiveness of the Center structure, particularly in regard to the planning and decision-making of the governing committee composed of the various private sector entities; e) determine the usefulness of the six product development plans as well as the effectiveness of company specific technical assistance; and (f) make recommendations for follow on activities to the Project.

Some specific questions and issues which may be addressed include:

a) Since the initiation of the Project, has there been significant progress, both overall and in relation to TID Project activities, in improving the business and investment climate in Panama, particularly in regard to increasing exports?

b) What increase has there been in employment and exports as a result of the improvement of Government policies, and in particular as a result of project activities?

c) Based on the experience gained during the life of the project, and assuming that there has been an improvement in the policy framework of the Government, is it worthwhile to plan an add-on project directed to assisting firms with technical assistance in production and marketing, and in providing marketing information and services?

d) Have the private sector organizations through the governing committee been able to successfully work together in planning and carrying out activities to improve the business and investment climate in Panama on a non-political basis?

e) Have the CCIA and the Center demonstrated administrative, organizational, and programmatic capabilities? What areas need improvement?

2. Audits: A project funded audit program will be performed on the use of project funds and will follow the new "recipient contracted" method. External audits will be completed on a yearly basis and will be performed by an independent Panamanian accounting firm under contract to the Grantee. The external audit will follow the standard guidelines laid out by A.I.D. for carrying out such an activity and will include presenting a draft report to the Executive Director of the Center for his review and comment before it is finalized.

G. Project Procurement Plan

1. Responsible Agency: The Executive Director of the CCIA will oversee and coordinate the procurement of Project-funded commodities and for assuring that they are obtained in timely fashion. Specifications for commodities will be developed by the Executive Director of the Commercial Service Center. A.I.D. will collaborate on development of the specifications on an as needed basis. Project-funded commodities will remain the property of the CCIA.

The A.I.D. Controller has reviewed the administrative and financial controls that the CCIA has in place and has found them to be adequate. Further, the A.I.D. Regional Contracting Officer from Guatemala has worked with CCIA under the Immediate Recovery Project (525-0302) and found their administrative and operating systems to be acceptable.

2. Authorized Source/Origin: The authorized source and origin of commodities for the Project is A.I.D. Geographic Code 000. Every effort has been made during the planning of this project to maximize procurement of commodities from the United States. All vehicles, except the small 100-250cc motorcycle, and all other commodities, except small value purchases of furniture and office supplies, will be of U.S. source/origin. Since no purchase of office supplies will exceed \$5,000 no source/origin waiver is required to authorize local (or other non-U.S. source/origin) purchases (HB 1B Chapter 5B 4C (2)). However, since no small motorcycles (under 600cc) are currently being made in the U.S., a waiver for the motorcycle may be required depending on whether a blanket source/origin waiver is in effect at the time of purchase. Except for ocean shipping, the suppliers of commodities or services will have the United States, Panama or a country in A.I.D. Geographic Code 941 as their place of nationality. Code 941 countries are included because many of those countries, particularly in Latin America, have had recent experience with policy advocacy/reform and export development programs that are similar to what Panama is implementing. Guest speakers and consultants from those countries will be contracted to describe the programs and experiences of their countries as well as to examine Panama's particular situation in order to make recommendations on strategy for effecting change. Panama was included because local firms have the required familiarity with domestic conditions to quickly and efficiently carry out many of the analyses needed for the policy studies and six product development plans to be carried out under the policy advocacy and the export development components respectively.

3. Procurement Agency/Methodology: As shown in Table IV-3, Project commodities will be procured through the CCIA's procurement system on a cost reimbursement basis. On large value items such as vehicles, A.I.D. may act as paying agent for the CCIA directly paying a vendor for a commodity that has been supplied under the instructions of the CCIA. It is anticipated that all commodity procurement will be completed during the first six months of the Project. Technical assistance will be contracted for through the CCIA's procurement system on a cost reimbursement basis.

4. Commodity List: Table IV-4 contains the Project's commodity list which shows source/origin, procurement entity and estimated cost.

H. Training Plan

The Project Training Plan (Table IV-5) contains a schedule and description of training activities to be financed under the Project.

TABLE IV-4
COMMODITY LIST

| <u>COMMODITY</u> | <u>QTY</u> | <u>SOURCE/ ORIGIN</u> | <u>PROC. ENTITY</u> | <u>ESTIMATED COST</u> |
|--|------------|---------------------------|-------------------------|---------------------------|
| 125 cc M.C. | 1 | AID Code 935 | CCIA | \$ 2,000 |
| 4 wheel drive vehicles | 2 | U.S. | CCIA | \$36,000 |
| Fax Machines | 4 | U.S. | CCIA | 4,000 |
| P.C. with accessories & software | 6 | U.S. | CCIA | 40,000 |
| Office sup- plies and furniture | - | Local | CCIA | <u>13,500</u> |
| TOTAL COMMODITY BUDGET | | | | <u>\$95,500</u> |

441

TABLE IV-5
TRADE AND INVESTMENT DEVELOPMENT
PROJECT N° 525-0309

TRAINING PLAN

| Training Component | Total # Partic. | Year 1 | Year 2 | Year 3 | Total Cost (\$) | Activity Organizers | Target Groups |
|-----------------------------|--------------------|-----------|-----------|-----------|--------------------|------------------------|---|
| POLICY ADVOCACY | 756 | 202 | 304 | 250 | 192,000 | | |
| (10) Policy Reform Seminars | 500 | 150 | 200 | 150 | 50,000 | APEDE/CCIA | Businessmen, Legislators, GOP Senior Officers |
| (5) Ind. Reform Seminars | 250 | 50 | 100 | 100 | 30,000 | APEDE/APEX | Industrialists, Technicians |
| (2) Observational Trips | 6 | 2 | 4 | 0 | 12,000 | ANDE | Private/Public sector leaders |
| Publications, Dissemination | | | | | 100,000 | | |
| EXPORT PROMOTION | 150 | 50 | 100 | | 75,000 | | |
| (6) Product Work-Shops | 150 | 50 | 100 | | 60,000 | SIP/APEX/GREXPAN | Industrialists, Agr., Farmers, Technicians |
| Promotional Activities | | | | | 15,000 | | |
| TOTALS | 906 | 252 | 404 | 250 | 267,000 | | |

V. PROJECT ANALYSES SUMMARIES

A. Technical Analysis Summary

The project design was examined to determine: (1) whether proposed activities in each component of the project adequately address the problems identified; (2) if the most suitable and cost effective technical alternatives were selected; and (3) if planned activities are technically feasible at this time in Panama. The linkages among the technical components of the Project and the institutional and social issues were also analyzed.

The project design is intended to address a trade and investment environment that is not ideally suited for either diversifying or increasing the overall level of exports and it is intended to take into account the IBD/IBRD Economic Reform Program which is the primary vehicle for carrying out the policy reform necessary to improve this environment. The two-fold project strategy is: to enlist local private sector organizations to promote policy changes which reorient the economy away from an import substitution approach to that of an open economy; and address specific constraints to diversifying the economy into export producing activities. The project consists of two components: Policy Advocacy and Export Development.

The policy advocacy component of the project will work with the private sector in order to support attainment of GOP reforms to existing trade and investment policies so as to improve the business environment in Panama. The export development component will address specific production and export constraints through the provision of product development plans as well as firm specific and general technical assistance.

The Project's two components are complementary. They will assist with developing public consensus for policy change that will lead to trade liberalization by providing resources for direct policy advocacy activities. They will also provide a means for taking advantage of the resulting changes. Further, the Project, as a whole, complements and supports the IBD/IBRD Economic Recovery Program through the improved public support it generates for that Program's policy reforms. For this reason, the analysis concludes that given the environment under which the Project will be operating, the interventions proposed are the most suitable and cost effective.

B. Financial Analysis Summary

It was concluded that sufficient counterpart funding is budgeted in the Project and will be made available by the CCIA who will in turn draw upon the resources of the other six organizations that make up Fundación ANDE. The CCIA by itself, has sufficient resources to cover the counterpart requirements of the Project. The CCIA was established in May, 1915, has approximately 1,200 member companies and is entirely self-sufficient. Its annual operating budget is approximately \$750,000 and it is one of the

strongest NGOs in Panama. It was also concluded that the recurrent costs of the limited services that will continue after the PACD are not large and will be covered by fees paid by the private sector organizations of Fundación ANDE; and sufficient funding is budgeted for the AID-funded Project costs. The complete Financial Analysis is presented in Annex E.

C. Economic Analysis Summary

A quantitative economic benefits analysis was not done because of the generalized and policy-directed nature of the Project and the absence of clearly identified interventions in trade development. The full Economic Analysis (Annex F on file in the Mission's Private Sector Development Office) describes Panama's economic development with particular emphasis on the constraints to trade and investment which affect the design and implementation of the TID Project. Those constraints were also discussed in the Background Section of this Project Paper.

Suffice it to say that the decade of the 1980's was not a good one for Panama. Much of the period was marked by recession reaching a low point during the economic and political crisis of 1987-1989. Since then, the economy has begun to recover with real GDP growth in 1990 and 1991 estimated to have been 4.6 and 9.3 percent respectively. Per capita income is estimated at US\$ 2,007 in 1990, high by regional standards, but in real terms only at the level Panama reached in 1979-80. Public finance has been in crisis since 1982 and continues, with a foreign debt of four billion dollars.

The objective of the TID Project, shared with the international lending agencies, is to reorient Panama to an export-driven internationally open economy. The barriers to this are a series of constraints resulting from policies adopted in the 60's and 70's.

Panama's small industrial sector serves principally the domestic market and enjoys very high rates of tariff protection. Several manufacturers have legal contracts with the government which in essence grant monopoly status. The law requiring manufacturers to source needed materials in Panama if available at "reasonable" prices makes "draw back" operations difficult. Adding in import quotas on some industrial goods, price controls on others and an unduly rigid labor code leads to an industrial sector unable to compete internationally and unattractive for investors. In addition, Panama's agricultural sector is badly distorted by a system in which the government controls over two-thirds of the national production. The controls are exercised by an Agricultural Marketing Institute, the Office of Price Controls and the Ministry of Agricultural Development through use of high import tariffs, import quotas, import licenses, price controls, export licenses and in the case of bananas, an export tax. Finally, additional constraints derive from the often costly and inefficient operation of state-owned enterprises involved in electric power generation, telecommunications, water and port operations.

The need for policy and administrative reform in order to set the stage for sound economic growth has been clearly recognized by many, especially the international lending agencies, for at least the past ten years. The IMF and IBRD spearheaded structural reform efforts through refinancing agreements with Panama in 1983 and again in 1986. There was some movement toward reform, but very limited, and the effort came to an end in December 1987 when the GOP suspended the program then in effect. The constraints listed in 1983 for the most part remain. A new effort, the Economic Recovery Program, addresses many of these constraints. It will now be up to the GOP and the private sector to successfully implement this adjustment program.

It is anticipated that the Project's economic impact will be twofold; first in the economic reform that it will encourage which will create a better business climate and thus increased investments and secondly in the increase in nontraditional exports which will both strengthen the economy by increasing the overall level of exports and by reducing its dependence on a small number of products.

D. Social Soundness Analysis Summary

A principal social problem affecting Panama today is that of unemployment and the resulting poverty for those who lack access to reliable sources of income. By addressing constraints to increased production and thereby increasing investment and employment opportunities, the Trade and Investment Development Project is expected to have a positive impact on the social development of Panama.

Panama's population is not large: the 1990 estimate is 2,315,000. Of the number of people 15 years of age or older, some 58 percent, or 844,000 are regarded as economically active. Open unemployment is currently estimated at 15.7 percent, or more than 134,000. The unemployed are not evenly distributed, with higher urban rates than rural and, in sectoral terms, affect manufacturing and services more. Agricultural unemployment is believed to be less than three percent. Underemployment is widespread and includes those who work seasonally in traditional agriculture.

The greater threat to social stability flows from the pockets of urban poverty in and around Panama City and to a lesser degree the City of Colon.

The Project's interventions will be broadly targeted at reform of macroeconomic policy. In view of this, benefits should average out over a broad spectrum of the population. However, due to the nature of the policy reform activities envisioned, some segments of the population will be negatively affected. These are the owners and employees in the protected industries and firms. Employment and capital dislocations will occur in these industries when protective barriers are lowered or removed. It should be noted that many, if not most, of the dislocations will occur regardless of the TID Project. They will result from the reform efforts called

for under the Economic Recovery Program that the GOP agreed to with the IBRD and the IDB. It is anticipated that the Project will alleviate some of the dislocations through its export development activities and that others will be ameliorated through the increased trade opportunities that will result from the removal of the protective barriers.

Given the low degree of unemployment in agriculture, Project contributions to increased agricultural production should help produce increased labor participation and income in rural Panama in the near to intermediate term. Employment generation in manufacturing and services, necessary to alleviate urban unemployment, can be promoted through policy changes, particularly in the labor code which is extremely rigid and serves as a constraint to increased hiring by existing organizations as well as to investment. To the extent that the Project serves to bring about effective policy reform, the resulting improvement in the business climate and resulting expansion of business activity will serve to benefit urban Panamanian society. Company specific technical assistance will complement this to further accelerate the growth of new jobs and income.

E. Institutional Analysis Summary

The institutional analysis examined key institutions involved in the proposed Trade and Investment Development Project (see Annex H). The analysis fully supports the selection of the CCIA as the counterpart organization for Project implementation. The analysis also describes the administrative arrangements required to effectively implement the Project. The following organizations will participate in the Project: the Panamanian Chamber of Commerce, Industry and Agriculture (CCIA); the Panamanian Business Executives Association (APEDE); the American Chamber of Commerce and Industry of Panama (AMCHAM); the National Association for Economic Development (ANADECO); the Guild of Non-traditional Agricultural Exporters of Panama (GREXPAN); the Industrialists Association of Panama (SIP); and the Panamanian Exporters Association (APEX). As a group, these organizations are representative of a wide spectrum of the private sector. They are also among the most influential private sector organizations in the country. For example, as already noted, the CCIA was founded in 1915, it has approximately 1,200 member companies, it is self-sufficient and it has an annual operating budget of about \$750,000. Collectively these organizations are currently carrying out the same types of activities, to a greater or lesser extent, that will be supported by the Project.

The Project will be implemented by the Commercial Service Center located in the CCIA. The Center has a governing committee which consists of representatives from seven private sector organizations. The committee will oversee: (1) the development of a strategy to generate public and government support for the changes necessary to enhance Panamanian competitiveness in the world economy; and (2) selected export development activities in the light industry and agribusiness areas. The Center will rely on

CCIA administrative, financial management and accounting systems to implement the Project.

The analysis concluded that the institutions that are involved represent the most important sectors of the Panamanian economy, that the Center has adequate personnel and talent to carry out the project and that the CCIA has the resources and the management structure to support the Project's activities.

F. Environmental Soundness Analysis Summary

The Initial Environmental Examination (IEE) prepared for the Trade and Investment Development Project recommended a negative determination. This was based on the design of the Project which is limited to providing technical assistance, information services and some training and does not involve activities that have a harmful effect on the natural or physical environment. Further, the product line development activities to be financed under the Project are not envisioned to be of a scope that would lead to major impacts on the environment (i.e. changes in: land use, water quality, the atmosphere, natural resources, cultural traditions, or natural environments/ecosystems).

The Environmental Threshold Decision prepared by the IAC Deputy Chief Environmental Officer concurred with the IEE recommendation for a negative determination for the Project. Annex J contains copies of the IEE and the Environmental Threshold Decision.

VI. CONDITIONS, COVENANTS AND NEGOTIATING STATUS

The following Special Provisions will be included in the grant.

1. An annual work plan laying out how funds will be used by the Grantee will be submitted to A.I.D. for review, comment and approval. Such a plan will be developed every year.
2. The Grantee will covenant that the assistance provided under the Project will be utilized in a manner consistent with U.S. foreign assistance laws such as the Bumpers and Lautenberg Amendments and A.I.D. regulations pertaining to support for agricultural products and manufactured goods.
3. Prior to initiating procurement related to the master study, any follow on study or any of the planned product development plans, the Grantee will obtain A.I.D. approval for the proposed study or plan.

ANNEX A
Project Design Summary
Logical Framework
Project Name
525-0309

Life of Project: US\$ 2.5 million
PACD: 06/30/95
Date Prepared: 02/92

| | OBJECTIVELY VERIFIABLE INDICATORS | MEANS OF VERIFICATION | IMPORTANT ASSUMPTIONS | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|---|--|---|--|--|--|------------|----------------|--------------|----------------------|---------|-------|---------|----------|-------|------|-------|-------------|------|------|-------|-------------|-------|-------|---------|-------|---------|-------|---------|--|--|--|
| <p>GOAL: To diversify and increase the level of trade by Panama.</p> | <p>The real value of manufactured and agricultural products and non-traditional services exported by Panama will increase by 15% between 1992 and 1995. Increase in investments for the production of non-traditional exports.</p> | <p>Country statistics.</p> | <p>Economies of Panama's current and potential trading partners do not contract. Panama has continued political and social stability. Non-traditional exports do not displace traditional ones.</p> | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| <p>PURPOSES: (1) To adopt policy changes that reorient Panama's economy away from import substitution and towards free trade. (2) To develop exports of selected products in the light industry and agribusiness sub-sectors.</p> | <p>EOPS: (1) Reduction in both the: (a) legal/regulatory barriers to imports and exports in 6 product areas; and (b) legal/regulatory and/or cost constraints to export related investment and production. (2) Private sector assumes an increased and better organized role in determining Panama's policy environment. (3) At least 6 non-traditional products or services are introduced and/or their production increased for world markets. (4) A group of entrepreneurs and production managers are familiar with and are applying newly acquired export and production technologies.</p> | <p>Project management information system. Records of participating institutions. Project evaluations. Mission evaluation and monitoring system.</p> | <p>There is a political will to adopt the necessary policy changes. CCIA has sufficiently strong leadership and organizational capacity to promote the policy changes. Willingness of disparate private sector organizations to work closely together.</p> | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| <p>OUTPUTS: (1) Master study (2) Policy studies (3) Product development plans (4) Firm-specific interventions (5) Commercial Service Center (6) Business licensing center</p> | <p>Output Indicators: (1) Master study completed by October, 1992. (2) Six individual policy studies completed by July, 1994. (3) Six product development plans completed by EOP. (4) 50 interventions completed by EOP. (5) The Commercial Service Center fully operational by July, 1992. (6) Establish "One-Stop" business licensing center by December, 1993.</p> | <p>Project management information system. Project evaluations. Grantee/Recipient records and reports.</p> | <p>Local institutions have sufficient capability to carry out project support activities. Local institutions receptive to TA.</p> | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| <p>INPUTS:</p> <table border="1"> <tr> <td></td> <td colspan="3">Budget (US\$000):</td> </tr> <tr> <td></td> <td>AID</td> <td>GRANTEE</td> <td>TOTAL</td> </tr> <tr> <td>Technical Assistance</td> <td>1,555.5</td> <td>261.0</td> <td>1,816.5</td> </tr> <tr> <td>Training</td> <td>267.0</td> <td>90.0</td> <td>357.0</td> </tr> <tr> <td>Commodities</td> <td>95.5</td> <td>45.0</td> <td>140.5</td> </tr> <tr> <td>Other Costs</td> <td>582.0</td> <td>471.2</td> <td>1,053.2</td> </tr> <tr> <td>Total</td> <td>2,500.0</td> <td>867.2</td> <td>3,367.2</td> </tr> </table> | | Budget (US\$000): | | | | AID | GRANTEE | TOTAL | Technical Assistance | 1,555.5 | 261.0 | 1,816.5 | Training | 267.0 | 90.0 | 357.0 | Commodities | 95.5 | 45.0 | 140.5 | Other Costs | 582.0 | 471.2 | 1,053.2 | Total | 2,500.0 | 867.2 | 3,367.2 | | | |
| | Budget (US\$000): | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | AID | GRANTEE | TOTAL | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Technical Assistance | 1,555.5 | 261.0 | 1,816.5 | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Training | 267.0 | 90.0 | 357.0 | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Commodities | 95.5 | 45.0 | 140.5 | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Other Costs | 582.0 | 471.2 | 1,053.2 | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Total | 2,500.0 | 867.2 | 3,367.2 | | | | | | | | | | | | | | | | | | | | | | | | | | | | |

5C(2) - ASSISTANCE CHECKLIST

Listed below are statutory criteria applicable to the assistance resources themselves, rather than to the eligibility of a country to receive assistance. This section is divided into three parts. Part A includes criteria applicable to both Development Assistance and Economic Support Fund resources. Part B includes criteria applicable only to Development Assistance resources. Part C includes criteria applicable only to Economic Support Funds.

CROSS REFERENCE: IS COUNTRY CHECKLIST UP TO DATE?

Yes
February , 1992

A. CRITERIA APPLICABLE TO BOTH DEVELOPMENT ASSISTANCE AND ECONOMIC SUPPORT FUNDS

1. Host Country Development Efforts (FAA Sec. 601(a)): Information and conclusions on whether assistance will encourage efforts of the country to:
(a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage development and use of cooperatives, credit unions, and savings and loan associations;
(d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture, and commerce; and (f) strengthen free labor unions.

a,b,d & e By assisting the private sector with Trade related policy reform, the project will promote trade, foster competition and improve overall efficiency of private sector.
c & f NA

2. U.S. Private Trade and Investment (FAA Sec. 601(b)): Information and conclusions on how assistance will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).

Private U.S. contractor will assist with technical assistance and training under the project. Also, the project's policy reform objectives should reduce trade barriers to U.S. firms.

4/82

3. Congressional Notification

a. General requirement (FY 1991 Appropriations Act Secs. 523 and 591; FAA Sec. 634A): If money is to be obligated for an activity not previously justified to Congress, or for an amount in excess of amount previously justified to Congress, has Congress been properly notified (unless the notification requirement has been waived because of substantial risk to human health or welfare)?

The Project was included in the FY92 Congressional Presentation at a LOP funding level of \$7.0 million and an expected obligation of \$2.5 million this fiscal year. The Project is within both amounts.

b. Notice of new account obligation (FY 1991 Appropriations Act Sec. 514): If funds are being obligated under an appropriation account to which they were not appropriated, has the President consulted with and provided a written justification to the House and Senate Appropriations Committees and has such obligation been subject to regular notification procedures?

NA

c. Cash transfers and nonproject sector assistance (FY 1991 Appropriations Act Sec. 575(b)(3)): If funds are to be made available in the form of cash transfer or nonproject sector assistance, has the Congressional notice included a detailed description of how the funds will be used, with a discussion of U.S. interests to be served and a description of any economic policy reforms to be promoted?

NA

4. Engineering and Financial Plans (FAA Sec. 611(a)): Prior to an obligation in excess of \$500,000, will there be: (a) engineering, financial or other plans necessary to carry out the assistance; and (b) a reasonably firm estimate of the cost to the U.S. of the assistance?

NA

5. Legislative Action (FAA Sec. 611(a)(2)): If legislative action is required within recipient country with respect to an obligation in excess of \$500,000, what is the basis for a reasonable expectation that such action will be completed in time to permit orderly accomplishment of the purpose of the assistance?

NA

-47-

6. Water Resources (FAA Sec. 611(b); FY 1991 Appropriations Act Sec. 501): If project is for water or water-related land resource construction, have benefits and costs been computed to the extent practicable in accordance with the principles, standards, and procedures established pursuant to the Water Resources Planning Act (42 U.S.C. 1962, et seq.)? (See A.I.D. Handbook 3 for guidelines.) NA

7. Cash Transfer and Sector Assistance (FY 1991 Appropriations Act Sec. 575(b)): Will cash transfer or nonproject sector assistance be maintained in a separate account and not commingled with other funds (unless such requirements are waived by Congressional notice for nonproject sector assistance)? NA

8. Capital Assistance (FAA Sec. 611(e)): If project is capital assistance (e.g., construction), and total U.S. assistance for it will exceed \$1 million, has Mission Director certified and Regional Assistant Administrator taken into consideration the country's capability to maintain and utilize the project effectively? NA

9. Multiple Country Objectives (FAA Sec. 601(a)): Information and conclusions on whether projects will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage development and use of cooperatives, credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture and commerce; and (f) strengthen free labor unions. See responses to paragraph A-1

10. U.S. Private Trade (FAA Sec. 601(b)): Information and conclusions on how project will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise). See responses to paragraph A-2

48 59

11. Local Currencies

NA

a. Recipient Contributions (FAA Secs. 612(b), 636(h)): Describe steps taken to assure that, to the maximum extent possible, the country is contributing local currencies to meet the cost of contractual and other services, and foreign currencies owned by the U.S. are utilized in lieu of dollars.

Panama uses the U.S. dollar as its currency. Therefore, there are no local or excess currency costs related to A.I.D. projects in Panama.

b. U.S.-Owned Currency (FAA Sec. 612(d)): Does the U.S. own excess foreign currency of the country and, if so, what arrangements have been made for its release?

c. Separate Account (FY 1991 Appropriations Act Sec. 575): If assistance is furnished to a foreign government under arrangements which result in the generation of local currencies:

(1) Has A.I.D. (a) required that local currencies be deposited in a separate account established by the recipient government, (b) entered into an agreement with that government providing the amount of local currencies to be generated and the terms and conditions under which the currencies so deposited may be utilized, and (c) established by agreement the responsibilities of A.I.D. and that government to monitor and account for deposits into and disbursements from the separate account?

(2) Will such local currencies, or an equivalent amount of local currencies, be used only to carry out the purposes of the DA or ESF chapters of the FAA (depending on which chapter is the source of the assistance) or for the administrative requirements of the United States Government?

(3) Has A.I.D. taken all appropriate steps to ensure that the equivalent of local currencies disbursed from the separate account are used for the agreed purposes?

49

(4) If assistance is terminated to a country, will any unencumbered balances of funds remaining in a separate account be disposed of for purposes agreed to by the recipient government and the United States Government?

12. Trade Restrictions

a. Surplus Commodities (FY 1991 Appropriations Act Sec. 521(a)): If assistance is for the production of any commodity for export, is the commodity likely to be in surplus on world markets at the time the resulting productive capacity becomes operative, and is such assistance likely to cause substantial injury to U.S. producers of the same, similar or competing commodity?

The project will not directly lead to the production of any commodity that is in surplus on the world market. See also answer below.

b. Textiles (Lautenberg Amendment) (FY 1991 Appropriations Act Sec. 521(c)): Will the assistance (except for programs in Caribbean Basin Initiative countries under U.S. Tariff Schedule "Section 807," which allows reduced tariffs on articles assembled abroad from U.S.-made components) be used directly to procure feasibility studies, prefeasibility studies, or project profiles of potential investment in, or to assist the establishment of facilities specifically designed for, the manufacture for export to the United States or to third country markets in direct competition with U.S. exports, of textiles, apparel, footwear, handbags, flat goods (such as wallets or coin purses worn on the person), work gloves or leather wearing apparel?

Panama is a CBI country. In addition, the project contemplates a careful review of products and operations being supported to ensure compliance with U.S. laws and AID regulations in this area.

13. Tropical Forests (FY 1991 Appropriations Act Sec. 533(c)(3)): Will funds be used for any program, project or activity which would (a) result in any significant loss of tropical forests, or (b) involve industrial timber extraction in primary tropical forest areas?

No

14. Sahel Accounting (FAA Sec. 121(d)): If a Sahel project, has a determination been made that the host government has an adequate system for accounting for and controlling receipt and expenditure of project funds (either dollars or local currency generated therefrom)?

NA

15. PVO Assistance

Yes

a. Auditing and registration (FY 1991 Appropriations Act Sec. 537): If assistance is being made available to a PVO, has that organization provided upon timely request any document, file, or record necessary to the auditing requirements of A.I.D., and is the PVO registered with A.I.D.?

b. Funding sources (FY 1991 Appropriations Act, Title II, under heading "Private and Voluntary Organizations"): If assistance is to be made to a United States PVO (other than a cooperative development organization), does it obtain at least 20 percent of its total annual funding for international activities from sources other than the United States Government?

NA

16. Project Agreement Documentation (State Authorization Sec. 139 (as interpreted by conference report)): Has confirmation of the date of signing of the project agreement, including the amount involved, been cabled to State L/T and A.I.D. LEG within 60 days of the agreement's entry into force with respect to the United States, and has the full text of the agreement been pouched to those same offices? (See Handbook 3, Appendix 6G for agreements covered by this provision).

NA

17. Metric System (Omnibus Trade and Competitiveness Act of 1988 Sec. 5164, as interpreted by conference report, amending Metric Conversion Act of 1975 Sec. 2, and as implemented through A.I.D. policy): Does the assistance activity use the metric system of measurement in its procurements, grants, and other related activities, except to the

Grantee will use metric specifications to the extent practicable.

51

extent that such use is impractical or is likely to cause significant inefficiencies or loss of markets to United States firms? Are bulk purchases usually to be made in metric, and are components, subassemblies, and semi-fabricated materials to be specified in metric units when economically available and technically adequate? Will A.I.D. specifications use metric units of measure from the earliest programmatic stages, and from the earliest documentation of the assistance processes (for example, project papers) involving quantifiable measurements (length, area, volume, capacity, mass and weight), through the implementation stage?

18. Women in Development (FY 1991 Appropriations Act, Title II, under heading "Women in Development"): Will assistance be designed so that the percentage of women participants will be demonstrably increased?

Yes. Women participants will be actively sought from the beginning of the project.

19. Regional and Multilateral Assistance (FAA Sec. 209): Is assistance more efficiently and effectively provided through regional or multilateral organizations? If so, why is assistance not so provided? Information and conclusions on whether assistance will encourage developing countries to cooperate in regional development programs.

No

20. Abortions (FY 1991 Appropriations Act, Title II, under heading "Population, DA," and Sec. 525):

a. Will assistance be made available to any organization or program which, as determined by the President, supports or participates in the management of a program of coercive abortion or involuntary sterilization?

No

b. Will any funds be used to lobby for abortion?

No

21. Cooperatives (FAA Sec. 111): Will assistance help develop cooperatives, especially by technical assistance, to assist rural and urban poor to help themselves toward a better life?

NA

57
508

22. U.S.-Owned Foreign Currencies

a. Use of currencies (FAA Secs. 612(b), 636(h); FY 1991 Appropriations Act Secs. 507, 509): Describe steps taken to assure that, to the maximum extent possible, foreign currencies owned by the U.S. are utilized in lieu of dollars to meet the cost of contractual and other services.

Panama uses the U.S. dollar as its currency.

b. Release of currencies (FAA Sec. 612(d)): Does the U.S. own excess foreign currency of the country and, if so, what arrangements have been made for its release?

No

23. Procurement

a. Small business (FAA Sec. 602(a)): Are there arrangements to permit U.S. small business to participate equitably in the furnishing of commodities and services financed?

Yes

b. U.S. procurement (FAA Sec. 604(a)): Will all procurement be from the U.S. except as otherwise determined by the President or determined under delegation from him?

Yes

c. Marine insurance (FAA Sec. 604(d)): If the cooperating country discriminates against marine insurance companies authorized to do business in the U.S., will commodities be insured in the United States against marine risk with such a company?

NA

d. Non-U.S. agricultural procurement (FAA Sec. 604(e)): If non-U.S. procurement of agricultural commodity or product thereof is to be financed, is there provision against such procurement when the domestic price of such commodity is less than parity? (Exception where commodity financed could not reasonably be procured in U.S.)

NA

e. Construction or engineering services (FAA Sec. 604(g)): Will construction or engineering services be

NA

under Code 941 and which have attained a competitive capability in international markets in one of these areas? (Exception for those countries which receive direct economic assistance under the FAA and permit United States firms to compete for construction or engineering services financed from assistance programs of these countries.)

NA

f. Cargo preference shipping (FAA Sec. 603): Is the shipping excluded from compliance with the requirement in section 901(b) of the Merchant Marine Act of 1936, as amended, that at least 50 percent of the gross tonnage of commodities (computed separately for dry bulk carriers, dry cargo liners, and tankers) financed shall be transported on privately owned U.S. flag commercial vessels to the extent such vessels are available at fair and reasonable rates?

Yes, to the extent practicable. No.

g. Technical assistance (FAA Sec. 621(a)): If technical assistance is financed, will such assistance be furnished by private enterprise on a contract basis to the fullest extent practicable? Will the facilities and resources of other Federal agencies be utilized, when they are particularly suitable, not competitive with private enterprise, and made available without undue interference with domestic programs?

Yes

h. U.S. air carriers (International Air Transportation Fair Competitive Practices Act, 1974): If air transportation of persons or property is financed on grant basis, will U.S. carriers be used to the extent such service is available?

Yes

i. Termination for convenience of U.S. Government (FY 1991 Appropriations Act Sec. 504): If the U.S. Government is a party to a contract for procurement, does the contract contain a provision authorizing termination of such contract for the convenience of the United States?

j. Consulting services (FY 1991 Appropriations Act Sec. 524): If assistance is for consulting service through procurement contract pursuant to 5 U.S.C. 3109, are contract expenditures a matter of public record and available for public inspection (unless otherwise provided by law or Executive order)?

Yes

k. Metric conversion (Omnibus Trade and Competitiveness Act of 1988, as interpreted by conference report, amending Metric Conversion Act of 1975 Sec. 2, and as implemented through A.I.D. policy): Does the assistance program use the metric system of measurement in its procurements, grants, and other business-related activities, except to the extent that such use is impractical or is likely to cause significant inefficiencies or loss of markets to United States firms? Are bulk purchases usually to be made in metric, and are components, subassemblies, and semi-fabricated materials to be specified in metric units when economically available and technically adequate? Will A.I.D. specifications use metric units of measure from the earliest programmatic stages, and from the earliest documentation of the assistance processes (for example, project papers) involving quantifiable measurements (length, area, volume, capacity, mass and weight), through the implementation stage?

The metric system will be used to the extent practicable.

l. Competitive Selection Procedures (FAA Sec. 601(e)): Will the assistance utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise?

Yes

24. Construction

NA

a. Capital project (FAA Sec. 601(d)): If capital (e.g., construction) project, will U.S. engineering and professional services be used?

b. Construction contract (FAA Sec. 611(c)): If contracts for construction are to be financed, will they be let on a competitive basis to maximum extent practicable?

NA

55

c. Large projects, Congressional approval (FAA Sec. 620(k)): If for construction of productive enterprise, will aggregate value of assistance to be furnished by the U.S. not exceed \$100 million (except for productive enterprises in Egypt that were described in the Congressional Presentation), or does assistance have the express approval of Congress?

NA

25. U.S. Audit Rights (FAA Sec. 301(d)): If fund is established solely by U.S. contributions and administered by an international organization, does Comptroller General have audit rights?

NA

26. Communist Assistance (FAA Sec. 620(h)). Do arrangements exist to insure that United States foreign aid is not used in a manner which, contrary to the best interests of the United States, promotes or assists the foreign aid projects or activities of the Communist-bloc countries?

NA

27. Narcotics

a. Cash reimbursements (FAA Sec. 483): Will arrangements preclude use of financing to make reimbursements, in the form of cash payments, to persons whose illicit drug crops are eradicated?

NA

b. Assistance to narcotics traffickers (FAA Sec. 487): Will arrangements take "all reasonable steps" to preclude use of financing to or through individuals or entities which we know or have reason to believe have either: (1) been convicted of a violation of any law or regulation of the United States or a foreign country relating to narcotics (or other controlled substances); or (2) been an illicit trafficker in, or otherwise involved in the illicit trafficking of, any such controlled substance?

Yes - Through the Mission's and particularly the technical office's project monitoring and oversight responsibilities, known offenders will be observed and prohibited from receiving project resources. In cases where there are any questions, the Embassy's Narcotics Affairs Unit will be consulted.

28. Expropriation and Land Reform (FAA Sec. 620(g)): Will assistance preclude use of financing to compensate owners for expropriated or nationalized property, except to compensate foreign nationals in accordance with a land reform program certified by the President? Yes
29. Police and Prisons (FAA Sec. 660): Will assistance preclude use of financing to provide training, advice, or any financial support for police, prisons, or other law enforcement forces, except for narcotics programs? Yes
30. CIA Activities (FAA Sec. 662): Will assistance preclude use of financing for CIA activities? Yes
31. Motor Vehicles (FAA Sec. 636(i)): Will assistance preclude use of financing for purchase, sale, long-term lease, exchange or guaranty of the sale of motor vehicles manufactured outside U.S., unless a waiver is obtained? Yes
32. Military Personnel (FY 1991 Appropriations Act Sec. 503): Will assistance preclude use of financing to pay pensions, annuities, retirement pay, or adjusted service compensation for prior or current military personnel? Yes
33. Payment of U.N. Assessments (FY 1991 Appropriations Act Sec. 505): Will assistance preclude use of financing to pay U.N. assessments, arrearages or dues? Yes
34. Multilateral Organization Lending (FY 1991 Appropriations Act Sec. 506): Will assistance preclude use of financing to carry out provisions of FAA section 209(d) (transfer of FAA funds to multilateral organizations for lending)? Yes
35. Export of Nuclear Resources (FY 1991 Appropriations Act Sec. 510): Will assistance preclude use of financing to finance the export of nuclear equipment, fuel, or technology? Yes

36. Repression of Population (FY 1991 Appropriations Act Sec. 511): Will assistance preclude use of financing for the purpose of aiding the efforts of the government of such country to repress the legitimate rights of the population of such country contrary to the Universal Declaration of Human Rights?

Yes

37. Publicity or Propoganda (FY 1991 Appropriations Act Sec. 516): Will assistance be used for publicity or propaganda purposes designed to support or defeat legislation pending before Congress, to influence in any way the outcome of a political election in the United States, or for any publicity or propaganda purposes not authorized by Congress?

No

38. Marine Insurance (FY 1991 Appropriations Act Sec. 563): Will any A.I.D. contract and solicitation, and subcontract entered into under such contract, include a clause requiring that U.S. marine insurance companies have a fair opportunity to bid for marine insurance when such insurance is necessary or appropriate?

Yes

39. Exchange for Prohibited Act (FY 1991 Appropriations Act Sec. 569): Will any assistance be provided to any foreign government (including any instrumentality or agency thereof), foreign person, or United States person in exchange for that foreign government or person undertaking any action which is, if carried out by the United States Government, a United States official or employee, expressly prohibited by a provision of United States law?

No

B. CRITERIA APPLICABLE TO DEVELOPMENT ASSISTANCE ONLY

1. Agricultural Exports (Bumpers Amendment) (FY 1991 Appropriations Act Sec. 521(b), as interpreted by conference report for original enactment): If assistance is for agricultural development activities (specifically, any testing or breeding feasibility study, variety improvement or introduction, consultancy, publication, conference, or training); are such activities: (1) specifically and principally designed to increase agricultural exports by the host country to a country other than the United States, where the export would lead to direct competition in that third country with exports of a similar commodity grown or produced in the United States, and can the activities reasonably be expected to cause substantial injury to U.S. exporters of a similar agricultural commodity; or (2) in support of research that is intended primarily to benefit U.S. producers?

Project has been designed so that commodities and activities being supported are reviewed to ensure compliance with U.S. laws and AID regulations in this area.

2. Tied Aid Credits (FY 1991 Appropriations Act, Title II, under heading "Economic Support Fund"): Will DA funds be used for tied aid credits?

No

3. Appropriate Technology (FAA Sec. 107): Is special emphasis placed on use of appropriate technology (defined as relatively smaller, cost-saving, labor-using technologies that are generally most appropriate for the small farms, small businesses, and small incomes of the poor)?

To the extent possible consideration of appropriate technologies will be included in training and technical assistance activities.

4. Indigenous Needs and Resources (FAA Sec. 281(b)): Describe extent to which the activity recognizes the particular needs, desires, and capacities of the people of the country; utilizes the country's intellectual resources to encourage institutional development; and supports civic education and training in skills required for effective participation in governmental and political processes essential to self-government.

The project is designed to achieve policy reforms through studies, analyses and public education efforts which mobilize grass roots support for the proposed changes. Through these efforts individuals will be encouraged to assume leadership roles in the process of self-government. As a result, the Project will indirectly foster the development of skills required for effective partici-

5. Economic Development (FAA Sec. 101(a)): Does the activity give reasonable promise of contributing to the development of economic resources, or to the increase of productive capacities and self-sustaining economic growth?

By addressing policy reform related to trade, the Project will contribute to economic development.

6. Special Development Emphases (FAA Secs. 102(b), 113, 281(a)): Describe extent to which activity will: (a) effectively involve the poor in development by extending access to economy at local level, increasing labor-intensive production and the use of appropriate technology, dispersing investment from cities to small towns and rural areas, and insuring wide participation of the poor in the benefits of development on a sustained basis, using appropriate U.S. institutions; (b) encourage democratic private and local governmental institutions; (c) support the self-help efforts of developing countries; (d) promote the participation of women in the national economies of developing countries and the improvement of women's status; and (e) utilize and encourage regional cooperation by developing countries.

By reducing Trade barriers the project will promote economic development which in turn will create job opportunities for lower income groups. See also responses to paragraph B-4.

7. Recipient Country Contribution (FAA Secs. 110, 124(d)): Will the recipient country provide at least 25 percent of the costs of the program, project, or activity with respect to which the assistance is to be furnished (or is the latter cost-sharing requirement being waived for a "relatively least developed" country)?

Over 25% of the project's total cost will be provided by the recipient.

8. Benefit to Poor Majority (FAA Sec. 128(b)): If the activity attempts to increase the institutional capabilities of private organizations or the government of the country, or if it attempts to stimulate scientific and technological research, has it been designed and will it be monitored to ensure that the ultimate beneficiaries are the poor majority?

See responses to paragraph B-6.

9. Abortions (FAA Sec. 104(f); FY 1991 Appropriations Act, Title II, under heading "Population, DA," and Sec. 535):

a. Are any of the funds to be used for the performance of abortions as a method of family planning or to motivate or coerce any person to practice abortions?

No

b. Are any of the funds to be used to pay for the performance of involuntary sterilization as a method of family planning or to coerce or provide any financial incentive to any person to undergo sterilizations?

No

c. Are any of the funds to be made available to any organization or program which, as determined by the President, supports or participates in the management of a program of coercive abortion or involuntary sterilization?

No

d. Will funds be made available only to voluntary family planning projects which offer, either directly or through referral to, or information about access to, a broad range of family planning methods and services?

No funds are provided for family planning under the project.

e. In awarding grants for natural family planning, will any applicant be discriminated against because of such applicant's religious or conscientious commitment to offer only natural family planning?

NA

f. Are any of the funds to be used to pay for any biomedical research which relates, in whole or in part, to methods of, or the performance of, abortions or involuntary sterilization as a means of family planning?

No

g. Are any of the funds to be made available to any organization if the President certifies that the use of these funds by such organization would violate any of the above provisions related to abortions and involuntary sterilization?

No

10. Contract Awards (FAA Sec. 601(e)): Will the project utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise?

Yes

11. Disadvantaged Enterprises (FY 1991 Appropriations Act Sec. 567): What portion of the funds will be available only for activities of economically and socially disadvantaged enterprises, historically black colleges and universities, colleges and universities having a student body in which more than 40 percent of the students are Hispanic Americans, and private and voluntary organizations which are controlled by individuals who are black Americans, Hispanic Americans, or Native Americans, or who are economically or socially disadvantaged (including women)?

Due to the small size of the grant no set asides are being established. Instead, grantee will be encouraged to utilize socially disadvantaged enterprises through normal means.

12. Biological Diversity (FAA Sec. 119(g)): Will the assistance: (a) support training and education efforts which improve the capacity of recipient countries to prevent loss of biological diversity; (b) be provided under a long-term agreement in which the recipient country agrees to protect ecosystems or other wildlife habitats; (c) support efforts to identify and survey ecosystems in recipient countries worthy of protection; or (d) by any direct or indirect means significantly degrade national parks or similar protected areas or introduce exotic plants or animals into such areas?

NA

13. Tropical Forests (FAA Sec. 118; FY 1991 Appropriations Act Sec. 533(c)-(e) & (g)):

a. A.I.D. Regulation 16: Does the assistance comply with the environmental procedures set forth in A.I.D. Regulation 16?

Yes

b. Conservation: Does the assistance place a high priority on conservation and sustainable management of tropical forests? Specifically, does the assistance, to the fullest extent

NA

62

feasible: (1) stress the importance of conserving and sustainably managing forest resources; (2) support activities which offer employment and income alternatives to those who otherwise would cause destruction and loss of forests, and help countries identify and implement alternatives to colonizing forested areas; (3) support training programs, educational efforts, and the establishment or strengthening of institutions to improve forest management; (4) help end destructive slash-and-burn agriculture by supporting stable and productive farming practices; (5) help conserve forests which have not yet been degraded by helping to increase production on lands already cleared or degraded; (6) conserve forested watersheds and rehabilitate those which have been deforested; (7) support training, research, and other actions which lead to sustainable and more environmentally sound practices for timber harvesting, removal, and processing; (8) support research to expand knowledge of tropical forests and identify alternatives which will prevent forest destruction, loss, or degradation; (9) conserve biological diversity in forest areas by supporting efforts to identify, establish, and maintain a representative network of protected tropical forest ecosystems on a worldwide basis, by making the establishment of protected areas a condition of support for activities involving forest clearance or degradation, and by helping to identify tropical forest ecosystems and species in need of protection and establish and maintain appropriate protected areas; (10) seek to increase the awareness of U.S. Government agencies and other donors of the immediate and long-term value of tropical forests; (11) utilize the resources and abilities of all relevant U.S. government agencies; (12) be based upon careful analysis of the alternatives available to achieve the best sustainable use of the land; and (13) take full account of the environmental impacts of the proposed activities on biological diversity?

No

c. Forest degradation: Will assistance be used for: (1) the procurement or use of logging equipment, unless an environmental assessment indicates that all timber harvesting operations involved will be conducted in an environmentally sound manner and that the proposed activity will produce positive economic benefits and sustainable forest management systems; (2) actions which will significantly degrade national parks or similar protected areas which contain tropical forests, or introduce exotic plants or animals into such areas; (3) activities which would result in the conversion of forest lands to the rearing of livestock; (4) the construction, upgrading, or maintenance of roads (including temporary haul roads for logging or other extractive industries) which pass through relatively undergraded forest lands; (5) the colonization of forest lands; or (6) the construction of dams or other water control structures which flood relatively undergraded forest lands, unless with respect to each such activity an environmental assessment indicates that the activity will contribute significantly and directly to improving the livelihood of the rural poor and will be conducted in an environmentally sound manner which supports sustainable development?

. NA

d. Sustainable forestry: If assistance relates to tropical forests, will project assist countries in developing a systematic analysis of the appropriate use of their total tropical forest resources, with the goal of developing a national program for sustainable forestry?

Yes

e. Environmental impact statements: Will funds be made available in accordance with provisions of FAA Section 117(c) and applicable A.I.D. regulations requiring an environmental impact statement for activities significantly affecting the environment?

14. Energy (FY 1991 Appropriations Act Sec. 533(c)); If assistance relates to energy, will such assistance focus on: (a) end-use energy efficiency, least-cost energy planning, and renewable energy resources, and (b) the key countries where assistance would have the greatest impact on reducing emissions from greenhouse gases?

NA

15. Sub-Saharan Africa Assistance (FY 1991 Appropriations Act Sec. 562, adding a new FAA chapter 10 (FAA Sec. 496)): If assistance will come from the Sub-Saharan Africa DA account, is it: (a) to be used to help the poor majority in Sub-Saharan Africa through a process of long-term development and economic growth that is equitable, participatory, environmentally sustainable, and self-reliant; (b) to be used to promote sustained economic growth, encourage private sector development, promote individual initiatives, and help to reduce the role of central governments in areas more appropriate for the private sector; (c) being provided in accordance with the policies contained in FAA section 102; (d) being provided in close consultation with African, United States and other PVOs that have demonstrated effectiveness in the promotion of local grassroots activities on behalf of long-term development in Sub-Saharan Africa; (e) being used to promote reform of sectoral economic policies, to support the critical sector priorities of agricultural production and natural resources, health, voluntary family planning services, education, and income generating opportunities, to bring about appropriate sectoral restructuring of the Sub-Saharan African economies, to support reform in public administration and finances and to establish a favorable environment for individual enterprise and self-sustaining development, and to take into account, in assisted policy reforms, the need to protect vulnerable groups; (f) being used to increase agricultural production in ways that protect and restore the natural resource base, especially food production, to maintain and improve basic transportation and communication networks

NA

65

to maintain and restore the renewable natural resource base in ways that increase agricultural production, to improve health conditions with special emphasis on meeting the health needs of mothers and children, including the establishment of self-sustaining primary health care systems that give priority to preventive care, to provide increased access to voluntary family planning services, to improve basic literacy and mathematics especially to those outside the formal educational system and to improve primary education, and to develop income-generating opportunities for the unemployed and underemployed in urban and rural areas?

16. Debt-for-Nature Exchange (FAA Sec. 463): If project will finance a debt-for-nature exchange, describe how the exchange will support protection of: (a) the world's oceans and atmosphere, (b) animal and plant species, and (c) parks and reserves; or describe how the exchange will promote: (d) natural resource management, (e) local conservation programs, (f) conservation training programs, (g) public commitment to conservation, (h) land and ecosystem management, and (i) regenerative approaches in farming, forestry, fishing, and watershed management.

NA

17. Deobligation/Reobligation (FY 1991 Appropriations Act Sec. 515): If deob/reob authority is sought to be exercised in the provision of DA assistance, are the funds being obligated for the same general purpose, and for countries within the same region as originally obligated, and have the House and Senate Appropriations Committees been properly notified?

NA

18. Loans

a. Repayment capacity (FAA Sec. 122(b)): Information and conclusion on capacity of the country to repay the loan at a reasonable rate of interest.

NA

bb

b. Long-range plans (FAA Sec. 122(b)): Does the activity give reasonable promise of assisting long-range plans and programs designed to develop economic resources and increase productive capacities?

NA

c. Interest rate (FAA Sec. 122(b)): If development loan is repayable in dollars, is interest rate at least 2 percent per annum during a grace period which is not to exceed ten years, and at least 3 percent per annum thereafter?

NA

d. Exports to United States (FAA Sec. 620(d)): If assistance is for any productive enterprise which will compete with U.S. enterprises, is there an agreement by the recipient country to prevent export to the U.S. of more than 20 percent of the enterprise's annual production during the life of the loan, or has the requirement to enter into such an agreement been waived by the President because of a national security interest?

NA

19. Development Objectives (FAA Secs. 102(a), 111, 113, 281(a)): Extent to which activity will: (1) effectively involve the poor in development, by expanding access to economy at local level, increasing labor-intensive production and the use of appropriate technology, spreading investment out from cities to small towns and rural areas, and insuring wide participation of the poor in the benefits of development on a sustained basis, using the appropriate U.S. institutions; (2) help develop cooperatives, especially by technical assistance, to assist rural and urban poor to help themselves toward better life, and otherwise encourage democratic private and local governmental institutions; (3) support the self-help efforts of developing countries; (4) promote the participation of women in the national economies of developing countries and the improvement of women's status; and (5) utilize and encourage regional cooperation by developing countries?

The Project will contribute to the achievement of the objectives contained in this section through its technical assistance and training activities. See also responses to paragraphs B-4 and B-6.

20. Agriculture, Rural Development and Nutrition, and Agricultural Research (FAA Secs. 103 and 103A):

a. Rural poor and small farmers: If assistance is being made available for agriculture, rural development or nutrition, describe extent to which activity is specifically designed to increase productivity and income of rural poor; or if assistance is being made available for agricultural research, 'Kaš' account been taken of the needs of small farmers, and extensive use of field testing to adapt basic research to local conditions shall be made.

b. Nutrition: Describe extent to which assistance is used in coordination with efforts carried out under FAA Section 104 (Population and Health) to help improve nutrition of the people of developing countries through encouragement of increased production of crops with greater nutritional value; improvement of planning, research, and education with respect to nutrition, particularly with reference to improvement and expanded use of indigenously produced foodstuffs; and the undertaking of pilot or demonstration programs explicitly addressing the problem of malnutrition of poor and vulnerable people.

c. Food security: Describe extent to which activity increases national food security by improving food policies and management and by strengthening national food reserves, with particular concern for the needs of the poor, through measures encouraging domestic production, building national food reserves, expanding available storage facilities, reducing post harvest food losses, and improving food distribution.

21. Population and Health (FAA Secs. 104(b) and (c)): If assistance is being made available for population or health activities, describe extent to which activity emphasizes low-cost, integrated delivery systems for health, nutrition and family planning for the poorest people, with particular attention to the needs of

To the extent the Project facilitates the increased production of agricultural crops this will benefit the rural through increased employment opportunities and increased income.

NA

Although the project is export oriented in its crop development activities, to the extent the sale of such crops spill over to the domestic market and the infrastructure necessary to support such crops can be used for various kinds of food crops, Panama's food security situation will be strengthened.

NA

mothers and young children, using paramedical and auxiliary medical personnel, clinics and health posts, commercial distribution systems, and other modes of community outreach.

22. Education and Human Resources Development (FAA Sec. 105): If assistance is being made available for education, public administration, or human resource development, describe (a) extent to which activity strengthens nonformal education, makes formal education more relevant, especially for rural families and urban poor, and strengthens management capability of institutions enabling the poor to participate in development; and (b) extent to which assistance provides advanced education and training of people of developing countries in such disciplines as are required for planning and implementation of public and private development activities.

NA

23. Energy, Private Voluntary Organizations, and Selected Development Activities (FAA Sec. 106): If assistance is being made available for energy, private voluntary organizations, and selected development problems, describe extent to which activity is:

a. concerned with data collection and analysis, the training of skilled personnel, research on and development of suitable energy sources, and pilot projects to test new methods of energy production; and facilitative of research on and development and use of small-scale, decentralized, renewable energy sources for rural areas, emphasizing development of energy resources which are environmentally acceptable and require minimum capital investment;

The Project will finance studies/analyses on various trade related topics that will lead to policy reform. Training of Grantee's staff will also occur.

b. concerned with technical cooperation and development, especially with U.S. private and voluntary, or regional and international development, organizations;

The Project will utilize such organization to the extent practicable.

c. research into, and evaluation of, economic development processes and techniques;

d. reconstruction after natural or manmade disaster and programs of disaster preparedness;

e. for special development problems, and to enable proper utilization of infrastructure and related projects funded with earlier U.S. assistance;

f. for urban development, especially small, labor-intensive enterprises, marketing systems for small producers, and financial or other institutions to help urban poor participate in economic and social development.

24. Sahel Development (FAA Secs. 120-21). If assistance is being made available for the Sahelian region, describe: (a) extent to which there is international coordination in planning and implementation; participation and support by African countries and organizations in determining development priorities; and a long-term, multidonor development plan which calls for equitable burden-sharing with other donors; (b) whether a determination has been made that the host government has an adequate system for accounting for and controlling receipt and expenditure of projects funds (dollars or local currency generated therefrom).

For purposes of this project, which is completely DA grant-funded, the Section titled "Criteria Applicable to Economic Support Funds Only" is not applicable and, therefore, not included here.

The project will examine alternative trade related policies, regulations and laws that will lead to reform the Panama's trade program.

NA

NA

NA

NA

70



ANNEX C

Cámara de Comercio, Industrias y Agricultura de Panamá
Fundada el 17 de mayo de 1915

Apartado 74 Panamá 1, Panamá. ☐ Teléfonos: 27-1233/27-1445 Fax: 27-4186/25-3653

24 de marzo de 1992.

Señor
Thomas Stuckel
Director
U.S.A.I.D.
Presente

Estimado señor Stuckel:

La Cámara de Comercio, Industrias y Agricultura de Panamá le hace entrega del proyecto para la "PROMOCION DEL COMERCIO Y LA INVERSION EN PANAMA". Este documento es el resultado del trabajo realizado durante los dos años en los cuales nuestra Institución ha celebrado diversas reuniones con la A.I.D. y en la cual ha participado FUNDACION ANDE.

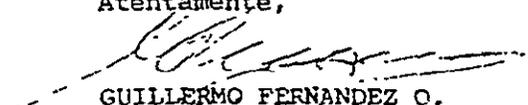
Este proyecto cuenta con la aprobación de la Cámara de Comercio, Industrias y Agricultura de Panamá, Sindicato de Industriales de Panamá (SIP), Asociación Panameña de Ejecutivos de Empresas (APEDE), Asociación Nacional de Desarrollo Económico (ANADECO), Asociación Panameña de Exportadores (APEX), Gremial de Exportadores de Productos no Tradicionales (GREXPAN), Cámara Panameña de la Construcción (CAPAC), y la Cámara Americana de Comercio (AMCHAM).

La Cámara de Comercio se compromete con la A.I.D. a desarrollar el proyecto por un total de US\$3,367,240.00, de los cuales la empresa privada panameña, por conducto de la FUNDACION ANDE aportará la suma de US\$867,240.00 y el AID US\$2,500.000.00.

Estamos seguros que la materialización de este proyecto que entregamos, será de gran provecho para Panamá, y estamos complacidos por el interés que ustedes han demostrado en el mismo.

Aprovecho la oportunidad para reiterarle nuestro sentimiento de consideración y aprecio.

Atentamente,


GUILLERMO FERNANDEZ Q.
PRESIDENTE

/jt.

Page 1

ANNEX D

TECHNICAL ANALYSIS

The project design was examined to determine: (1) whether proposed activities in each component of the project adequately address the problems identified; (2) if the most suitable and cost effective technical alternatives were selected; and (3) if planned activities are technically feasible at this time in Panama. The linkages among the technical components of the Project and the institutional and social issues were also analyzed.

1. Project Strategy: The Project Identification Document (PID) established as the Project goal an increase in exports and employment. Elements within the Project directed at achieving these goals were identified as: trade and investment promotion services; policy reform; and technical assistance.

During Project Paper development, the importance of policy reform became quite evident; so much so that it was determined that without advances in this area, activities in such areas as investment promotion would have minimal impact on increasing employment and exports. Thus the project was restructured to reflect this finding. The redefined goal of the Project is to diversify and increase the level of trade by Panama. The purposes of the Project are: (1) to adopt policy changes that reorient Panama's economy away from import substitution and towards free trade; and (2) to develop exports of selected products in the light industry and agribusiness sectors.

The two-fold project strategy is: to enlist local private sector organizations to promote policy changes which move the economy away from an import substitution approach to that of an open economy; and address specific constraints to diversifying the economy into export producing activities. The project consists of two components: policy advocacy and reform, and export promotion.

2. Policy Advocacy

a. Problem: The major impediment to economic growth for Panama is an array of inappropriate macro-economic policies and regulations compounded by government measures intended to "buy" popular support. The results include highly protected and inefficient industrial and agricultural sectors and inefficient, high cost public utilities such as electric power, water and port facilities. Other public institutions, such as the Social Security Institute, are also in urgent need of reform.

Policy reform and improved public administration have been the objective of international lending agencies for the past ten years. Structural reform programs in the mid-1980's were not particularly successful. It is expected that the agreements that have just been reached with the International Financial Institutions will speed up this reform process.

Part of the problem in carrying out any type of policy reform is a divided Panamanian private sector, which while small and interrelated, is prone to disagreement as entrenched vested interests aggravated by political posturing prevent easy consensus.

With this as background, the TID Project confronts an environment which currently is not ideally suited to export development or investment. For this reason, the proposed policy advocacy component is an essential element of the Project. The project strategy therefore focuses on obtaining consensus among key private sector groups on key policy reforms who will in turn work with the Government of Panama for change.

b. Proposed Solution: Under the Chamber of Commerce, Industry and Agriculture (CCIA) a Trade Service Center (Center) has been formed. The governing board of this Center consists of representatives of seven key private sector organizations that are members of Fundación ANDE. The Board will oversee the development of a strategy to generate public and government support for the changes necessary to enhance Panamanian competitiveness in the world economy. The Center will work toward the creation of a policy environment conducive to increased investment in the manufacturing, agricultural and sub-sectors within the service sector such as tourism.

As part of a master study the Center staff will oversee a review of existing studies which demonstrate the costs of existing distortions in the economy and Panama's competitive disadvantages as compared to other countries in the region. As additional needs are identified, it will contract for more detailed individual studies. In addition, the Center will sponsor seminars and public education campaigns to inform the Panamanian public on the need for reform in such sensitive areas as labor, the necessity of streamlining government services, transportation, etc.

The Center will also work to create a direct liaison with the executive and legislative branches. In doing so, it will develop a quick response mechanism to review and comment on draft legislation that could affect the areas of trade and investment. In addition, it will quickly provide accurate and timely information to public media in rebuttal to policy related articles or statements of public figures which are inaccurate or misleading and detrimental to policy reform efforts.

The Center will also benefit from technical assistance from the EXITOS non-traditional agricultural development project and the International Executive Service Corps (IESC). Services available when and as needed to the Center from IESC will include technical assistance for company or product specific requirements. Finally, some technical assistance from other Code 941 countries will be provided. There are several countries in Latin America that have recently gone through policy reforms such as Panama is now facing. Individuals from those countries will be

brought to Panama to describe their country's experiences and to make recommendations on Panama's reform program.

3. Export Development

a. Problem: Panamanian industry and agriculture exist in a highly distorted economy which on the one hand permits the sale of outputs into a protected, albeit small, market at relatively high prices, but on the other hand penalizes industry and agriculture with high costs for necessary inputs. In general, export development will be constrained until the overall macroeconomic and regulatory environment is improved and infrastructure deficiencies reduced. With this in mind, the Project design envisages an initially modest scope of export development activities during this Project.

(1) Industrial Sector: Manufacturing as a whole plays a small part in Panama's economy, contributing approximately eight percent of GDP and employing less than 90,000 people, or 11 percent of the economically active population. Much of what exists has been developed since the 1960's to serve the local market and is not generally cost competitive with similar production in larger economies.

Nevertheless, there are a few manufacturers who do export and who do not benefit from subsidies or depend on protected local markets. Products they make include apparel, pharmaceuticals, disposable latex gloves and cleaning supplies such as brooms and plastic brushes. Some other firms export, but their profitability is dependent upon domestic sales at high prices with their production combined with export incentives (Certificados de Abono Tributario - CAT) provided by the Government of Panama. This latter incentive may equal up to 20 percent of the value added to the product.

In the apparel field, Panama's relatively high labor costs limit product selection to the high end of the spectrum, with local production concentrated on expensive, designer-label items such as shirts and knitwear. Little use of the Colon Free Trade Zone has been made for apparel assembly, as the economics fail to justify the added effort and risk.

There has been considerable discussion in Panama about the desirability of establishing "Export Processing Zones" to attract off-shore assembly operations. In November 1990, the legislature passed a law authorizing "Zonas Multisectoriales", but to date no implementing regulations have been promulgated. The law as passed has several provisions, including requirements for purchase of raw materials from Panama unless proven unavailable, limiting tax exemptions to the amount of funds invested in Panama, etc., which make it clearly uncompetitive with what is offered foreign investors in most other countries of the region.

At least four groups are involved in sponsoring zone development, the most advanced of which is one supported by a

prominent Panamanian land developer. Land has been purchased and some infrastructure is already in place. The major hold-up at present is the lack of any prospective tenant. Appropriate modification of the enabling legislation would clearly be helpful to the promoters' efforts. A group sponsored by the government of Taiwan is in the process of site selection and project analysis. Other groups, one reportedly with backing from business interests in mainland China and Hong Kong, have also publicized plans but without actual land purchase or active approaches to prospective tenants.

The consensus among Panamanian business leaders consulted is that given the present array of constraints and infrastructure deficiencies combined with a lack of clearly defined economic and regulatory policies, there is limited investor interest in manufacturing in Panama in general and in an Export Processing Zone in particular.

However, it should be noted that one advantage that Panama has over other countries in the region is that it is a dollar based economy with no restraint on capital movement. With positive changes in the macroeconomic environment and with reduction in infrastructure bottlenecks, Panama offers potential for off-shore manufacturing in higher value items for which the cost of labor is not the major determinant. Panama needs to take advantage of the Canal through which 12,000 ships pass annually to achieve lower cost access to international markets and to develop support industries related to ship repair, maintenance and other transport services. At present, ships make every effort to pass through the Canal without stopping even to buy water or fuel from any Panamanian facility.

(2) Services Sector: The present situation with respect to services is more promising. In the development of its large scale international banking, distribution and insurance industries, Panama has developed a sizeable labor force skilled in office operations, including sophisticated use of computers and telecommunications equipment.

There is strong interest on the part of current tenants of the Colon Free Zone to expand physically in order to serve clients far more effectively and to permit expansion of operations. The liberalization of import regimes and economic growth now underway in much of Latin America offers greater market potential to the Free Zone. Zone merchants provide services of intermediation, that is, buying goods with ample lead time from the manufacturers in large quantities and reselling in small quantities for instant delivery.

There is no legal or financial impediment to development of data processing services for foreign clients: this type of service would essentially be an extension of services already offered in banking and insurance. No operation of this type has been identified, but it is an area in which assistance from the Project may well be warranted in the future.

Panama's international banking, insurance and shipping industries have survived the recent crisis in fair shape and offer limited opportunities for growth in employment and income. However, these sectors appear unlikely to serve as the "engine of growth" as they did in the past.

A final services area offering considerable potential for Panama is tourism. To date, Panama's tourist industry has primarily concerned itself with serving the shopping and recreational needs of business visitors. There is very little in the way of developed recreational facilities - one international grade hotel on one offshore Pacific island - and almost no development of Panama's natural environment. Carefully managed resort development and "eco-tourism" could provide substantial foreign exchange earnings and generate employment. Specific promotional assistance from the Project for tourism is not planned since the major obstacles to development are regulatory and macroeconomic.

(3) Agriculture Sector: Agriculture, including livestock and fishery, accounts for one tenth of GDP, provides employment to one fourth of the labor force, and contributes 50 percent of the merchandise exports of Panama. The value added of the agricultural sector rose by an average annual rate of three percent in the period 1984-1987, declined 7.5 percent in 1988, but appears to have resumed a positive growth rate in 1989.

Bananas, shrimp, sugar and coffee are the main agricultural exports with bananas the largest export earner for Panama. Virtually all Panamanian bananas are marketed by the transnational company, Chiquita Brands. Panama is a member of UPEB, the "Union de Paises Exportadoras de Banano", and in keeping with the loosely administered banana production cartel, imposes a tax on banana exports. The present tax is US\$0.65 per 40 pound box which, according to Chiquita executives, raises the cost of banana production in Panama to the highest level in Latin America. This tax is believed to be the reason that during the 1980's Panama's banana exports remained constant while those of Costa Rica, Honduras and Colombia increased substantially.

The second largest export, shrimp, is made up 70 percent from sea catch and 30 percent from pond cultivation. Production of cultivated shrimp has not expanded owing partly to lack of export incentives - all shrimp exports are classified as "traditional" - but more importantly to the problems of land tenure and taxes imposed. Land assigned for ponds may not be purchased, but is granted as a concession which makes impossible the use of the land as collateral for financing. A tax of six Balboas per hectare per month on the concession area also inhibits investment.

The third ranking export, sugar, has declined in recent years as total production has dropped from 240,000 metric tons in the 1970's to about 120,000 tons in 1990. Two-thirds of

Panama's sugar production is from privately-owned mills and one-third from a state-owned facility. Panama's exports to the U.S. are set by quota to a level of 42,000 tons.

Coffee production, almost entirely in Chiriqui Province, totaled 12,500 metric tons in the 1989-90 crop year, of which 5,500 tons were exported generating over ten million dollars, significantly less than the previous season. Primarily a small farmer crop, over 2,600 producers are involved with total land under cultivation of nearly 12,000 hectares. Government intervenes in the export of coffee through requiring export licenses and the sale of one bag of coffee to the Government for every bag exported.

Traditional export crops actually do hold potential for expansion since their markets are currently not saturated. In the case of bananas, the growth in market demand now exceeds the growth in supply, and firm prices are predicted for the intermediate term. Panama has the production experience, and a long export tradition in these crops. The major constraint to increased production has been adverse economic policies imposed by the GOP.

In addition to the four "traditional" agricultural exports described above, Panama exports a number of secondary agricultural products. While not nearly as important economically as the four major ones, collectively these products have been exported for many years and thus are "traditional". Exports of these products totaled about \$30 million in 1988. Products exported include processed hides, live cattle, fish meal, condensed milk, prepared sauces, distilled spirits, fruit extract, leaf tobacco, fish oil and frozen beef.

Non-traditional export crops include fresh and processed fruits, vegetables, flowers and spices. In general, exports of these items to the United States from countries in the Caribbean Basin increased by 26.5 percent in the period 1983-1989. Contrary to this trend, Panama's exports to the U.S. in this category declined by 50 percent from 1987 to 1989. Figures for 1989 indicate that the U.S. imported only five million dollars of non-traditional agricultural products from Panama.

Non-traditional crops, including fresh and processed fruits, vegetables, flowers and spices, offer the following benefits:

- They can profitably be grown on relatively small plots of land, thus opening participation to producers with smaller plots;
- The economic return per land unit tends to be high, making farming a profitable undertaking for small businesses;
- The crops tend to be labor intensive, increasing employment opportunities especially for women;

- Nontraditional crops can be grown and brought to market in the United States and Europe in the off season, reducing the competitive impact on producers there;
- They also represent an increased supply of fresh produce for domestic consumers.

Development in Panama of non-traditional crops has been impeded, in part, because they require intensive management as well as sophisticated infrastructure support that can be, initially, problematic to achieve and maintain. There is also a broad lack of current information available to the Panamanian farmer on developing and managing these crops.

Although information as to the actual volume and value of non-traditional crops exported from Panama is difficult to obtain, the following statistics for 1989 were made available by the government's Agricultural Marketing Institute (IMA).

1989 NON-TRADITIONAL AGRICULTURAL EXPORTS

| PRODUCT | UNIT | QUANTITY |
|-----------------|----------------|----------|
| Squash | Metric tons | 113 |
| Melons | Thousand boxes | 1,266 |
| Yams | Kilograms | 1,270 |
| Loquats | Kilograms | 200 |
| Strawberries | Boxes | 15 |
| Chile Peppers | Kilograms | 38,350 |
| Lichees | Kilograms | 7,030 |
| Mangosteens | Kilograms | 3,590 |
| Green Beans | Kilograms | 27,463 |
| Mandarin Orange | Kilograms | 300 |
| Mangos | Kilograms | 750 |
| Avocados | Kilograms | 500 |
| Eggplant | Kilograms | 2,980 |
| Spinach | Kilograms | 50 |
| Acerolas | Kilograms | 400 |
| Orchids | Plants | 16,800 |
| Ferns | Boxes | 1,120 |
| Cut Flowers | Kilograms | 169 |
| Cocoa | Kilograms | 40,020 |
| Tobacco | Kilograms | 228,322 |

In addition to the broad based constraints noted in the Economic Analysis there are a series of constraints specific to Panamanian agriculture. Over the years a number of overlapping and often interwoven policies have been put into effect by the Government of Panama to protect domestic agriculture from foreign competition. The present system of controls and regulations promotes import substitution instead of export production. Almost all products grown for domestic consumption are subjected to some level of Government control and the resulting distortions are a major constraint to export agriculture.

98

The "Instituto de Mercadeo Agropecuario" (IMA), until the recent conclusion of negotiations with the International Financial Institutions, was charged with administering import quotas. A total of 42 food products were subject to such quotas, the levels of which were set by a committee of government officials, producers and importers. The Ministry of Agricultural Development was responsible for issuing import permits for 23 food products. The issuance of import permits was less formal than the assignment of quotas, but are also based on an examination of the market to ensure that domestic production will not be adversely affected. Finally, imported food items are also assessed both specific and ad valorem duties. Depending on the product, the effective tariff rate ranges from zero to almost 800 percent.

The government's Office of Price Regulation (ORP) had regulatory control over prices of 35 food products. Other products have an "agreed price" or a "reference price" at the producer stage, in addition to controlled prices at wholesale or retail. While intended to "protect" the consumer, price controls serve in many cases to discourage production and to distort investment decisions in the agricultural field.

Direct export restrictions for agriculture are limited to a tax on bananas, as mentioned above, and an export licensing requirement for beef and coffee, this latter intended to assure adequate domestic supply.

In general, agricultural production in Panama is not cost competitive with major exporters, and suffers from low yields and poor product quality. Development of Panamanian agricultural exports will require efforts to identify and comply with import restrictions in overseas markets. For example, access to United States markets is currently denied for many potential exports from Panama. In some cases this is because potentially harmful pests are present (Mediterranean fruit fly) and there are no treatment facilities in Panama to prepare the product for entry into the United States. In other cases, products which have not previously been exported from Panama do not have clearance to enter the United States.

b. Proposed Solution: The Export Development component will assist selected companies that are or are planning to export products. AID evaluations have shown that even in less than ideal policy environments, there are still activities that can be carried out in the area of trade and investment with positive benefits. For Panama, limited export development efforts have this potential. The Project proposes to provide export development assistance to selected companies that are or have shown the potential to competitively export. The Center will oversee the provision of this technical assistance. It is expected that organizations such as SIP and GRESPAN will play a role in recommending companies that should receive technical assistance based upon criteria that will be established by the Center.

In addition to discrete activities with various companies, activities which involve more than one company will also be carried out. These include: support for establishing a preclearance inspection process for agricultural products that will be exported to the U.S. and marketing support to EPZ developers. Support for the latter activity could be in assisting the developer in determining what types of companies to attract to a particular EPZ.

Cost recovery for technical assistance is an important issue which relates to beneficiary acceptance of the assistance and to the Project's ability to provide greater levels of service. Cost effective trade and investment promotion should aim at maximizing results in terms of employment or export earnings at the least cost in Project inputs. Working with existing companies, substantial investors and commercial farmers is more likely to achieve a satisfactory benefit to cost ratio. One of the ways of screening for beneficiaries most likely to produce results is the imposition of a cost requirement for technical assistance. Admittedly, Project-funded interventions which benefit a broad beneficiary base are difficult to price out to the beneficiaries. Assistance which supplies marketing or price information to a group of farmers or phyto-sanitary requirements to a group of livestock producers may not be suitable for cost recovery. But, company or product specific technical assistance for which the beneficiaries are few in number and clearly identified should attain significant cost recovery.

There will be two major sources for foreign technical assistance: the International Executive Service Corps and the EXITOS regional non-traditional agricultural development project. The Farmer-to-Farmer Program will also provide a small level of assistance. Local and foreign sources of technical assistance, if available and appropriate, will also be accessible through contracting by the Center after having met AID source/origin contracting requirements.

4. Technical Conclusion: The project design takes into account a trade and investment environment that is not ideally suited for attracting new investment. For this reason, a large part of this Project is devoted to policy advocacy with the balance focused on export development activities that will be carried out in a highly selective manner.

The Project's two components are highly complementary. They provide resources to focus and carry out direct policy advocacy activities and a means for the private sector to take advantage of the resulting changes. In addition, the Project, as a whole, complements and supports the World Bank's Economic Recovery Program through the public support that it generates. Finally, in regards to the export development activity, evaluations that have been carried out on AID trade and investment projects show that a positive impact can be made in this area even in adverse environments such as Panama's. Therefore, it is concluded that the technical actions proposed for this project are the most

suitable methods to carry out a project of this nature in Panama given the existing environment.

ANNEX E

FINANCIAL ANALYSIS

This analysis examines three areas: (1) AID-funded project costs; (2) the private sector's ability to finance the counterpart requirement; and (3) recurrent costs after the PACD.

1. AID-Funded Project Costs: The total cost of the Project is estimated at \$3,367,240 with AID-funded costs totaling \$2,500,000. A detailed estimate of these costs is contained in Table F-1.

a. Salaries: A total of \$16,200 has been budgeted for one year of salary for an administrative assistant to work in the Center. Following this initial one year period, this salary cost will be funded from counterpart contributions which are estimated at \$296,240.

b. Studies: A total of \$470,000 is budgeted for policy reform and product development studies. One master policy study will be contracted at an estimated cost of \$150,000. This overall study will reconfirm the importance of up to eight economic sectors or areas affecting investment. A total of \$320,000 is budgeted for more detailed studies of these sectors. The private sector will provide an additional \$87,500 in counterpart financing to support these studies. A total of \$240,000 is provided for 6 product development studies, 3 in the agriculture sector and 3 in the industrial sector. Also \$18,000 is budgeted for an investment guide to be prepared by the AMCHAM.

c. Training: The Project will finance training mainly through seminars, workshops, etc. for approximately 700 participants at a total estimated cost of \$167,000. A more detailed description of this training and the costs for individual seminars, workshops and other activities is contained in the Project Training Plan contained in the main body of the Project Paper. An additional \$100,000 is provided under the training line item to draft the conclusions of these seminars, and publish and disseminate them.

d. Technical Assistance: A total of \$827,500 is budgeted for technical assistance. The International Executive Service Corps (IESC) will provide a long-term advisor (24 pms) to the Project at an estimated cost of \$300,000 and 25 person-months of short-term firm-specific technical assistance estimated to cost \$250,000. Recipient firms of this short-term assistance will be required to provide additional counterpart funds estimated at \$70,000. The ROCAP regional EXITOS Project will also provide a total of 10 person-months of firm-specific short-term technical assistance at an estimated cost of \$150,000. Firms receiving this T.A. will provide counterpart funds estimated at \$57,500 to assist with its cost. This assistance will be directed to agroindustry in the areas of production technology, post-harvest handling,

packaging and market requirements. A total of \$22,500 is also budgeted for in-country costs of Farmer-to-Farmer Program volunteers who will provide assistance to GREXPAN affiliated producers. The amount of \$60,000 has been set aside for 4 months of T.A. to establish the one stop licensing center that is proposed for the CCIA. Lastly, a total of \$45,000 is budgeted for 3 person-months of computer data base management assistance to the Information Center to be established in the CCIA.

e. Commodities: The Project will finance various commodities and equipment at a total cost of \$95,500. Additional commodities will be financed with counterpart and in-kind contributions estimated to total \$45,000. A more detailed description of the types and amounts of commodities to be funded is contained in the Project Procurement Plan in the main body of the Proper Paper.

f. Travel: A total of \$36,000 is provided for the costs of local (\$12,000) and international (\$24,000) travel.

g. Data Base Costs: A total of \$10,000 of AID funds is provided to finance fees associated with accessing computer data bases.

h. Office Costs: A total of \$6,000 is budgeted for office expenses. Counterpart expenses under this line item is estimated to be \$150,000. This includes office space, furniture, utilities, telephone, etc.

i. Project Management Costs: A total of \$200,000 is budgeted for project management costs including: \$125,000 for evaluations; \$75,000 for two annual external audits.

2. Private Sector Counterpart Contribution: The total counterpart funding requirement for the Project is estimated at \$867,240. Of this amount, the private sector will provide the following for the various activities being carried out under the project.

- \$296,240 for salaries.
- \$133,500 for policy reform and product development.
- \$ 90,000 in cash and in kind for training activities in the form of space for holding seminars and workshops and assistance from various organization employees in the organization of individual events.
- \$ 45,000 for commodities
- \$150,000 in cash and in kind for office space, equipment and utilities.
- \$127,500 for technical assistance.
- \$ 25,000 for contingency.

3. Recurrent Costs: Recurrent costs under the Project are entirely covered by counterpart funding except for the one year of salary (\$16,200) for the administrative assistant, some office

TRADE AND INVESTMENT DEVELOPMENT PROJECT (S25-0309)

supplies and computer access fees (\$16,000). After the first year, this salary expense will be borne by the private sector. There will be a charge for all services provided to private firms, during and after the Project. After the PACD, firms receiving firm-specific services will be required to pay their full cost. The cost of other generalized service such as the data bases will be covered by fees paid by the organizations belonging to Fundación ANDE.

| TRADE & INVESTMENT DEVELOPMENT | | | |
|--|------------------|----------------|------------------|
| PROJECT NO. 525-0309 | | | |
| LINE ITEM DESCRIPTION | USAID | CP | TOTAL |
| POLICY ADVOCACY COMPONENT | | | |
| 1) CENTER SALARIES & LONG TERM TA | 316,200 | 296,240 | 612,440 |
| Ex. Director (\$4,050 x 36mon) | 0 | 145,800 | 145,800 |
| Administrative Assistant (36pms) | 16,200 | 32,400 | 48,600 |
| Secretary (\$675 x 36mon) | 0 | 24,300 | 24,300 |
| Receptionist (\$475 x 20mon) | 0 | 9,500 | 9,500 |
| Messenger (\$340 x 36mon) | 0 | 12,240 | 12,240 |
| Financial Management, Acct. | 0 | 36,000 | 36,000 |
| Information Center Manager | 0 | 36,000 | 36,000 |
| IESC Project Advisor (24pms) | 300,000 | 0 | 300,000 |
| 2) POLICY ADVOCACY STUDIES: | 470,000 | 87,500 | 557,500 |
| Master Study (10pms) | 150,000 | 0 | 150,000 |
| Follow-on Detailed Studies: | 320,000 | 87,500 | 407,500 |
| Regulation Procedures | 40,000 | 10,000 | 50,000 |
| Labor | 40,000 | 10,000 | 50,000 |
| Property Rights | 40,000 | 10,000 | 50,000 |
| Exports | 40,000 | 17,500 | 57,500 |
| Tourism | 40,000 | 10,000 | 50,000 |
| Transportation | 40,000 | 10,000 | 50,000 |
| Industrial Productivity | 40,000 | 10,000 | 50,000 |
| EPZ Development | 40,000 | 10,000 | 50,000 |
| 3) TRAINING: | 192,000 | 90,000 | 282,000 |
| Policy Reform Seminars (10) | 40,000 | 20,000 | 60,000 |
| Industrial Reform Seminars (5) | 20,000 | 10,000 | 30,000 |
| Guest Speakers (4) | 20,000 | 0 | 20,000 |
| Observational Trips (6) | 12,000 | 0 | 12,000 |
| Publications, Dissemination | 100,000 | 60,000 | 160,000 |
| 4) COMMODITIES: | 53,000 | 35,000 | 88,000 |
| Motorcycle | 2,000 | 0 | 2,000 |
| Office Computers (3) | 15,000 | 0 | 15,000 |
| Computer Data Base System | 25,000 | 25,000 | 50,000 |
| Fax | 1,000 | 0 | 1,000 |
| Office Supplies, Materials | 10,000 | 10,000 | 20,000 |
| 5) TRAVEL: | 36,000 | 0 | 36,000 |
| Local | 12,000 | 0 | 12,000 |
| International | 24,000 | 0 | 24,000 |
| 6) OFFICE: | 6,000 | 150,000 | 156,000 |
| Office Space | 0 | 135,000 | 135,000 |
| Eqmt, utilities, telephone, etc. | 6,000 | 15,000 | 21,000 |
| SUBTOTAL | 1,073,200 | 658,740 | 1,731,940 |

85

| TRADE & INVESTMENT DEVELOPMENT | | | |
|--------------------------------------|------------------|----------------|------------------|
| PROJECT NO. 525-0309 | | | |
| LINE ITEM DESCRIPTION | USAID | CP | TOTAL |
| EXPORT DEVELOPMENT COMPONENT | | | |
| 1) TECHNICAL ASSISTANCE | 482,500 | 127,500 | 610,000 |
| Ind. Specific TA (25 pms) | 250,000 | 70,000 | 320,000 |
| Agr. Specific TA | 172,500 | 57,500 | 230,000 |
| Agr. Firm-Specific (10pms) | 150,000 | 15,000 | 165,000 |
| Farmer-to-Farmer (30pms) | 22,500 | 22,500 | 45,000 |
| Field Agronomist (20pms) | 0 | 20,000 | 20,000 |
| CCIA One-Stop Licensing (4pms) | 60,000 | 0 | 60,000 |
| 2) STUDIES | 258,000 | 46,000 | 304,000 |
| Ind. Product Development Studies (3) | 180,000 | 30,000 | 210,000 |
| Agr. Prod. Dev. Studies (3) | 60,000 | 10,000 | 70,000 |
| Investment Guide | 18,000 | 6,000 | 24,000 |
| 3) TRAINING | 75,000 | 0 | 75,000 |
| Product Workshops (6) | 60,000 | 0 | 60,000 |
| Promotional Activities | 15,000 | 0 | 15,000 |
| 4) DATA BASE | 55,000 | 0 | 55,000 |
| Technical Assistance (3pms) | 45,000 | 0 | 45,000 |
| Data Base Access Fees | 10,000 | 0 | 10,000 |
| 5) COMMODITIES | 42,500 | 10,000 | 52,500 |
| 4X4 Pickup (2) | 36,000 | 0 | 36,000 |
| Faxes (3) | 3,000 | 0 | 3,000 |
| Office Materials, Supplies | 3,500 | 1,500 | 5,000 |
| Office Space | 0 | 6,000 | 6,000 |
| Utilities, Tele., Copies | 0 | 2,500 | 2,500 |
| SUBTOTAL | 913,000 | 183,500 | 1,096,500 |
| PROJECT MONITORING | 200,000 | 0 | 200,000 |
| Evaluation | 125,000 | 0 | 125,000 |
| Annual External Audit (3) | 75,000 | 0 | 75,000 |
| CONTINGENCY (12%) | 313,800 | 25,000 | 338,800 |
| TOTAL | 2,500,000 | 867,240 | 3,367,240 |
| % CONTRIBUTION | 74% | 26% | 100% |

ASSUMPTIONS USED TO ARRIVE AT THE AID FINANCED BUDGET FOR
THE TRADE AND INVESTMENT DEVELOPMENT PROJECT

- 1) Administrative Assistant: One year of services at \$1,350/month which includes all benefits.
- 2) IESC Project Advisor: Two year effort at \$150,000/year. This includes salary, travel, housing allowance, educational allowance, etc.
- 3) Overall policy study: 10 pms of effort at \$15,000/month.
- 4) Sector specific studies: Eight studies at \$40,000/study. This assumes 2.5 pms of effort at \$15,000/month plus miscellaneous expenses and printing costs.
- 5) Policy reform seminars: Ten seminars at \$4,000/seminar. Seminars will average two days each and will include costs related to seminar preparation, carrying them out and follow-up activities.
- 6) Industrial reform seminars: Five seminars at \$4,000/seminar. Same assumptions apply as in (6) above.
- 7) Guest Speakers: Four guest speakers from outside of Panama at a cost of \$5,000 per speaker.
- 8) Observational Trips: Two observational trips to different countries to observe the effects of effective policy reform leading to free trade. A total of six participants will go at an average cost of \$2,000/participant.
- 9) Publications, dissemination: Estimated at \$20,000 for the first year of the project and \$40,000 for each of the next two years.
- 10) Database TA: Three person months at \$15,000/month to assist in developing the database.
- 11) Database access fees: \$3,000 the first year and \$3,500 for the next two years to pay for subscription fees to such databases as Dun & Bradstreet.
- 12) Motorcycle: Estimated to cost \$2,000.
- 13) Office computers: Three computers with related hardware & software at \$5,000 each.
- 14) Computer database system: Includes three computers, large memory CPU, modems and software for \$25,000.
- 15) FAX machines: Four FAX machines at \$1,000 each.
- 16) Local Travel: Local travel expenses (including per diem when applicable) at \$4,000/year for three years.

- 17) International Travel: International travel and per diem at \$8,000/year for three years.
- 18) Office equipment, materials, utilities, etc.: Estimated to total \$9,500 for three years.
- 19) Industry specific TA: 25 person months at \$10,000/month.
- 20) Agriculture firm specific TA: 10 person months at \$15,000/month.
- 21) Agriculture TA through the Farmer-to-Farmer program: AID will contribute \$25.00/day in per diem expenses for up to 30 person months of effort (\$22,500).
- 22) TA for one-stop licensing center: Three person months at \$15,000/month.
- 23) Industrial product development studies: Three studies at \$60,000 each. Four person months of effort at \$15,000/month are estimated for each study.
- 24) Agricultural product development studies: Three studies at \$20,000 each. The level of effort required is estimated at 1.3 pms at \$15,000/pms.
- 25) Investment guide: Printing costs to reproduce copies of an investment guide to Panama developed by AMCHAM.
- 26) Product Workshops: Six workshops at \$10,000 each which includes the work required to develop the workshops, carry them out and follow-up on specific activities.
- 27) Promotional Activities: Estimated at \$5,000/yr. for three years to prepare and publish material on free trade, policy reforms and specific products.
- 28) Vehicles: Two 4x4 pickups at a cost of \$18,000 each.
- 29) Evaluations and audit: Total estimated cost is \$200,000; \$75,000 for three annual audits and \$125,000 for one evaluation.

ANNEX F

ECONOMIC ANALYSIS

This analysis is on file in the Mission's Private Sector Development Office.

ANNEX G

SOCIAL SOUNDNESS ANALYSIS

The social analysis was used to guide the design of Project components and to confirm the socio-cultural feasibility of the proposed activities. The information for this analysis was compiled through a review of 1990 Census figures, GOP Ministry of Health surveys, field interviews, and discussions with private sector representatives concerned with policy reform issues and export development. The key socio-cultural issues are discussed below.

1. Demographic Considerations: In 1990, Panama's total population was estimated at 2,315,000 inhabitants, of whom 1,458,000 were 15 years or older. The 1990 estimate of the economically active population was 844,000, or a participation rate of 58% of those 15 years of age or over. Of the economically active, 688,000 or 82% were employed with the remaining 156,000, or 18% were unemployed.

Net population growth rates in Panama have declined from a level of 2.78% in 1980 to 2.14% in 1990. It is projected from now to the end of the century to be 1.81%. Growth in the 15 or over age group is projected to grow at the slightly higher rate of 2.26%, which implies a relative decline in the dependent population. The percentage of the population actively participating in the economy is projected to increase to 59%. By the year 2000, Panama's economically active population is projected to reach 1,076,000, implying a need to create some 25,000 new jobs annually as well as absorbing the currently unemployed.

As shown in the table below, participation rates in the economy have increased over the past several years, but are still much higher for men than for women.

| <u>Economically Active</u> | <u>1982</u> | <u>1990</u> |
|-----------------------------|-------------|-------------|
| Total population 15 or over | 53 | 58 |
| Men 15 or over | 77 | 79 |
| Women 15 or over | 32 | 38 |

While the absolute number of economically active Panamanians fifteen years of age or over grew some 38 percent from 1982 to 1990 - 613,000 to 844,000 - the distribution between sectors changed relatively little. The percentage attributed to agriculture declined very slightly from 26 percent in 1982 to 25 percent in 1990. Open unemployment in absolute numbers has risen sharply since 1982.

Panamanian government surveys indicated open unemployment in 1982 of 52,000 persons, of which 52 percent or 27,000 were women. The equivalent projections for 1990 were 156,000 persons of

90

whom 44 percent or 69,000 were women. In relative terms, unemployment has affected men more than women.

In terms of income distribution, Ministry of Health surveys in 1988 estimated the percentage of Panamanian families living in "extreme poverty" to be 27.1%, representing 32% of Panama's total population. While only 23 percent of total households surveyed were found to be headed by women, over 27 percent of the households living in extreme poverty were headed by women.

Open unemployment is not distributed evenly among Panamanian economic sectors, with the rate estimated for "metropolitan" areas running at 21.6 percent in 1990, down from an estimated 24.8 percent in 1989. In contrast, the unemployment rate for the agricultural sector in 1990 was calculated to be less than three percent.

As implied by the figures above, serious unemployment in Panama is an urban problem involving manufacturing, construction and services. Previous rural to urban migration has helped create pockets of urban poverty in such areas as San Miguelito, Casco Viejo and El Chorrillo. A recent study claimed that, in the area stretching from downtown Panama City towards the international airport referred to as "San Miguelito", the population has reached 242,000, or about 10 percent of the national population. Other pockets of poverty and unemployment can be found in the city of Colon.

The Ministry of Health and Social Welfare has also undertaken studies of underemployment and has noted an increase since 1982. An estimated 34 percent of those employed are working at less than full capacity. The problem is somewhat more severe in the "informal" urban economy than in the "traditional" rural sector. Underemployment is least found in the "modern" rural economy. The problem in the "traditional" rural area seems to affect men much more than women, probably indicating both the seasonal nature of much of the "traditional" agricultural economy and that women do not participate to a high degree in this sector.

In reviewing the figures on population and employment Panama's relatively greater development as compared to other countries in the region should be kept in mind. Estimated 1990 per capita income of US\$ 2,007 is more than twice that of Guatemala, El Salvador or Honduras. Unfortunately in real terms per capita income has declined since 1987 to the level first reached in 1973. Nevertheless, wage rates for those employed in nominal terms run slightly higher than in Costa Rica and substantially more than in the Dominican Republic, Honduras, Guatemala or El Salvador.

Educational levels are also higher than in most of the region: the percentage of the economically active population with at least one year of university level education exceeds 14 percent. Less than six percent of the economically active population is considered illiterate.

2. Expected Impact: Panama's social problems do not involve large numbers of people. With a national population smaller than that of many Latin America cities, unemployment, while troublesome, is not large in the absolute sense, numbering in the range of 150,000. Given relatively high unemployment in the cities and low unemployment in the rural areas, further rural to urban migration would appear unlikely, assuming equal rates of economic development for both.

In the near term, urban employment generation will have to overcome the negative impact resulting from the planned reduction in both U.S. military facilities and force levels. The reduction is projected to result in the elimination of some 6,000 jobs. There will also be the loss of indirect employment through reduced demand for support goods and services. This makes all the more urgent efforts principally on the part of the Government of Panama to improve Panama's investment climate.

Interventions directed at increased employment and income generation contemplated in the Trade and Investment Development Project meet real Panamanian social needs. The Project has very broadly defined targets and is not directed at any one group or geographical area. Accrued benefits will be most likely spread throughout Panama and should not lead to any particular change in population distribution. In relative terms, the greatest beneficiaries of increased employment will be the unemployed and those working at less than full time. Bringing these people into the labor force can only serve to increase personal income and reduce poverty within Panama. However, it should be noted that due to the nature of the policy reform activities envisioned, some segments of the population will be negatively affected. These are the owners and employees in the protected industries and firms. Employment and capital dislocations will occur in these industries when protective barriers are lowered or removed. But, many, if not most, of the dislocations will occur regardless of the TID Project. They will result from the reform efforts called for under the Economic Recovery Program that the GOP agreed to with the IBRD and the IDB. It is anticipated that the Project will alleviate some of the dislocations through its export development activities and that others will be ameliorated through the increased trade opportunities that will result from the removal of the protective barriers.

One area of intervention, that of promoting policy reform, though indirect, offers significant potential for increased employment and labor productivity. A prime target for reform is Panama's labor code. While Panama's nominal wage rate is high compared to regional competitors, the thrust of reform is not to lower nominal wage rates but to remove the constraints imposed by the code on employment flexibility and labor productivity.

The code imposes heavy barriers to discharging employees. As a result, Panamanian employers minimize the number of permanent employees so as to avoid having redundant staff should business decline or a problem arise. Accrued but not funded obligations to

employees of essentially bankrupt public firms impede privatization or reorganization of these enterprises. The code also discourages potential foreign investors, especially in labor-intensive industries, since labor regulations in other countries are not as rigorous, albeit similar in many respects. The code's provisions on salary determination effectively preclude productivity bonuses or piece-work incentives, prime mechanisms in other countries for increasing productivity and worker income.

Revision of the labor code to ameliorate provisions such as those described will be subject to Project supported public educational campaigns. A liberalized labor code should lead to increased employment, higher productivity and greater income for those employed and increased new investment in productive enterprises.

Another area in which macroeconomic policy reform can directly generate increased employment is agriculture. Panama has significant and under-utilized agricultural resources the development of which has been adversely affected by government imposed distortions in the economy and outright protectionism. In addition to promoting an agricultural sector open to world markets which, while requiring readjustments and some negative consequences to selected interests, should greatly improve the investment climate, the Project will provide a modest level of technical assistance to the agricultural sector, with emphasis on non-traditional or new to Panama products. Since current levels of unemployment in the agricultural sector are so low, shifting production from one crop to another is not expected to have a net negative impact on farm laborers, but should in fact increase employment opportunities.

Project success in improving the investment climate and clarifying the "rules of the game" will lead to new and competitive agricultural production. This in turn will contribute to increased rural employment at higher wage rates and with greater participation of women and thus have a positive social impact. Given the current low level of rural unemployment in Panama, job creation in the agricultural sector does not have to be sizeable before leading to increased effective wage rates and participation in the formal economy by rural residents.

Expansion of employment in manufacturing and services, concentrated in Panama's urban areas, is expected to occur in conjunction with reform of macroeconomic policy and the removal of regulatory obstacles which are now seen as the major impediments to new business investment. Major economic reforms have resulted from the negotiations between the Government of Panama and international lending agencies. The Trade and Investment Development Project through its policy advocacy element will work to promote public understanding and private sector support of the needed economic and regulatory reforms, which will lead not only to substantial institutional financing of infrastructure but new private investment in manufacturing and services.

Direct Project intervention to promote manufactured exports will consist of developing the capacity within the private sector to provide facilitative services to prospective exporters and investors and selected technical assistance to specific companies able to expand production. This will contribute to increased employment and foreign exchange earnings in Panama's manufacturing and service industries. Additionally, as most manufacturing takes place in urban areas, the increased employment opportunities will help to reduce unemployment in these areas which presently have the most serious social problems.

3. Social Soundness Conclusions: The Trade and Investment Development Project is expected to have an overall positive impact on Panamanian social development most directly through employment generation, and indirectly through increased personal income resulting from economic growth.

ANNEX H

INSTITUTIONAL ANALYSIS

This institutional analysis examines: (1) the organizational status of local private sector organizations (NGOs); and (2) administrative arrangements required to effectively implement the Project.

1. Participating Organizations:

The following is a description of the private sector organizations that will participate in the Project:

a. Panamanian Chamber of Commerce, Industry and Agriculture (CCIA)

The CCIA is a nonprofit, apolitical, non-governmental and autonomous organization. The Chamber was established in May 1915 to serve as a broad-based private sector representative institution. As a legally constituted membership organization, with over 1,200 member companies, it protects the interests of a wide range of private sector groups and functions as a technical support agency for its members. Membership in the Chamber is voluntary, since Panama imposes no legal requirement that businesses register in official "chambers". The CCIA's principal source of income is through membership fees which provide approximately sixty percent of its revenue. The organization's annual operating budget is currently estimated at \$750,000 and it is entirely self-sufficient. Financially, it is one of the strongest NGOs in Panama.

In accordance with the bylaws as approved in December 1983, the maximum authority of the CCIA rests with the General Assembly. The General Assembly is represented, in turn, at both the institutional and operational levels by an elected Board of Directors which embodies 13 business categories ranging from apparel manufacturers and distributors to banks and insurance companies.

The Board of Directors, headed by a President and an Executive Committee, is the highest administrative body and under which the different working committees operate. Specific committees are designated to oversee the work of each of the technical and administrative departments. An Executive Director is in charge of day-to-day administration and special assignments and reports to the Board of Directors. The Executive Committee and Executive Director are supported by three secretaries and two office assistants.

The Chamber carries out its activities through the following departments: Courses and Seminars, Economic Studies, Accounting and Finance, Administrative Services, Legal Counsel and

Arbitration, Public Relations, and International Trade. The institutional and operational functions and existing support personnel of these departments are highlighted below:

(1) Training and Seminars Department: This unit is responsible for planning, organizing and implementing training programs for employees of CCIA members. It also holds seminars to familiarize specific nonmember groups with the workings of the Chamber. This unit is presently staffed by a coordinator of courses and seminars and a secretary. Outside instructors are contracted as required for specific training activities.

(2) Economic Studies Department: The Economic Studies Department is in charge of collecting and analyzing statistical and economic information on Panama. The center offers standardized information services for Chamber members, carries out economic research and special studies, and provides support to international investors who visit Panama. It also conducts a quarterly survey to measure the productive and financial performance of CCIA members, advises the Board of Directors on economic matters, and represents the Chamber in economic conferences. Current staff includes a chief economist, an economic analyst, an economic advisor and a secretary. A new position, an assistant economic officer, is currently under consideration.

(3) Accounting and Financial Services Department: This unit is responsible for operating an up-to-date financial management and information system used for managing the CCIA's funds and preparing all required financial and accounting reports. If requested by a member, the unit provides information and documentation on the application of the special trade arrangements under the General System of Preferences and the Caribbean Basin Initiative (CBI), and attests to the authenticity of certificates of origin prepared by CCIA members.

The unit also collects payments for credit sales made by CCIA members to Panamanian government (GOP) employees. Twice a month, the GOP deducts a specific sum from the debtors' salaries and issues a single check to the Chamber for the total amount of deductions payable. The CCIA in turn issues checks to the respective vendors, benefiting from a commission for the service.

In addition, this unit was in charge of the financial management of the \$1.9 million Displaced Persons Component of the USAID/Panama Immediate Recovery Project (525-0302). This activity ended successfully in July 1991.

The unit's present staff includes a chief accountant/controller, an assistant controller, a financial programmer, a computer operator, a bookkeeper, a secretary, and two bill collectors. An additional bill collector position is currently under consideration.

(4) Administrative Services Department: This unit is primarily responsible for the CCIA's human resource management, messenger services, commodity purchases, building maintenance and other general services. It is also responsible for following established operational procedures, such as public announcement of job openings and initial screening of applications, for selecting and contracting support personnel. In addition, it arranges the provision of appropriate logistic support for working meetings and special events programmed by the Board of Directors. The unit now has an administrative advisor/personnel director, two secretaries, a receptionist, three office assistants and three messengers.

(5) Legal Counsel and Arbitration Department: This unit maintains close contact with Panama's General Legislative Assembly to analyze proposed new laws, and provide CCIA members information on the impact of pending legislation which affects their interests. Likewise, the unit provides legal assistance to CCIA members and supplies them with notice of newly enacted laws and regulations. It is also responsible for preparation or clearance of all contracts or formal agreements to be entered into by the Chamber.

Additionally, this unit has as its mandate the establishment of a conciliation and arbitration center for the settlement of contract disputes between private sector companies. The CCIA expects this center will be fully operational by the beginning of 1992.

Present staff includes a legal advisor and a secretary. Two additional positions, a legal assistant and a secretary, are currently under consideration.

(6) Public Relations Department: This department publishes a monthly business magazine entitled Al Dia de Hoy, the organization's official journal. Al Dia de Hoy is one of the most widely circulated trade publications in the country. The department also publishes the Commercial and Industrial Directory of Panama which contains an updated list of CCIA members by business category.

Also, the Public Relations Department is responsible for maintaining close contact with the media; organizing press conferences; preparing video programs on business-related topics; and editing press releases, bulletins, job advertisements, etc.

Personnel now in this department include a public relations officer, an assistant and a secretary.

(7) International Trade Department: This unit has as its main function planning and organization of an annual international trade exposition known as EXPOCOMER which has been held on nine occasions since 1983. The purpose of EXPOCOMER is to promote Panama's socioeconomic development through increased international trade. The fair generates revenues in excess of its

costs, most of which are donated by the Chamber to its Educational Foundation. This Foundation was established by the CCIA in 1982 to raise funds for scholarships.

Although under the overall authority of the CCIA Board of Directors, the International Trade Department operates as a semi-autonomous division, operating with considerable independence with regard to its internal affairs. For example, a separate Executive Council named by the President of the CCIA is wholly responsible for planning and organizing EXPOCOMER. Also, unlike the other departments, this division has its own Executive Director. Other support personnel include a marketing officer, three secretaries and an office assistant.

The Chamber's Educational Foundation contributes part of its scholarship funds to the Private Sector Educational Assistance Council (Consejo del Sector Privado para la Asistencia Educacional, COSPAE) which is an A.I.D.-registered local PVO. The CCIA was one of the founding members of COSPAE. Since 1984, A.I.D. has provided financial support to COSPAE's institutional development and training assistance through the Private Sector Productivity Training Project (525-0258). This project is scheduled to end in March 1993.

b. Panamanian Business Executives Association (APEDE)

APEDE is a non-profit, autonomous, and apolitical organization dedicated to the professionalization of management in Panama. APEDE was formed in March 1958 by a group of businessmen who decided to organize an institutional body to represent business executives in the country. Its fundamental purpose is to strengthen the system of free enterprise in Panama.

APEDE has approximately 550 members and mainly serves as a supplier of a wide range of management services that address specific business needs. In addition to its main chapter in Panama City, APEDE has affiliates in the following provinces: Chiriquí, Herrera, Colon, Veraguas, Chorrera and Coclé.

During 1991, APEDE's income was approximately \$410,000. This income came from dues paying members and income from seminars and workshops that it carried out during the year.

The maximum authority of APEDE is the General Assembly. An elected Board of Directors is the highest administrative body under which different working committees operate. An Executive Director is in charge of administration and reports to the Board of Directors. The Executive Director is supported by a small staff of professionals and other administrative and clerical assistants.

Management training and economic research are APEDE's principal activities. Through its Center of Economic Studies (Centro de Estudios Económicos), APEDE examines economic

policy issues and carries out sectoral research and special studies. Through its Center for Advanced Management Studies (Centro de Estudios Superiores de Administración, CESA), APEDE offers an annual program of business administration seminars that cover areas such as: finance, economics, accounting, managerial techniques and strategies, human resource administration, computer science, and marketing and advertising.

CESA activities also include: (1) an executive development program for business managers and owners to update their knowledge in management tools and techniques; (2) intra-company seminars designed to improve specific management procedures at the request of interested enterprises; (3) a vocational training program tailored to provide entrepreneurs and technicians with a good grasp of applied managerial know-how; and (4) a seminar designed to familiarize high school students and workers of private companies with the system of free enterprise.

APEDE maintains communication with over seventy analogous organizations, i.e., management institutes and associations, worldwide. This communication helps APEDE in providing referrals to international contacts for its members. In addition, APEDE has the following publications: (1) a biweekly business newsletter, APEDE Informa, to keep its membership informed on the activities of the organization, business contacts and resources, and other business-related developments; (2) a bimonthly magazine, El Ejecutivo, which is similar to the American Management Association's publication, Management; and (3) a monthly economics newsletter, Página Económica, which reports on current economic topics of national interest.

c. American Chamber of Commerce and Industry of Panama (AMCHAM)

AMCHAM is a non-profit, apolitical, autonomous and voluntary private sector association founded in October 1979 by a small group of U.S. and Panamanian businessmen. AMCHAM was formed primarily to foster commercial, economic and social relations between Panama and the United States. Its main financial support consists of membership dues paid by over 370 members who come from more than 200 local and foreign companies operating in Panama.

AMCHAM provides support to its members in specific activities such as: specialized economic reports and market surveys; periodic bulletins on local business conditions and legislation affecting the private sector; and a monthly magazine, The Newsletter, that features reports on economic and sociopolitical trends in Panama. It also offers its members workshops and seminars on business topics, provides support to international investors who come to Panama, and actively promotes the country's traditional and nontraditional exports.

AMCHAM is governed by an elected Board of Directors headed by a President. An Executive Director is in charge of administration and reports to the Board of Directors. Its existing

support staff includes an assistant to the Executive Director, a secretary and a clerk. AMCHAM carries out its activities through a group of working committees.

The following describes the functions of some of its committees:

(1) Panama Affairs and Inter-Club Liaison: maintains liaison with other professional and related associations in Panama.

(2) U.S. Affairs and AACCLA Liaison: maintains communication with members of the Congress of the U.S. and the Executive Branch as well as the American Association of Chambers of Commerce in Latin America (AACCLA).

(3) Legislation and Taxation: tracks significant developments in U.S. and Panamanian taxation legislation which are of interest to business, recommends policy and legal issues.

(4) Publications, Press and Media: assures that all issues and publications of interest to the association are disseminated, promotes and maintains the image of AMCHAM in the community through exhibits and other methods.

(5) Trade, Investment and Reconstruction: planning of commercial and economic development of Panama including tourism, emergency financial assistance and debt for equity programs.

(6) Programs and Seminars: selection of speakers and subjects for seminars and special events.

(7) Membership Liaison: promotes inter-member relations and company breakfast meetings and other activities.

d. National Association for Economic Development (ANADECO)

ANADECO is a non-profit, apolitical and autonomous organization established in September 1990 to promote the socioeconomic development of Panama. It was founded by a group of entrepreneurs whose purpose was to organize a think tank to perform economic and business research, promote local investment projects, and provide domestic market information and support services to foreign producers and investors.

ANADECO has 100 individual members and one corporate member. It is governed by a General Assembly that elects a Council of Trustees for a term of two years. A Board of Directors headed by a president is elected by the Council of Trustees to be responsible for the direction of the foundation and organizing special committees. An Executive Director is in charge of administration and reports to the Board of Directors. The Executive Director is supported by a volunteer advisor, an office assistant/secretary, and a clerk.

ANADECO has as part of its organizational development plan the following activities:

(1) Investment and Export Promotion Program: comprising business matching activities between Panamanian and foreign companies, a tourism development project and a micro-business development scheme.

(2) Organizational Consolidation Program: designed to expand its membership.

e. Guild of Non-traditional Agricultural Exporters of Panama (GREXPAN)

GREXPAN is a non-profit trade organization founded in October 1990 by a small group of exporters of non-traditional agricultural products. It was created to serve as an institutional body to protect the interests of the country's non-traditional agricultural sector. GREXPAN is governed by an elected Board of Directors headed by a President. Most of GREXPAN's members are located in Chiriqui province. The organization has over 30 dues paying members. Its membership includes several producer cooperatives that represent the interests of many growers and agribusinesses.

GREXPAN has offices in both David and Boquete. An Executive Director has been contracted and is working to increase GREXPAN's membership.

f. Industrialists Association of Panama (SIP)

SIP is a non-profit, apolitical and autonomous trade association established in August 1945. Its basic purpose is to protect and represent the interests of domestic businesses or individual entrepreneurs. SIP's affiliate organizations include the Productivity Development Center (Centro de Desarrollo de la Productividad, CEDEPRO) and the Panamanian Exporters Association (APEX).

As a legally constituted membership organization, the SIP represents a broad array of private groups in the industrial, agribusiness and financial sectors. The SIP's main source of income derives from membership fees which range from 40 to 500 Balboas per month. The specific monthly fee paid by a member is based on the member's financial resources.

In accordance with its bylaws, the maximum authority of the SIP is the General Assembly which decides on the organization's policies and areas of activity to be carried out to serve the interest of the membership. A Board of Directors headed by a President is the SIP's highest operational and managerial body. An Executive Director is in charge of day-to-day administration and reports to the Board of Directors. In addition to clerical and other assistants, present staff support to the

Executive Director includes a small staff of professionals with specializations in business administration, economics, legal affairs, journalism and public relations.

At an institutional level the SIP functions as an interest group and lobby before the government to propose solutions to problems affecting the interests of its members. Of all of the private sector associations, SIP is perhaps most closely associated with an anti-trade reform posture, as its membership is most vulnerable to the dislocations and adjustments the GOP's current economic program implies. At an operational level, SIP provides support to its members in specific activities which include economic, legal and managerial counsel. A brief description of SIP's principal activities is provided below:

(1) Economic Counsel: SIP provides economic information services with its own database. This database is available to SIP members to obtain economic reports and standardized facts on topics such as tariff and non-tariff protection, industrial production incentives, international trade, and sources of financing. SIP also engages in economic research, special surveys and statistical analyses of relevance to its members.

(2) Legal Counsel: SIP supplies its members with periodic information on laws and regulations affecting their businesses. It also provides legal assistance in fiscal, judicial and labor matters.

(3) Managerial Assistance: SIP offers specialized seminars for business managers and owners to update their business management knowledge and methods in areas such as database management, industrial safety, tax accounting and merchandising. It also offers its members access to business advice in export strategies and policies, international business techniques, industrial marketing, etc.

The organization has the following publications: (1) a weekly newsletter, La Semana Industrial, which provides its members capsule reports pertaining to the industrial sector; (2) a bimonthly magazine, Industria, to keep its membership informed on topics of current interest to the local business community; and (3) a monthly newsletter, Boletín Informativo, which contains recent information of particular concern to exporters.

g. Panamanian Exporters Association (APEX)

APEX is a non-profit, apolitical and autonomous trade association established in August 1970. Its primary purpose is to protect and represent the interests of Panamanian businesses and entrepreneurs engaged in international commerce. Through an administrative arrangement, the executive director of SIP is also the executive director of APEX. APEX also maintains its offices within SIP's installations. A total of 65 enterprises are affiliated to APEX.

The following are the main objectives and activities of APEX:

(1) Foster the establishment of solid commercial relations with other countries and cooperation with individuals and institutions interested in exporting.

(2) Promote the reform of Panamanian legislation and regulations pertaining to international commerce.

(3) Support studies and make recommendations regarding Panamanian ties to regional markets.

2. Administrative Arrangements:

A discussion of the administrative arrangements required to implement the Project is provided below:

a. Commercial Services Center:

The Project will be implemented by the Commercial Service Center (Center) already established in the CCIA. Its governing committee will consist of representatives from the above mentioned seven private sector organizations and referred to collectively as Fundación ANDE.

The committee will oversee: (1) the development of a strategy to generate public and government support for the changes necessary to enhance Panamanian competitiveness in the world economy; and (2) selected export promotion activities in the light industry and agribusiness areas.

The Center's staff will consist of an Executive Director, an administrative assistant, a management information specialist, an executive secretary and a messenger. The Project will provide a long term IESC advisor to the Center to assist it in reviewing applications of firm specific TA, obtain the required short term TA, in the preparation of product development plans and to assist the Executive Director in developing a plan which would involve all members of the Center in working for policy reform.

The staff will serve as the implementing mechanism carrying out the policy directives of the governing committee. Actions will include arranging for studies and analyses, coordinating technical assistance to various firms and coordinating activities with the staffs of the member organizations. The latter will include organizing meetings, seminars and visits, and developing written materials, educational and publicity campaigns, handouts, etc. either directly with the member organizations or through sub-contracts.

b. Financial Management, Accounting and Procurement:

The Center will rely on the CCIA's financial management and accounting system, as well as for other

administrative support such as procurement. The CCIA will be responsible for procuring project-funded goods and services, including contracting private sector firms and organizations to implement specific project activities.

3. Conclusions: The seven organizations that make up the Center are representative of the private sector in Panama. They represent a variety of interests ranging from commercial to agricultural to industrial. They are among the most influential of the NGOs.

The Center that the group of seven organizations has established has the necessary staff, talent and support to carry out the described project activities. While the purpose of the Project is not to strengthen a particular institution, it will use the Center to accomplish the twin objectives of policy reform and export promotion.

4) THE MISSION WAS REQUIRED AND DID PROVIDE A SCHEDULE OF STEPS NECESSARY FOR PANAMA TO CLEAR ARREARS RELATED TO SECTION 622C AND ERCOKE-ALEXANDER SANCTIONS.

LAC/IR/EES AGREED TO PROVIDE SEPARATE GUIDANCE TO THE MISSION ON THE TYPES OF ENVIRONMENTAL AND NATURAL RESOURCE POLICIES WHICH COULD BE INCLUDED IN THE ECONOMIC POLICY AGENDA.

7. RESULTS OF THE NPD REVIEW

THE DECISIONS REACHED AT THE NPD REVIEW ARE AS FOLLOWS:

A) FY 1991
TRADE DEVELOPMENT AND PROMOTION--BASED ON ADDITIONAL INFORMATION WHICH THE MISSION HAS PROVIDED ON THE PROPOSED PROJECT DESIGN, THE LAC BUREAU PROVIDES PROGRAM CONCURRENCE FOR INITIATION OF THE PROJECT DESIGN. THE MISSION DIRECTOR IS DELEGATED AUTHORITY TO APPROVE THE PID. THE REVIEW RESULTED IN CONCERN ABOUT THE APPROPRIATENESS OF PROCEEDING WITH TA SERVICES, GIVEN THE UNFAVORABLE POLICY ENVIRONMENT, AND QUESTIONED THE SIZE OF THE PROJECT. DURING PROJECT DESIGN, THE MISSION IS REQUESTED TO CAREFULLY CONSIDER REDUCING THE SIZE OF THE PROJECT INCLUDING THE APPROPRIATENESS OF BUDGETING USD 4.4 MILLION TO THE INTERNATIONAL EXECUTIVE SERVICE CORPS (IESC) FOR TRADE AND INVESTMENT SERVICES. THE MISSION SHOULD LOOK FOR LESS COSTLY WAYS TO ENGAGE PANAMANIAN IN THIS TRADE INITIATIVE.

B) FY 1992
SMALL AND MICRO-BUSINESS DEVELOPMENT. (SEE PARA 4B2 ABOVE)

IMPROVED ELECTION ADMINISTRATION: THE NPD WAS APPROVED AND THE MISSION DIRECTOR WAS DELEGATED AUTHORITY TO APPROVE THE PID.

C) FY 1993
CIVIL SERVICE REFORM: THE PROJECT WILL NOT BE INCLUDED IN THE FY 1993 AFS. THE MISSION MAY WANT TO CONSIDER UTILIZING THE ECONOMIC POLICY REFORM PROJECT TO HELP BUILD A CONSENSUS FOR REFORM BY ANALYZING, AND SPONSORING A DISCUSSION OF THE CONSTRAINTS AND OPPORTUNITIES ASSOCIATED WITH CIVIL SERVICE REFORM. EAGLEBURGER

BT
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LAC-IEE-91-75

ENVIRONMENTAL THRESHOLD DECISION

Project Location : Panama

Project Title : Trade Development and Promotion

Project Number : 525-0309

Funding : \$8 million

Life of Project : 5 Years (FY 91-96)

IEE Prepared by : Ruben Mejia-Robleda
Private Sector Development Office
USAID/Panama

Recommended Threshold Decision : Negative Determination

Bureau Threshold Decision : Concur with Recommendation

Comments : None

Copy to : Thomas Stukel, Director
USAID/Panama

Copy to : Robert Mathia, PPD, USAID/Panama

Copy to : Kermit Moh, USAID/Panama

Copy to : Wayne Williams, REA/CEN

Copy to : Mark Silverman, LAC/DR/CEN

Copy to : IEE File

John O Wilson Date JUL 26 1991

John O. Wilson
Deputy Chief Environmental Officer
Bureau for Latin America
and the Caribbean

107
114

INITIAL ENVIRONMENTAL EXAMINATION

Project Location : Panama
Project Title : Trade Development and Promotion
Project Number : 525-0309
Funding : \$8,000,000
Life of Project : 5 years - FY91-96
IEE Prepared By : Ruben Mejia-Robleda
Private Sector Development
Office

Environmental Action : Negative Determination
Recommended

Approved: Kermit C Moh
Kermit C. Moh
Acting Mission
Environmental Officer

Date: July 15, 1991

Concurrence: K Kelly
Acting Mission Director

Date: 7/17/91

Project Description: The Trade Development and Promotion Project (525-0309) is aimed at stimulating the private sector in Panama through an integrated approach to export development involving investment promotion, technology transfer and policy dialogue. The goal of the Project is to increase levels of employment, export earnings and economic growth in Panama by providing support services for export production and marketing. The purposes of the Project are: (a) to promote exports of selected products in the manufacturing and agribusiness sectors; and (b) to encourage the adoption of appropriate economic policies for trade development.

The Project will contribute to the economic development of Panama by: (a) providing specialized managerial and technical assistance to improve production and export marketing capabilities; (b) generating investment in labor intensive private enterprises; and (c) supporting private sector-led policy dialogue for international trade liberalization. As part of the Project effort, individual products or product lines will be selected for which Panama holds a comparative trade advantage. Project resources will then be channelled to those products. Because circumstances change over time the list of products will be continually reviewed and revised during the life of the Project.

To accomplish the goal and purposes, the Project will provide assistance to: (1) the Panamanian Chamber of Commerce, Industry and Agriculture (CCIA) and other private sector organizations to enable them to effect policy changes favorable to liberalization of international trade, and provide various trade and technical services in selected priority fields; and (2) the International Executive Services Corps (IESC) for the provision of specialized managerial and technical expertise, and trade and investment promotion services. The planned life of the Project is five years.

The Mission will exercise normal overall oversight and evaluation responsibilities for the proposed Project. In addition, it will reserve a right of final review over subgrants and product line development activities during Project implementation.

Environmental Impact: The Project is limited to the provision of technical assistance, information services and some training and, therefore, does not directly involve activities that have a harmful effect on the natural or physical environment. Further, the product line development activities to be financed under the Project are not envisioned to be of a scope that would lead to major impacts on the environment (i.e. changes in: land use, water quality, atmosphere, natural resources, cultural traditions, or natural environments/ecosystems). During the intensive review for the Project Paper a procedure for reviewing

- 104 -

and approving such activities will be developed which will include provisions for consideration and measurement, to the extent possible, of the potential environmental impact of the proposed product development activity. Those activities which are found to contain a high degree of risk will either be rejected or safe guards to alleviate negative impact on the environment will be negotiated with the beneficiaries prior to final approval and start-up. Also, the right of final review to be reserved by the Mission, along with its overall project oversight responsibilities will permit an additional safeguard against the funding of product development activities that would involve an environmental impact.

Recommendation: In view of the above project description and the measures that will be taken to identify and exclude or alleviate the potential effects of any product development activities which contain a risk of significant environmental impact, a threshold decision for a Negative Determination is recommended.

AGENCY FOR INTERNATIONAL DEVELOPMENT
PANAMA CITY, PANAMA

UNITED STATES GOVERNMENT
MEMORANDUM

DATE: July 19, 1991
TO: James Hester, LAC/DR/E
FROM: *Robert P. Mathia*
Robert P. Mathia, Chief PPD
SUBJECT: IEE for the Trade Development and Promotion Project

Per our telcon of today, please review and approve the subject IEE. It is attached as Annex 1 to the enclosed PID. We hope to complete the Project Paper and obligate the Project this fiscal year. Therefore, please provide a response by August 16.

I will be away from Panama on R&R for one month starting today. If you have any questions please contact Kermit Moh or John Clary in the Mission.

CC: PSD:KMoh W/O ENCL.
PPD:JClary W/O ENCL.
LAC/DR/CAP:EMarkeset W/ENCL.

114

PROJECT AUTHORIZATION

Country: Panama

Project: Trade and Investment
Development Project

Project No.: 525-0309

1. Pursuant to Part I, Chapter 1, Sections 103 and 106 of the Foreign Assistance Act, as amended, I hereby authorize the Trade and Investment Development Project for Panama involving planned obligations not to exceed two million five hundred thousand U.S. dollars (\$2,500,000) in grant funds over a three-year period from the date of authorization, subject to the availability of funds in accordance with the A.I.D./OYB allotment process, to help in financing the costs for the project. The planned life of the project is three years from the date of initial obligation.

2. The project will assist the Chamber of Commerce, Industry, and Agriculture of Panama, finance activities in support of private sector directed programs of economic policy and regulatory reform, and promote the export of selected products in the light industry and agribusiness sectors.

3. The agreement(s) which may be negotiated and executed by the officer to whom such authority is delegated in accordance with A.I.D. regulations and Delegations of Authority shall be subject to the following essential terms and major conditions, together with such other terms and conditions as A.I.D. may deem appropriate:

a. Source and Origin of Commodities, Nationality of Services:

Commodities financed by A.I.D. under the project will have their source and origin in the United States or Panama except as A.I.D. may otherwise agree in writing. Except for ocean shipping, the suppliers of commodities or services shall have the United States, Panama, or a country included in A.I.D. Geographic Code 941 (Selected Free World) as their place of nationality, except as A.I.D. may otherwise agree in writing. Ocean shipping by A.I.D. under the project shall, except as A.I.D. may otherwise agree in writing, be financed only on flag vessels of the United States.

1125

b. Compliance with U.S. laws:

Assistance under the project shall be provided consistent with U.S. foreign assistance laws such as the Bumpers and Lautenberg Amendments and A.I.D. regulations pertaining to support for agricultural products and manufactured goods.

Thomas W. Stukel
Thomas W. Stukel, Mission Director

3/30/92
DATE

Drafted: RLA: MVelazquez - 03-13-92 ^{R 2/27/92}

Cleared:

- DD: KKelly [Signature]
- PSD: DGardella [Signature]
- PSD: KMoh [Signature]
- OEPP: NVarela [Signature]
- CONT: HDorcus [Signature]
- PPD: JClary [Signature]
- EXO: VSpeidel [Signature]
- EXO: BStader [Signature]
- PPD: RMathia [Signature] 2/27/92

AUTH.TID

- 1130