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TOWARDS AN EMPLOYMENT STRATEGY

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Preface

This paper presents USAID/Panama's current thinking and plans for future activities designed to respond to Panama's increasingly severe unemployment problem.

In preparing this paper the Mission has drawn heavily on assistance provided by Clarence Zuvekas (LAC/DP) and on a series of studies conducted by Panamanian economist Guillermo Chapman, Jr. for the Ministry of Planning (MIPPE) and USAID. We have chosen to keep statistics to a minimum since these studies have been reviewed by AID/W staff and are available to them.

We have attempted to respond to issues raised in State 179059 of July 8, 1980 (DAEC Review of the Employment Planning and Generation PID-525-0221) forthrightly. While we recognize that gaps in this strategy exist because the Government of Panama's (GOP's) next five year plan has not yet been completed, we are confident that the strategy is based on the GOP's anticipated emphasis on the unemployment problem. This is not to preclude the possibility of new initiatives. The re-allocation of GOP and AID resources could alter the mix and timing of proposed development activities.

For these reasons, and because of the dynamic nature of the CDSS process, this document should be viewed as an initial but by no means complete or final analysis of the subject. AID/W cooperation and support would be appreciated in further refining what is admittedly just the beginning of a complex and on-going effort.

I. Summary and Conclusions

A. Nationwide unemployment increased considerably during the low economic growth period from 1974 through 1978 and threatens to become a continuous problem of serious magnitude through the 1990s. Although unemployment is currently higher in the metropolitan corridor, the total number of families with income below the subsistence level is higher in the rural areas. During the next twenty years, however, urban and rural areas are expected to have an equal number of families existing below the subsistence level.

B. A clear pattern of migration into the metropolitan corridor has been in progress for some time and it is unlikely that this process can be altered significantly. (See Table One).

C. The GOP is aware that unemployment is a major problem. Consequently, employment considerations are expected to receive priority attention in the next five-year plan (1981-1985).

D. With the recent termination of Panama's Emergency Employment Program (Plan de Urgencia) and the initiation of formal and informal dialogues with the private sector, the GOP is tacitly beginning to recognize that the private sector must play a significant role in generating jobs through increased investment. The Government's capacity to respond to the employment problem is constrained by a high debt burden, considerable subsidies to publicly operated industries, declining agricultural growth and an inefficient bureaucracy.

E. USAID/Panama's employment strategy has been evolving for some time as a natural response to the needs of the poor. Through a formal analysis of the problem, we hope to be better able to focus resources on the problem. The FY1982 CDSS classification of projects into three categories — Employment Generation, Asset Formation and Development Support - serves to conveniently describe our program, but is not a rigid division since most projects have elements of more than one category.

F. The USAID employment strategy objectives are to: (1) generate employment through support for small labor intensive industries; (2) improve and expand worker training and productivity; (3) improve labor statistics and job information; and (4) improve employment policy formulation and analysis mechanisms, as well as program implementation. It is not geographically specific nor does it exclude traditional rural development activities which are viewed as complimentary approaches to reducing unemployment, increasing productivity and expanding the role of key market towns.

G. The Mission and the GOP recognize the value of improved employment planning and analysis. To the extent possible, and in light of Panamanian desires for short-term action programs focusing on employment problems, USAID will include a problem analysis component in the proposed Employment Planning and Generation project as well as in future AID-funded employment-oriented activities.

II. The Employment Problem in Panama

A. An Overview of Panama's Major Development Problems

Panama is a classic example of the "dual economy" - a dynamic modern sector concentrated in the metropolitan corridor^{1/} coexisting with a traditional, essentially rural sector. Due to the geographic significance of the isthmus and the inaccessibility of the interior with its singular lack of natural resources, most of the development that the country experienced until fairly recently took place in the metropolitan corridor. This resulted in an inordinate concentration of economic, political and social power in a small segment of Panamanian territory. The remainder of the country remained poor and isolated with much of its population dispersed among a large number of small population centers characterized by a low level of physical and economic integration.

This urban/rural dichotomy resulted in serious adverse effects for both areas. In rural areas it meant generally low income, migration of the more productive segment of the population to the urban areas, and a dependence on subsistence farming and low technology methods of production. The modern metropolitan area, on the other hand, has experienced an unprecedented flood of migrants from the rural areas, exacerbating serious deficiencies in housing, social services, and employment, while creating a potential for severe social and political dislocation.

^{1/} The metropolitan corridor includes the districts of Panama City, Arraiján, Chorrera and Colon.

Over the last decade the GOP has made significant and relatively successful efforts to improve the lot of the poor by encouraging a more effective integration of the country and a more equitable distribution of the nation's resources. While the GOP's social programs have been successful, the economic programs have had mixed results, failing in particular to promote increased productivity and long-term employment opportunities for its population.

Due to the expanding nature of this problem, a widespread consensus seems to be emerging within the GOP, the private sector and the international donor community that Panama will have to focus increased attention on employment generation problems now if it is to avoid serious social and political problems in the future. Given the GOP's extraordinarily high national debt, with its negative implications for future public sector investment, the GOP is beginning to realize that the private sector must be more effectively utilized if the GOP expects to achieve its growth and equity objectives.

B. Unemployed Defined

Official data reflects but significantly understates the problem. According to official GOP statistics, the unemployment rate rose from 5.8% in 1974 to 9.1% in 1978. However, strong reasons exist for skepticism about the accuracy of this data: a 15-20% national unemployment rate is the more accepted figure. Zvekas, for example, in his review of the data, noted an apparent understatement of the economically

active population. His analysis showed national unemployment doubling from 7.1% in 1970 to 14% in 1978. Even this may be understated in certain areas: Colon's estimated unemployment rate is 25-35% and a recent USAID study of four poor areas in Panama City and Colon revealed unemployment exceeding 24% and approaching 40% for low-income families.

Underemployment, particularly in agriculture, is even more difficult to determine than unemployment. A 1974 study (ILC/PREALC) estimated that 20-50% of the economically active population was effectively underemployed. In terms of equivalent unemployment, the total labor supply was believed to exceed the demand by 25-30%. Thus, although these are very rough estimates, unemployment is widely acknowledged to be a serious problem and one that was aggravated during the 1970s.

C. Unemployment Distribution

Unemployment in the metropolitan corridor is considerably higher than elsewhere in Panama. In 1978, nearly 75% of all the unemployed were estimated to be located in the metropolitan area (see Table Onn). By the year 2000, the metropolitan area is expected to house 61% of the population, including 90% of the nation's unemployed.

Underemployment appears to be the key problem in rural areas, where unemployment is relatively low but where poverty is relatively high. A 1978 USAID study indicated that 60% of all families living below the subsistence level were to be found in the rural areas. Of the remaining, 31% were located in the metropolitan corridor and 9% were located in

other urban areas. With the continuing urban migration, the urban and rural areas will tend to have about the same number of poor families by the year 2000.

Poverty and unemployment are not always synonymous. Various explanations have been suggested. One explanation is that persons fully employed in a labor-time sense, especially in the rural areas, may have incomes below poverty lines (as determined by minimum basic-needs standards). While the Mission plans, on an on-going basis, further studies to better define and locate those families below the poverty level, we concur with Zuvekas when he concludes that "... a persistently high rate of unemployment - even if the unemployed include the non-poor - constitutes a major social and political problem that, if unattended, may erupt into serious disorders that would have negative consequences for the entire economy and especially the poor."

D. The Next Twenty Years

Despite the recent, i.e., 1979-1980, improvements in the key economic indicators, Panama's unemployment rate is still at least 12%, and in urban areas probably approaches 20%. Given this continuing problem and the critical need to explore various options, the Mission sponsored a study to develop a set of unemployment projections for the entire economy. Using varying assumptions for the GDP growth rate, the employment/output coefficients,^{2/} and the participation rate of the economically

^{2/} The relationship between the rate of growth of employment and the rate of growth of output (GDP).

active population (EAP), Guillermo Chapman developed 18 alternative unemployment rate figures, ranging from 3.3% to 25.1% in 1985 and from minus 6.3% to plus 29.5% in 1990.^{3/} Based on a 6% national GDP growth rate, an employment/output coefficient of 0.50 (slightly higher than that achieved during 1960-74) and a participation rate of 60% (probably close to the true figure), the unemployment rate would still be 18.6% in 1985 and 18% in 1990. Expressed in terms of unemployed, the rates translate into 138,000 (740,000 EAP) and 153,000 (851,000 EAP) individuals in 1985 and 1990, respectively.

Using a 7% GDP growth rate and an employment/output coefficient of 0.6, a 1979 IBRD study concluded that unemployment will approach 10% by 1990. Although the IBRD unemployment figures may be too low because of optimistic GDP growth rate and employment/output projections, and the USAID-GOP figures may be somewhat high because of a possible underestimation of base-year employment, both highlight the importance to Panama of implementing a more labor-intensive development strategy and/or a GDP growth rate higher than 6%. Since a higher GDP growth rate is likely to be more difficult to achieve than it was prior to 1974, these statistics underscore the importance of developing effective investment/employment policies and programs by the GOP as soon as possible.

3/ The negative figure indicates that labor demand would exceed labor supply

TABLE ONE
PANAMA EMPLOYMENT DATA - ESTIMATES

	<u>1978</u>	<u>2000</u>
<u>Geographic Distribution of the Unemployed^{1/}</u>		
Metropolitan area	75 %	90 %
Rest of Country	25 %	10 %
<u>Poverty (Families living below subsistence level)^{2/}</u>		
Metropolitan area	31 %	50 %
Rest of Country	69 %	50 %
<u>Population^{3/}</u>		
Metropolitan area	46 %	61 %
Rest of Country	54 %	39 %
<u>Nationwide Unemployment Rate^{4/}</u>		
1. Official	8.1 %	NA
2. USAID estimate	15-20 %	?

1/ For 1978 data: Dirección de Estadística y Censo, Contraloría General de la República, Panamá. Year 2000 figures are USAID projections.

2/ Broehl, Allan. Workforce Development Project: Panama 525-0214. Report prepared for USAID/Panama, 13 November - 1 December 1978.

3/ USAID/Panama, Country Development Strategy Statement, FY1982. Washington, D.C., January 1980.

4/ Official 1978 figure: Dirección de Estadística y Censo, Contraloría General de la República. Estimates from various sources: IERD, Panama's Development in the 1980's: A Special Economic Report. 2 Vols. Report No. 2306-PAN Washington, D.C., July 20, 1979; USAID/Panama; Chapman 1979 study.

III. Causes and Constraints

The causes of Panama's economic crisis in the second half of the 1970s, which resulted in a sharp rise in unemployment, are discussed in some detail in USAID/Panama's FY1982 CDSS, a special study by the World Bank (1979), and a report prepared for the Ministry of Planning and Economic Policy (MIPPE) and USAID/Panama by Guillermo Chapman, Jr. (1979). These documents also provide a detailed analysis of the principal constraints to a resumption of rapid economic growth and a reduction of unemployment and underemployment. Because these documents are generally well-known, this paper briefly notes these causes and constraints in order to provide a background to Panama's and USAID's strategies.

A. Causes of the Economic Crisis and the Employment Problem

After expanding at a very respectable annual rate of 7.8% between 1960 and 1973, Panama's GDP increased by an average of only 2.5% per year between 1973 and 1979. The principal reasons for this sluggish performance include:

1. Sharp increase in late 1973 and early 1974 in the cost of petroleum, for which Panama imports its entire requirements. Unfortunately, sharp increases in 1979 and others since then continue to put pressure on foreign exchange availabilities, despite Panama's rapid conversion to alternative sources of energy (principally hydroelectric power).
2. The 1974-75 worldwide recession and the subsequent period of modest economic growth in the major industrialized countries which, this day, adversely affects Panama's export market for goods and services.

3. The exhaustion of relatively easy import-substitution options in a national market whose small size sharply limits the efficient local production of industrial products.
4. A sharp decline in construction activity, following a period of overbuilding.
5. Private sector uncertainty about government policies and attitude towards private investment.
6. Agrarian reform efforts which were costly and inefficient, draining public sector resources from other agricultural programs and inhibiting long-term investments in agriculture by farmers of all sizes.

B. Constraints to More Rapid Economic Growth

However well-meaning government interventions in the economy may have been from an equity point of view, some have tended to constrain economic recovery and an amelioration of the employment problem. The following are the more significant constraints:

1. Labor policies: In the view of many observers they constitute one of the principal hindrances to industrial and commercial expansion. Labor policies were the second most important constraint cited in a survey of 101 small and medium-sized industrial establishments conducted by the Ministry of Commerce and Industries (MICI) in 1974.^{4/5/} Specific policies hindering industrial and commercial expansion -- and long-term employment growth as well -- include inflexible worker-dismissal restrictions

^{4/} Raw material costs were the most frequently listed constraints, and problems with raw material supplies ranked third.

^{5/} A recent (1980) USAID study involving a smaller group of entrepreneurs of similar-sized firms, as well as experience with the URGE loan covered the earlier MICI findings.

higher unit wage costs for second and third shifts, and fiscal policies which, in effect, constitute taxes on the use of labor.

2. Price controls: Price controls on such commodities as beef and coffee, which are marketed by many small producers, discourages production. Controlled input prices contribute to material shortages for industry, while controls on sale prices adversely affect business profitability. Business operators complain that price increases are approved only after long delays and are barely sufficient to keep up with inflation and other production cost increases. It is not clear how important an obstacle such controls are since complaints are common and firms are often able to evade them and exaggerate their significance. Nevertheless, evasion takes time and money and has negative effects on productivity.

3. Credit availability: The fourth most frequently cited obstacle in the 1974 survey of small and medium-sized enterprises, the availability of credit continues to be a problem for these firms. For larger firms, however, credit problems are being eased somewhat by recent and projected loans to Panamanian development banks by the IBRD and IDB.

4. Technology: Inadequate research, extension and marketing services, especially for small producers, limit business growth potential. Improved access to technical assistance in production, management and, to a lesser extent, marketing is a clearly perceived need. Lack of managerial and technical skills become increasingly critical for smaller

more labor-intensive enterprises. While the labor force is sometimes characterized as being well-educated, indications are that the skills being taught may not match Panama's needs.

5. Incentive legislation: Small businesses, which tend to be more labor-intensive than larger firms, find it difficult to take advantage of existing complex incentive legislation. As elsewhere, they are particularly disadvantaged in the competition for government contracts, where, for example, a small-business set-aside program could make a useful contribution to stimulating these firms.

6. Deficient public administration: Some of the government's own programs to revitalize the economy, ranging from direct investment in productive activities to the stop-gap Emergency Employment Program, have not been efficiently administered. The financial and human resources required for these programs have, thus, not been available for potentially more-productive government investments in infrastructure and for private-sector investments in directly productive activities. Most observers seem to agree that the types of economic activities that have the best prospects for stimulating the economy and providing new jobs are those which the private sector is better equipped to implement — both financially and administratively — than the public sector.

7. Public-private sector strife: Strained relations between the government and the private sector have hindered the recovery of private sector investment, which, in real terms, fell by 66% between 1973 and 1977.

8. Wage Structure: Panama's wage scale has long been affected by U.S. minimum wage legislation prevalent in the former Canal Zone and on U.S. military bases. The new Canal Treaties insure U.S. wage levels for former Canal Zone employees transferred to Panamanian entities. This could pull the wage and salary structure upward unless corrective measures are taken. A high-cost labor force means that Panama will have to stress the production of high value goods and services (including agricultural products) and improve managerial and administrative efficiency.

IV. GOP Key Development Goals and Programs

The long-range GOP development goals stress three key objectives:

1. The achievement of a high rate of growth in order to increase the national wealth. This is seen as a precondition for achieving all other development objectives;
2. A wider, more egalitarian distribution of the benefits of this growth. This objective encompasses a commitment to enhance participation of the poor in the development process; and
3. Regional economic integration aimed at reducing the considerable rural/urban income and development disparities.

These objectives are clearly stated in GOP development strategy and planning documents. During the past decade the GOP has implemented numerous programs and projects to achieve these and other objectives. These include: (1) programs to increase agricultural production and the rationalization of land use, including credit, agrarian reform, cooperatives development, agricultural enterprises, integrated rural development, watershed management, and agricultural research; (2) programs to improve and expand the economic and social infrastructure (such as roads, communications and transportation systems, power, potable water systems, sewerage disposal, health centers, schools, housing, ports, and the Colon Free Zone); and (3) programs to improve the human resource base, such as integrated rural health systems and curriculum improvements.

The majority of these programs and projects are characterized by their rural bias, in line with the GOP's objectives of reducing the

income gap between the rural and urban areas and distributing more of the benefits of the development process among the poorest segment of the population.

As Panama's post-1973 economic slow-down continued into the late 1970s, with resulting and rising unemployment and underemployment, resolving the employment problem became a major government concern. The most direct response was the Emergency Employment Program, which employed as many as 25,000 in low-level public sector positions from 1977 to 1980. Partly because of this emergency program, however, the public sector deficit, after falling from 18.5% of GDP in 1976 to 13.4% in 1977, rose to 15.4% in 1978. And, unfortunately, rather than providing skills training pertinent to private sector needs, the program merely provided employment in marginally productive activities. Hence, although of certain benefit to those whom it employed, the program was terminated early this year. The termination of the program is taken as a sign that the government is seriously trying to reduce the fiscal deficit and to create productive employment opportunities in the private sector.

More propitious for government-private sector relations, however, is a new high-level labor-management-government commission, which will review existing labor legislation and other constraints to investment, particularly those affecting small and medium-sized enterprises and the overall investment climate. In addition, there has been a relaxation of price controls and a general shift towards recognition of and support

for the private sector's role as basic to future growth. Although comprising of intangibles such as "mood" and "attitude", this shift appears to have improved private sector participation and, more important, to have invigorated investment. In 1979, domestic bank lending rose 29% after four years of no-growth, while investment in the unemployment-plagued construction sector expanded by 38%. IDB and IBRD are preparing projects which would support economic diversification and generate new urban employment. The new \$133 million Colon Urban Development program, which includes IBRD and private foreign bank lending, may generate some 8,000 long-term and many short term jobs. Legislation designed to stimulate assembly industry was recently passed with strong interest expressed by some international firms. More traditional government support for the offshore banking industry and tourism continues with significant private sector participation.

Panamá's agriculture sector - which accounts for 28% of the EAP - remains a drain on the national economy because low productivity (which fell by 1.4% in 1979) and low production have led to an unnecessarily high national food import bill. In addition, the controversial agrarian reform still is heavily subsidized. Greater price flexibility, a better organized and administered bureaucracy and a host of other measures are needed to increase production, productivity and employment throughout the economy, especially the private sector.

While weaknesses and policy inconsistencies remain, this brief analysis, combined with Embassy, USAID and IFIs' analyses of data and

mood, leads us to conclude that Panama is aware that economic growth and political stability are directly related to employment generation. The GOP is currently developing its next five-year plan (1981-1985) and, while no changes are anticipated in its overall goals, the programs and projects mix is expected to be more employment oriented, reflecting the GOP's concern for the serious unemployment of the country. In the face of domestic political constraints, the GOP has been cautious in implementing desirable reforms. But it is diversifying the economy, recognizing that no single sector will provide the solution to recent problems of sluggish growth and high unemployment.

Panama's performance in this regard will be scrutinized by USAID. One measure of this performance will be the degree of cooperation and support government institutions give to future employment projects. We do not predict consistent progress, we anticipate an occasional reverse. Nonetheless, we are cautiously optimistic that the trend towards reinvigoration of the economy is at hand and certain that significant elements of government leadership support policies which encourage private sector investment, greater public sector efficiency, and employment generation.

V. Towards a USAID Employment Strategy

A. The Setting

While a clearly articulated Panamanian employment strategy is evolving (the next five year plan should serve to clarify GOP intentions), the employment problem has been publicly recognized and a consensus is forming upon which a Panamanian employment strategy can be developed. There is growing recognition that many GOP macro-economic policies, e.g., labor legislation, price regulations, tax incentives, and trade policies serve as disincentives to private sector investment and, consequently, to economic growth and employment generation.

In view of its policy problems, the GOP has entered into formal and informal discussions with the private sector, USAID and other international agencies in an effort to clarify the problem(s) and identify alternative courses of action. While several policies have been identified as having a general negative effect on investment and employment generation, much less is known about their impact on different sectors, sub-sectors and specific enterprises. The GOP recognizes the importance of having this information before it attempts to modify significantly its present policies. Nevertheless, confronted with rising unemployment, the GOP is under considerable pressure to initiate action programs to address the employment problem.

USAID/Panama recognizes the GOP's dual need to (1) generate jobs now while, at the same time, (2) developing the informational base needed

for making constructive policy changes. Consequently, the Mission has focused its attention on developing several investment/employment action projects (discussed below) designed to generate (1) jobs amongst AID's target group via credit, managerial and technical assistance to small and medium size enterprises and (2) information on GOP policy effects on enterprise investment and employment decisions.

There have been many useful informal policy discussions between the Mission and the GOP over the last year. Most important, there are indications that these discussions plus some USAID employment studies, are having an effect on the GOP. While the Mission cannot take direct credit for the GOP's decision to enact the legislation creating the labor-management-government commission, there is no doubt that Mission-GOP discussions and Chapman's 1979 study were a significant factor in the chain of events that eventually led to the legislation. In view of this responsiveness and of the country's short and long-term employment generation needs, USAID/Panama is developing its investment/employment action projects as vehicles to maintain creditability and leverage with the GOP on policy issues.

B. The Strategy

USAID/Panama has used its latest CDSS to categorize its program along three related subject areas: employment generation, asset formation and development support (including activities in development administration environment and energy). The first two elements and the development

administration activities of the third element deal directly with the problem of improving the welfare of the rural and urban unemployed, underemployed and unemployable.

In areas outside of the metropolitan corridor, our development assistance strategy has been and continues to focus upon increasing income and employment both in agriculture and, through linkage and multiplier effects, in off-farm economic activities, including those in market towns and small urban centers. Projects are designed to stimulate the expansion of small-farm, commercial agricultural production for domestic consumption and export and to facilitate the development of backward and forward linkages between the urban and rural areas outside the metropolitan corridor and between these areas and the corridor. This program can be expected to help reduce rural underemployment, narrow the gap between urban and rural levels of income and result in more balanced development. We are aware that even a successful strategy will have only a modest effect on rural-urban migration, but we believe more of that migration will be directed toward smaller urban centers rather than toward the metropolitan corridor.

In the urban areas within the metropolitan corridor our strategy will create jobs through projects which stimulate investment in job-generating activities and improve the skills of workers so that the Panamanian labor force will become more productive and attractive to investors.

This strategy is intentionally broadly stated. It is neither exclusively urban nor rural and, while most projects will be expected to contribute to the employment goals, we cannot expect the entire USAID program to be directly responsive to this strategy. Thus, the employment strategy will not abandon traditional rural sector assistance programs. Simultaneously, for economic, social and political reasons, particularly in the metropolitan corridor, USAID will be responsive to, and help mold, Panama's pressing employment generation priorities.

C. Programs/Projects

In the rural areas our strategy encompasses traditional on-farm activities, including the Integrated Rural Development project - IRD (525-0183), a regional development approach aimed at assisting small farmers (if the project's administrative problems can be overcome). Because agricultural research and dissemination of new technologies, both generally and for small-farm agriculture in particular, are especially weak in Panama, the Mission is supporting improvements in these areas through an Agricultural Technology Development project (525-0180). This project and others that are planned, e.g., Agricultural Technology Transfer, complement IRD, URBE, grains marketing, rural access roads and related AID funded activities by strengthening the demand for farm inputs, marketing services, and processing facilities -- the types of activities the Regional Growth and Service Centers project (URBE) is designed to stimulate. Furthermore, rising farm incomes will stimulate the demand

for consumer goods and services; thus, creating additional jobs in market towns and small urban centers through multiplier effects.

We also intend to build upon some of our off-farm activities, such as URBE (525-0185), which finances (1) a variety of small labor-intensive enterprises and larger, capital-intensive agro-industrial firms which have good employment potential; (2) small town infrastructure, such as sewer systems and transport terminals; and (3) low-income housing. If the URBE project is as successful as it now appears it will be, the Mission will probably propose an URBE II. Also, based on the successful Rural Cooperative project (525-0173), which terminated recently, a new cooperative credit loan for stimulating agro-industries is being considered.

As these agricultural and off-farm development projects progress and demonstrate their effectiveness, the Mission hopes to intensify discussions with the GOP on those policies that appear to be hindering the achievement of the government's objectives regarding production, employment and income. As a result of our analysis of Panamanian development needs, we also will devote significant attention to more urban-oriented employment problems.

The Employment Planning and Generation (EPG) project (525-0221) represents the Mission's first attempt at dealing with strictly investment/employment problems. The EPG will provide credit and technical assistance to existing or potential entrepreneurs in medium and small enterprises as part of its "action" components.

The action element of EPG consists of a credit component combined with a technical and managerial assistance package tied to sub-loans and tailored to the needs of individual borrowers. The Mission chose this focus because medium and small firms (1) tend to create jobs at a lower cost than those created by larger firms; (2) tend to utilize relatively labor-intensive technologies appropriate to the skill levels of low-income, unemployed or underemployed persons; (3) use more local raw materials and intermediate goods than do large firms; and (4) have more difficulty in getting credit and technical assistance than do large firms. Experience from the URBE project and recent studies confirm that there is demand for the type assistance that the EPG project will provide. We expect this project to benefit 300-500 small and medium-size entrepreneurs and to create 2,000-2,500 new jobs if all proposed sources of funding can be tapped and properly channeled.

A smaller though important element of the EPG is a labor force information system. Its purpose is to provide better information to both the entrepreneurs who operate small and medium-sized firms and to the potential workers for those same firms. In addition to its direct impact on the unemployment problem, this activity will also help strengthen the GOP capacity to analyze the characteristics of the nation's labor force and establish the foundation for the proposed Workforce Development project.

As for the policy element, discussions are underway with the GOP regarding creation of an employment policy unit which would produce studies

in such areas as labor intensive technologies, market identification, and tariff and fiscal incentive policies. These analyses will be used by the GOP to help develop future policies and programs in support of small labor intensive enterprises. By attempting to include a policy component within the EPG project, we are confident of continuing the dialogue with the GOP and of playing a substantial role in accelerating and influencing important GOP policy and program decisions.

In addition to the Employment Planning and Generation project planned for early FY 1981, there are two small projects which will complement it. One is a \$408,000 community-based Small Enterprise Development project (IIPUP-Type C) being funded by DS/UD, which will focus on the rapidly growing San Miguelito area. This is a very low-income area with high rates of unemployment and underemployment. The project will finance a survey of perhaps 250 of the estimated 1,200 business enterprises in San Miguelito and will help establish a community-based development corporation that can identify and financially support potentially productive small business ventures, linking them with other activities in San Miguelito and in the economy at large.

The other small project is a \$485,000 OPG with the Panamanian Association of Business Executives (APEDE). APEDE will identify and provide some 100 small entrepreneurs (firms with less than six workers) with technical and managerial assistance directly and through specially tailored management training courses and seminars, involving more experienced business executives on a voluntary basis in the transfer of techniques and experiences to fellow entrepreneurs.

The proposed FY1982 Workforce Development project (525-0214), as described in our latest ABS, will improve vocational instruction at Panama's three skilled and semi-skilled training institutions and improve access to them by poor urban workers, strengthen coordination between them, and link graduates with private sector employers through placement programs.

The last investment/employment project being considered at this time is a Rural Enterprise Cooperative Loan (525-0222). Based upon the success of the earlier cooperative loan project, USAID is exploring the possibility of using the cooperative credit mechanism to stimulate agro-industries in the urban areas outside the metropolitan corridor.

An effort currently underway to help streamline public sector management (Development Administration Project 525-0209), most probably starting with two ministries or sectors of the government, although not directly an employment activity, will cut across the entire project implementation process. This project will help Panamanians improve their own administration of the development process and strengthen the GOP's policy - analysis capability.

D. Conclusion and the Future

This Mission believes that it is undertaking a creditable series of interrelated projects dealing with the complicated growth pattern of Panama. They should help a specified number of people directly and, through experience gained and the multiplier effect, affect many more

in the future. This Mission will be occupied over the next few years with employment generation and related activities as a prime concern. Because of the location of the target population, it is certain that the poor within the metropolitan area will receive a great deal of attention. Urban areas outside of the corridor, which are generally market towns, will also be included within our strategy, and such activities as IRD, Technology Development and URBE will affect nearby rural areas.

The search for future project interventions becomes more difficult while policy questions remain unanswered. For that reason the EPG project is proposed to include a policy element. Over the past two years, the Mission has contracted several diagnostic studies of the economy. The 1.79 Chapman study quantified the employment problem. The latest Chapman study (1980) looks at the characteristics and needs of small and medium size enterprises in Panama. As the design of the EPG project progresses, the Mission and the GOP will identify those areas needing further analysis, pointing the way towards a more comprehensive and clearly defined investment/employment strategy.

At this point it is impossible to state which aspect of the investment/employment strategy will occupy the Mission more -- general policy-oriented projects or specific employment-creating projects, or both. Until further studies are conducted and experience is gained with current and projected activities, we will not know which investment/employment focus will be more appropriate for long-term support. In the

meantime, the Mission will complete or begin the design of the projects described earlier, stressing employment creation as an essential element for meeting the needs of the Panamanian poor.