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

LAC/DR-DAEC 87-13

Meeting of the
DEVELOPMENT ASSISTANCE EXECUTIVE COMMITTEE (DAEC)
Thursday April 23, 1987 -- 2:00 p.m.
Room 2248 NS

PANAMA - Product Development & Productivity Improvement PID G

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PROJECT IDENTIFICATION DOCUMENT (PID)

PRODUCT DEVELOPMENT AND PRODUCTIVITY IMPROVEMENT PROJECT

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LAC/P-5-27-87

**AGENCY FOR INTERNATIONAL DEVELOPMENT
PROJECT IDENTIFICATION DOCUMENT
FACESHEET (PID)**

1. TRANSACTION CODE **DOCUMENT CODE**
 Revision No. _____ **1**
 A = Add
 C = Change
 D = Delete

COUNTRY/ENTITY
 PANAMA

3. PROJECT NUMBER
 525-0272

BUREAU/OFFICE
 Latin America/Caribbean
 A. Symbol B. Code
 05

5. PROJECT TITLE (maximum 40 characters)
 PRODUCT DEVELOPMENT & PRODUCTIVITY
 IMPROVEMENT

ESTIMATED FY OF AUTHORIZATION/OBLIGATION/COMPLETION
 A. Initial FY 8 7
 B. Final FY 9 0
 C. PACD 9 0

7. ESTIMATED COSTS (\$000 OR EQUIVALENT, \$1 =)

FUNDING SOURCE	LIFE OF PROJECT
A. AID	\$3.0 million
B. Other U.S.	1. _____ 2. _____
C. Host Country	\$1.95 million
D. Other Donor(s)	_____
TOTAL	\$4.95 million

8. PROPOSED BUDGET AID FUNDS (\$000)

A. APPROPRIATION	B. PRIMARY PURPOSE CODE	C. PRIMARY TECH. CODE		D. 1ST FY 87		E. LIFE OF PROJECT	
		1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan
(1) SDA	663	840	---	\$2.0 million		3,000	----
(2)							
(3)							
(4)							
TOTALS						3,000	----

9. SECONDARY TECHNICAL CODES (maximum 6 codes of 3 positions each)
 831 070

10. SECONDARY PURPOSE CODE
 730

11. SPECIAL CONCERNS CODES (maximum 7 codes of 4 positions each)

A. Code	BR	BU
B. Amount	50%	50%

12. PROJECT PURPOSE (maximum 480 characters)

The purpose of the project is to improve the competitive position of Panamanian enterprises.

3. RESOURCES REQUIRED FOR PROJECT DEVELOPMENT

Staff: Project Preparation Costs

A. Project Preparation Activities (Refer page 17)	\$ 87,000
B. Project Paper Preparation (Refer page 17)	163,000
Funds	\$250,000

ORIGINATING OFFICE CLEARANCE	Signature <i>Raymond F. Rifenburg</i>	15. DATE DOCUMENT RECEIVED IN AID/W, OR FOR AID/W DOCUMENTS, DATE OF DISTRIBUTION MM DD YY
	Title Raymond F. Rifenburg Acting Director	
	Date Signed MM DD YY 10/4/06/87	

5. PROJECT DOCUMENT ACTION TAKEN

S = Suspended CA = Conditionally Approved
 A = Approved DD = Decision Deferred
 D = Disapproved

17. COMMENTS

8. ACTION APPROVED BY	Signature	19. ACTION REFERENCE	20. ACTION DATE MM DD YY
	Title		

b

INTRODUCTION

This document outlines a proposed project for improving the competitiveness of Panamanian industry, agriculture, and commerce. The project responds to the new policies of the GOP which call for greater participation in world markets, and reduced protection for producers of domestically consumed goods.

The project provides for productivity improvement assistance directly to farms and firms. It is new and innovative and without precedent in Panama. Its assumptions, though reasonable, can be validated only by experience. As the result of AID/W guidance, the USAID reconsidered its earlier plans to design a major seven year productivity project. Instead it will carry out the project in two phases. The first phase will test project assumptions over a three year period. The implementing agency will be the National Productivity Council (CONDEPRO). Of costs totalling \$4.95 million over the three year period, the USAID will provide grant funding in the amount \$3.0 million. The residual amount will be provided by the implementing agency from dues and collected fees.

The project will be evaluated at the end of the second and third years. The evaluations will be done in respect to benchmarks, established during preparation of the project paper. Attainment of benchmark levels relating to self-sufficiency, and productivity impact will determine the desirability and extent of further USAID assistance for implementation of a second phase.

I. PROGRAM FACTORS

A. Relationship of the Project to Government of Panama Priorities

The attainment of healthy and sustained economic growth is the major priority of the GOP. All programmatic priorities of the GOP, viz. continuation of the economic stabilization program, maintenance of social service levels, and increasing its investment budget are dependent upon the success of the Government's growth strategy. The attainment of reasonable growth levels will also directly contribute to the containment or reduction of unemployment, a major social priority of the GOP. It will also advance privatization efforts, the feasibility of which is conditioned by the labor absorption capacity of the private sector.

As noted in the FY 1987 CDSS, the GOP predicates major economic growth on expansion of the Panamanian export sectors. The emerging policies of the GOP are intended to support such expansion. They call for a scheduled decrease in protective tariffs, provision of incentives to producers of

exported goods and services, a reorientation of agriculture production toward crops which can be produced competitively for international markets, an elimination or reduction in the incidence of price controls, and a modification of the counter-productive provisions of the labor code.

The effect of these policies, if effectively pursued, would be to help channel private investment and labor into internationally competitive sectors with high growth potential. They would: (1) open the domestic market to increased foreign competition. This would reduce, and in some cases eliminate, local monopolies, engender adjustments in the cost structure of domestic production, and favorably alter internal terms of trade; (2) change profit rates among industries in favor of internationally competitive activities and so stimulate export production and more efficient import substitution. This would induce capital flows from inefficient to more efficient industries; and (3) restrain prices and concomitant pressures on wages. This would increase the competitiveness of all sectors.

The GOP strategy for attainment of its objectives will be conditioned by the ability of private enterprise to respond to the discipline and opportunities of a free market structure. As noted in the FY 1987 CDSS, Panamanian industry and agriculture, nurtured on protectionism and subsidy and enjoying semi-monopolistic positions, are generally inefficient, oriented almost exclusively to the domestic market, and are relatively high cost. As a consequence of their apparent vulnerability in a free market environment, important elements of the private sector resisted the institution of the new policies. Nevertheless, after enactment in March 1986 legislation which altered the Commercial, Agricultural and Labor Codes, the private sector recognized that the rules of the game were changing and began to see appropriate means of adjusting to these rules. Productivity improvement, a concept of only notional interest a few years ago, has become a genuine concern of agriculturists and industrialists. This project, which will provide technical assistance and training in productivity improvement for Panamanian producers, will assist the private sector to become more competitive, thus helping to bring about the necessary private sector response upon which the GOP strategy is predicated.

B. Relationship of the Project to the CDSS, the Action Plan and the Central American Initiative (CAI)
Recommendations

The FY 1987 CDSS, reflecting the recommendations of the CAI, states that USAID will assist in the development of a free market economy capable of a sustained average annual GDP growth of five percent over the next five-year period. Two

objectives are established as necessary conditions for the attainment of that goal: (1) the extension of free market conditions throughout the economy as a basis for long-term growth and (2) removal of constraints which impede the private sector's ability to respond to free market opportunities. Two of three USAID private sector initiatives have been proposed to achieve these objectives. The first initiative directed toward resolution of problems emanating from governmental policies and practices will direct resources to influence, complement, reinforce and render operative those emerging GOP policies which: (a) contribute to the improvement in the competitive position of Panamanian producers, (b) advance a free market economy and (c) remove those bureaucratic barriers which impede investment and business operations. The second initiative directed toward removal of private sector inadequacies is intended to foster increased investment, production and sales through technical assistance to the private sector.

This project, an essential component of the Mission's action plan, serves both initiatives. By assisting private enterprise to survive, and hopefully prosper, under competitive conditions, it advances private interests. In so doing, it renders the policies of the GOP operative and establishes the basis for acceptance of further policy adjustments. In responding to the CDSS initiatives, the project expressly responds to several recommendations of the CAI -- particularly the need to: (a) develop strong and free economies with diversified production for both external and domestic markets, (b) encourage private enterprise, (c) spur balanced trade, and (d) provide technical assistance and financial support for export promotion efforts.

C. Complementary Mission Projects

This project is one of a set of mutually supportive projects which respond to three private sector initiatives in the Mission strategy. Under the first initiative, which calls for support of policies to advance a free market economy and reduce the role of government, the Mission has three projects underway and one under design. The Development Policy Studies Project 525-0250 provides resources to establish the analytical basis for policy changes, some of which directly affect the cost of production, e.g. labor law and practices. The Industrial Relations Services (AIFLD) OPG 525-0275 provides labor leaders with training in developmental theory and practice and contributes to Labor's awareness of and responsible participation in the national development evolution. It also provides training in industrial relation's techniques and contributes to Labor's informed participation in productivity improvement. The Agriculture Policy Formulation and Management Project 525-0247 contributes to the capacity of the Ministry of Agriculture to carry out policy analysis and

planning activities which support private agricultural enterprises. To facilitate GOP administration of new policy measures which impinge on private sector initiatives and to simplify regulating activities, USAID is planning the MICI Policy Implementation Project 525-0280. This project calls for reorientation of the mission of the Ministry of Commerce and Industry (MICI) to provide appropriate information and services to private enterprises and to carry out a reduced regulatory role with efficiency and dispatch.

The second initiative is intended to foster increased investment, production and sales through technical assistance and training to the private sector. Supply of market information to potential suppliers/producers is met in part by the Investment Council of Panama (ICP) Project 525-0239 and in part by interim technical assistance provided to the Panamanian Institute for Foreign Commerce (IPCE), an autonomous agency charged with acquisition and dissemination of export market information. The Private Sector Scholarship (COSPAE) Project 525-0258 assists the Panamanian private sector in funding and administering short and long-term training in the U.S. in priority fields. A complementary objective of the project is the strengthening of Panamanian technical, vocational, and management training institutions by providing visiting professors and technical advisors for short periods. During preparation of the Project Paper USAID will explore possibilities of establishing operational linkages between COSPAE and CONDEPRO.

USAID's third private sector initiative, the provision of adequate developmental finance, is already underway. The Export Development Finance Project (525-0261), which provides for long- and medium-term credit for export production, has been initiated. The Small Business Project (525-0240) is in its second year of operation, and is successfully leveraging private monies for lending and investing in small enterprise. The Agriculture Cooperative Marketing Project (525-0222) is providing technical assistance and credit in support of agriculture marketing activities. The project is assisting with the exportation of melons, watermelons, coffee and asparagus, as well as with the marketing of vegetables in Panama and grain marketing in the central provinces. Thus, small but critical USAID-supported developmental credit supplemented by private development credit is available.

II. PROJECT DESCRIPTION

A. Perceived Problems

To thrive, or even survive, in an economy that is scheduled to be increasingly open to external competition, Panamanian enterprises must improve their cost structures. Two

major problems inhibit such improvements (1) the high costs of production inputs and (2) the relatively inefficient use of inputs by Panamanian firms.

Some input costs are influenced by government policy i.e. electricity, transport and labor. These are the subject of dialogue between the international donor community and the GOP and are being influenced by the conditionalities in assistance agreements. The process of cost reductions has begun. The incidence, tempo and depth of further reductions will be determined by the pressures of economic necessity, continued conditionalities of the donor community and, most importantly, by increasingly cost conscious producers and consumers.

While the cost of some inputs is attributable to government policies, the relationship between inputs and the volume of outputs of a firm--its productivity--is, within some technical limit, under control of its management. Yet, productivity improvement can occur only if managers have sufficient motivation, skill and resources.

The recently legislated protective tariff reductions, reductions in price support and partial elimination of price controls induces motivation. Profitability and in some cases survival of enterprises will be determined by their ability to improve their cost structures. Faced with the prospect of declining profit margins, the business community has two options: It can institute productivity improvements and lobby for more rapid reductions in government influenced costs, or it can lobby for restoration of protectionism. The community is divided on which of these courses to follow. We expect that the debate will continue and its outcome determined by the success or failure of firms who undertake productivity improvement programs. Failure would result not only in restoration of protectionism, but would set the basis for reversion to "Statism". Those who are willing to adjust to the new rules are under severe time constraints. The process of adaptation must begin before the full effects of the scheduled tariff reduction are felt, and must involve enough firms to demonstrate that the productivity improvement processes are broadly applicable.

However, as noted earlier, most firms are ill-equipped by past outlook, experience and training to undertake the necessary adjustments in production, administrative, financial and personnel management practices. Some are unable to muster the financial resources for such undertakings. It will be necessary to provide direct product-specific assistance to firms and farms so that these will be able to undertake the required adjustments to reduce production costs and, where appropriate, introduce cost competitive new products.

The low productivity of Panamanian enterprise can only be resolved by individual firms addressing their own individual productivity problems. Nevertheless, the effects of individual productivity actions are transmitted to and effect the cost structure of other elements of the economy. The cost of outputs of one firm frequently affect costs of the material inputs of another. The costs of consumer goods affects real income and influences the cost of labor. Those considerations lead to the conclusion that a successful productivity improvement program must take into account, not only the techniques to be applied but the critical incidence of their application. In short, the productivity improvement effort, to be effective, must be large enough to influence the cost structures of key sectors and industries. It appears, at this point, that somewhat more than two thousand business establishments and about 10 thousand farms are important players in the Panamanian economy. A critical, but as yet undetermined number of these will have to be improved to produce significant improvement in national productivity.

B. Project Goal and Purpose

The goal of the project is to accelerate and sustain the rate of economic growth.

The purpose of the project is to improve the competitive position of Panamanian enterprise.

C. Expected Achievements

As a result of this project, the following achievements, are expected:

1. CONDEPRO will have built a technical and administrative capability sufficient to competently administer a follow-on project and will have made significant progress toward achieving self sufficiency.
2. Significant achievements in productivity improvements will be made. A detailed analysis of the potential productivity improvement in various sectors of the economy will be made during the Project Paper development stage.
3. Approximately 6,600 company managers, supervisors and staff will have received productivity education and training through awareness campaign conferences, seminars, and workshops. (See Logical Framework for preliminary estimates of technical assistance and training outputs).
4. Approximately 600 Panamanian companies will have received technical in-house assistance in productivity and quality management.

5. Approximately 100 Panamanian companies will have received technical assistance in developing new or modifying existing products.

6. A fully functioning productivity information system and data base will be in operation including a system of national productivity measurement.

7. Seven major studies of the productivity impact of government influenced factor costs and regulations will have been conducted and disseminated. The studies will include the impact of: electricity costs, port charges, cement costs, internal transportation costs, labor code, government regulations, and an additional study which will be selected during Project Paper design.

D. Project Outline and How it will Work

1. Project Activities

The project has three objectives: (1) Improve the productivity of existing producers; (2) Contribute to the introduction of new or modified products; and (3) Influence and contribute to the advancement of free market policies. Proposed activities which contribute to the attainment of these objectives have been adapted from the accepted practices of successful productivity efforts throughout the world, and have been modified to take into account the present state of productivity awareness in Panama.

a. Productivity Awareness Campaign

The project will begin with a dual purpose intensive productivity awareness campaign, which will continue at a lower level of effort throughout the life of the project. The campaign is expected to generate interest in productivity issues on the part of producers and consumers and, at the same time, to generate clientele for specific services which will be offered under the project. The campaign will utilize seminars, conferences, workshops, publications, and all media elements to disseminate productivity concepts and knowledge of the project. Approximately 90 awareness conferences are planned for the three year period, exposing about 4,400 owners and managers to the concept of productivity management through these conferences. Experience of other productivity centers indicates that approximately forty percent of the participants in such conferences will request additional productivity information, training or assistance.

The campaign will specifically target appropriate sub-sectors; offering seminars on productivity principles to private sector business organizations,

productivity and quality technical seminars to management associations, and industry-specific productivity management workshops to groups of companies. These, over the life of the project, are expected to generate about 300 requests for in-house technical assistance.

b. Technical Assistance for Productivity Improvement

The management of productivity has come to be an important specialty in both the industrial engineering and behavioral science fields. Professionals in these fields have developed special techniques and methods for improvement of both the productivity of employees and the quality of products. CONDEPRO, in its productivity improvement activities, will apply a tested methodology which is called the "Productivity Cycle". The cycle follows a pattern of well defined consecutive actions: Productivity Measurement, Diagnosis to Identify Opportunities for Improvement, Plan for Improvement, Implementation Plan, Evaluation, Follow-up Audit and Measurement.

Upon receipt of a request for assistance, CONDEPRO will assign engineers and financial analysts, and other specialists, as required, to assist the requestor to carry out all or parts of the actions called for in the cycle. Almost invariably the CONDEPRO team would conduct productivity measurements, followed by a diagnosis which identifies opportunities for productivity improvements. Measurements would establish the relationship among inputs, intermediate outputs and final outputs, thus identifying and quantifying the cost effects of various elements of the production process. The diagnosis would identify technological, procedural, administrative and financial practices which would improve the cost performance of the firm, and would establish attainable cost reduction targets.

After the diagnosis, the firm could request additional services to carry out the remaining steps in the productivity cycle or perhaps pursue the cost reduction strategy on its own. If it opts for the former, CONDEPRO utilizing product-specific experts would assist in preparation of an action plan for the attainment of cost reduction targets, and assist in implementing the plan. From the experience of other productivity efforts, we estimate that approximately 20 percent of the firms which initiate its cycle will engage CONDEPRO for all phases, about 30 percent would request assistance with some phase of the cycle.

Upon completion of the action plan, whether carried out with or without CONDEPRO assistance, CONDEPRO staff would evaluate, audit and measure the result.

c. Technical Assistance for Product Development and Modification

We expect that with improved cost structures Panamanian firms will be in a position to add competitively priced products to their lines. These could be totally new products or modifications of existing products. This project will assist producers in both areas.

CONDEPRO will respond to two types of product development requests: those which are made by producers who have identified a market for a proposed new product, and those from market search agencies which have identified a product which appears to be competitively produceable in Panama.

In either case, CONDEPRO would tailor a package of services for the requestor which could include all or part of the following: preparation of a production cost profile, preparation of a production plan based on an appropriate level of technology, assistance in preparation of a financial plan, and assistance in production start-up. This project provides for assistance in the development of up to 30 new or modified products.

d. Establishment and Maintenance of a National Productivity Data Base

CONDEPRO will contract for the establishment of a productivity reporting and analysis system and will subsequently maintain the system utilizing its own personnel.

e. Factor Cost Studies

The costs of factors of production are outside the control of a firms' management, yet impact heavily on overall production costs. Government policies substantially affect many factor costs. Some of those policies have been identified and are the subject of dialogue between the international donor community and the GOP. However, the direct cost impact of those policies on the competitive position of Panamanian industries and consumers has not been determined. This project will provide funding for a series of studies which will measure that impact, and provide the private sector with an informational base for its policy dialogue with the GOP.

2. Implementation of Project Activities

The project is moderately complex and the implementing agency, CONDEPRO, is new and inexperienced. Therefore, the USAID management role will be more extensive and intensive than would ordinarily be the case. CONDEPRO, with the assistance of a management advisor, will gradually assume

greater direct responsibility for implementation, and the USAID role will diminish over the life of the project. Contracting and financial management are areas of particular concern, as is the need for a flexible and rapid technical assistance response mechanism. The roles of various participants in carrying out the project are described below.

a. Role of CONDEPRO

CONDEPRO will: (1) With the assistance of contracted management advisors, administer the project. (2) Recruit and utilize the full-time services of a financial manager and maintain accounts and financial procedures acceptable to USAID. (3) Carry out the productivity awareness campaign and the productivity measurement and diagnosis phases of the productivity cycle. This will be done with the technical staff, supplemented by long-term advisors. (4) Establish procedures with the International Executive Service Corps (IESC) and other contracted consultants for procurement of specialized personnel. (5) Contract with consulting firms or individuals for special studies and activities. (6) Submit periodic reports to USAID. (7) Participate with USAID in evaluations. (8) Establish and implement a financial plan for achievement of self-sufficiency.

b. Role of USAID

USAID will: (1) manage, monitor and evaluate the project with project funded personnel, (2) contract long-term advisors for CONDEPRO, (3) contract IESC as a technical support resource for CONDEPRO, (4) contract selected Section 8(A) firms as technical support resources for CONDEPRO, (5) establish benchmarks for evaluating project performance, and (6) establish criteria for acceptable administrative and financial management performance.

c. Role of Contractors

Long-term contractors will be utilized to assist in the administrative and financial management of CONDEPRO, to provide training to CONDEPRO technical staff and to provide productivity related technical services to CONDEPRO's potential and actual clients. More specialized consultants will be utilized to provide product-specific productivity and product development services to individual firms. The IESC is expected to be able to provide the bulk of the personnel required for product-specific productivity assistance in manufacturing, agriculture and commerce. Specialized personnel, not available from IESC, will be procured through contractual arrangements with other firms. The roles of the various consultants, as tentatively determined, are outlined below.

(1) Managerial Consultant

The Long-term Managerial Consultant to CONDEPRO will assist the CONDEPRO Administrator in: (a) establishing and improving administrative procedures, controls, reporting systems and securing compliance with USAID requirements, (b) scheduling and carrying out all phases of the productivity awareness campaign, (c) establishment and implementation of a financial plan for self-sufficiency. This will include development of a fee schedule, revision of dues requirements, and fund raising, and (d) monitoring of performance of CONDEPRO staff and technical consultants and (e) establishing working arrangements with contracted personnel.

(2) Productivity/Financial Consultants (2)

These long-term consultants will participate with their CONDEPRO counterparts in all aspects of the productivity awareness campaign and in the first two phases of the productivity cycle.

They will: (a) prepare and conduct seminars, conferences, and workshops, (b) carry out productivity measurements and diagnosis in individual firms and prepare a scope of work for short-term specialists who will carry out subsequent phases of the productivity cycle, and (c) train and assist their counterparts in all of the above.

(3) Agro-Industry Specialist

This Long-term specialist will be concerned primarily with agro-business and agriculture production as a supply source for agro-industrial firms.

The specialist and counterpart will: (a) participate with the general productivity engineers in productivity measurement and diagnosis of agro-industrial plants, (b) examine and evaluate actual supply sources of agricultural produced raw materials, and, as necessary suggest improvements in the operations of the farms, (c) as necessary, identify new potential supply sources and arrange for technical assistance to the new producers, (d) when a farm produces a crop which requires no intermedial processing prior to sale; will diagnose production, packaging, packing practices and sales practices, and (e) arrange for technical assistance for improvement of any or all of those practices.

III. FACTORS AFFECTING PROJECT SELECTION AND FURTHER DEVELOPMENT

A. Social Considerations

The project will have a far reaching direct and indirect social impact. It will directly contribute to

employment generation, improve income levels, and income distribution, and improve and extend the skill of the Panamanian work force. Indirect benefits brought about by the project will include enhanced governmental revenues, which in turn will permit continuation of social services; e.g. education and health programs. The continuation of these are now threatened by the lack of adequate resources.

The favorable employment impact, a consideration of paramount importance, will come about (1) from the introduction of new products which will require new facilities and workers; (2) from improvement in the competitive cost structure of the Panamanian economy which will induce new investment by external and domestic entrepreneurs. Employment generation through improved competitiveness within a national economy is a well documented phenomena. However, in the short run, individual enterprises may reduce employment, unless productivity gains are accompanied by expanded sales.

As noted in the CDSS, we will not encourage socially motivated distortion of the capital/labor mix. We believe that production entities can make their greatest contribution to overall growth and employment by optimum utilization of production factors. The short-term employment effects will be examined more thoroughly in the Project Paper.

B. Economic Considerations

The economic benefits attributable to this project are not readily measurable. The project addresses one constraint, low productivity; the redress of which makes a necessary but not sufficient contribution to Panama's ability to compete in free markets. Other project activities which address market identification, investment promotion, provision of export development credit, reduction of bureaucratic obstacles and reduction of government imposed costs, all contribute in varying degrees to that goal. Productivity changes at the firm and at the national level will be measured as an integral part of this project. We would require AID/W guidance and assistance to undertake a more complex economic analysis of its contribution to the total USAID program for economic growth.

C. Relevant Experience with Similar Projects

Productivity Centers Around the World, a publication of the National Commission on Productivity and Work Quality notes that the effectiveness of these centers varies widely. Those that have functioned well are in countries which have an entrepreneurial tradition, where governmental policies and programs support and reward productivity improvement, and in which economic conditions have given impetus to the need to improve production processes, e.g. Germany, Japan and Israel.

Success stories are also reported from the United States and the other western countries in which internal and external competition has induced productivity consciousness.

Productivity projects in the developing world are less impressive, but even these report useful accomplishments, and have to some degree, at least, induced governments and producers to view productive processes as a critical element upon which economic growth is dependent.

From a review of the experience of productivity projects, including those funded by AID in Egypt, Haiti and Paraguay, we note the following observations which will guide our project preparation.

1. Even those centers which were started under propitious circumstances required subsidy during their first six to seven years of existence.
2. Organizational independence and integrity were essential elements for success. Those mixed private/public organizations were generally discordant and ineffective.
3. Inhospitable policy ambience and/or the absence of political stability precludes success.
4. Technical assistance must be product-specific and adapted to local conditions.
5. Technical assistance to individual producers must be prompt and appropriate.
6. Individuals or firms contracted to assist in the development of productivity centers must be highly qualified and appropriately organized.
7. To maintain public support, the fruits of productivity must be distributed among management, labor and consumers.
8. Success of productivity centers are attributable in large degree to labor-management cooperation. The centers are usually the only body where discussions on production issues can be held in a dispassionate atmosphere. This facilitates the integration of labor into the national productivity effort.

We believe that the poor economic performance of Panama under protectionist policies has led to a reorientation of the attitudes and expectations of the GOP and important elements of the private sector. This reorientation is evidenced by the new policies of the GOP and by the formation and rapid growth of CONDEPRO. The organizational and

procedural systems required for effective operation of a productivity effort have been noted in this PID, and will be addressed in greater detail in the Project Paper.

One of the most serious constraints on the effective operation of Productivity Centers has been their inability to supply appropriate technical personnel to producers in a timely manner. The availability of more than 10,000 experienced IESC experts offers this project a resource pool which can, in large degree, reduce that constraint.

Sustainability appears feasible within a reasonable period. However, given the experience of other Productivity Centers, we expect that the rhythm and frequency of client requests may require adjustments in the feasibility assumptions (see Preliminary Financial Analysis, page 15).

D. Host Country Implementing Agency

The implementing agency, CONDEPRO, is a private, independent, technical institution dedicated to productivity improvement in all sections of the Panamanian economy. It was formed in June, 1986, and was granted non-profit status by the GOP in March, 1987.

Its formation was prompted by the realization that productivity improvement was necessary for survival of individual companies and for overall economic growth. It has derived the bulk of its support from medium sized enterprises and business interests who have heretofore had no friendly forum in which to express anti-protectionist sentiment. It has grown rapidly. Approximately 170 enterprises and business associations are members of the organization, representing approximately 2,800 business entities.

It has four membership categories; two categories for associations, and two for firms and individuals. Membership fees differ for each category. Currently, it is receiving additional support from specific company grants for personnel and offices. Its officers have provided uncompensated time to its affairs and have met travel and related costs from their own resources.

In the few months since its formation, CONDEPRO has begun to serve the community by sponsoring conferences and seminars in several parts of the country, in conjunction with the Investment Council of Panama (ICP), Panamanian Foreign Trade Institute (IPCE), Central American Institute of Business Administration (INCAE) and several of its member associations such as the various Chambers of Commerce, the Chamber of Construction (CAPAC) and the Association of Industrialists (SIP). It collaborates with Project Sustain in bringing

valuable technical assistance to Panama and has entered into an agreement to assist in ROCAP's Non-Traditional Agricultural Export Project in Panama.

The six productivity conferences and two seminars which CONDEPRO has conducted in recent months have provided training in productivity awareness and in quality management techniques to approximately 200 firms. In addition, CONDEPRO has, in collaboration with the ROCAP-ICAITI Project Sustain, brought technical assistance in food processing to three of its member firms, and through its agreement with the ROCAP-Non Traditional Agricultural Export Project, sponsored conferences in which approximately 120 individuals participated.

The experience with these efforts has indicated a need for better organization and management. CONDEPRO has responded by recruiting a full-time officer to organize and administer its current program and to prepare for its role in this project.

E. USAID Support Requirements and Capabilities

The interactive role of the USAID and other project related entities has been outlined in Section II D.2, Implementation of Project Activities, page 9. The project imposes no unusual burden on the USAID, but will require intensive management to effectively shift operational control from external consultants to CONDEPRO staff and to adjust procurement responsibilities from USAID to CONDEPRO.

Contracting of short-term consultants appears at first glance to impose a heavy staff work load on USAID and/or CONDEPRO. In fact, the fifteen to thirty short-term consultants required each year will be engaged and delivered by contractual entities, e.g. IESC. The preparation of scopes of work for such consultants is an integral part of the long-term technicians who carry out the diagnostic phase of the productivity cycle. IESC has agreed to assign a full-time representative in Panama to support this project.

In compliance with the Gray Amendment, every reasonable effort will be made to contract with Section 8 (A) firms contained in the Small Business Act.

F. Preliminary Financial Analysis

From a preliminary analysis based upon a modest level of demand for CONDEPRO's services we estimate that self-sustainability is feasible in Phase II of this project. (See Annex D and D4). We note however, that smaller firms which make up a large proportion of the Panamanian business community may not be able to pay fully burdened costs and therefore may not be able to participate unless partially

subsidized. During the Project Paper development, the requirement for subsidy will be examined and, if required, methods for its provision will be explored.

Costs of Phase I are estimated at \$4.95 million of which the USAID will provide \$3.0 million in grant funds. CONDEPRO will fund \$1.95 million from dues, donations and fees. Approximately \$500,000 of the grant will be used to fund project management activities and evaluations. The remaining funds will be used for technical assistance, training, commodities, special studies and a declining portion of operational costs. USAID's contribution to total operating costs will be approximately 66% in Year I, 60% in Year II and 48% in Year III. Its contribution to total cost (which include project management and evaluations) will constitute 71%, 61% and 51% of annual costs in each respective year of the project. (See Annexes D1 and D2). Staff requirements, workload, technical assistance requirements and costs estimates are shown in Annex D3.

G. Project Design Strategy

The level of demand for productivity services and the ability of CONDEPRO to meet that demand on a self-sustaining basis are the most serious concerns to be dealt with during Project Paper preparation. This requires further validation and more precise qualifications of project assumptions. This will be done in four discrete, but related analytic tasks: Demand survey, organizational and administrative analysis, technical assistance delivery analysis and a financial analysis.

The demand survey will establish working premises for all additional analytic tasks. It will quantify effective demand by sector or sub-sectors, and identify portions which may influence changes in demand levels.

The organizational and administrative analysis will be carried out jointly with the technical assistance delivery analysis. The objective of the analysis will be the design of a Panamanian organization capable of delivering productivity services with flexibility, promptness and with minimum overhead.

The financial analysis will examine the financial implications of various organizational structures, level and nature of services and fee structures to determine the optimum organizational design and level of services which are necessary for self-sustainability, and to cost out a three-year plan of action for full or practical attainment of these objectives.

As noted in Section III B, page 12, this project is one of a group of mutually supportive projects and its economic impact does not appear to be readily measurable. However, should it be theoretically acceptable to attribute measurable

national productivity improvement solely to this project, an economic analysis would be useful as a basis for establishing the cost/benefit relationship, but also for establishing economic benchmarks for measuring its impact during the project period. We have reserved funding for such a study, if warranted.

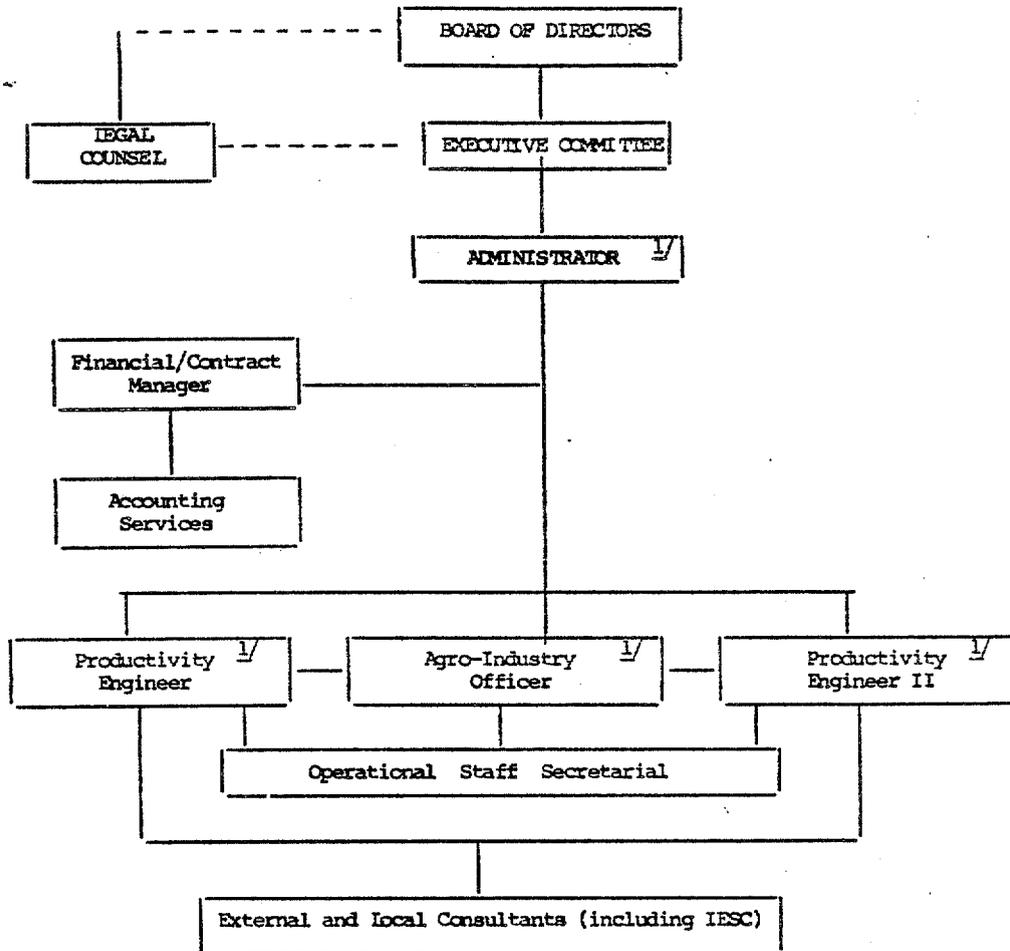
We have budgeted \$163,000 for a contract team to prepare the analysis called for and to prepare the Project Paper. The team will consist of an experienced productivity management specialist as team leader, one productivity specialist, a training specialist and an economist. These will be supplemented by locally sub-contracted personnel, including a demand analyst and a financial analyst. We estimate completion of the Project Paper within four months of PID approval.

Upon PID approval we will provide short-term management assistance to CONDEPRO and will familiarize their chief operating officer and others with AID procedures and requirements. This will advance their ability to manage the project. We will also support a test of productivity delivery services to the Cámara Panamafña de la Construcción (CAPAC). CONDEPRO which plans to offer some of its services through its affiliated member associations will use this effort to establish workable procedures which will be incorporated in their activity plans and be reflected in the Project Paper. Also included in the program of project preparation activities are an observational visit to FUSADES in El Salvador by USAID representatives and CONDEPRO directors to observe the organizational structure of this institution and to familiarize themselves with implementation concepts and procedures, and a series of three productivity management seminars with which CONDEPRO will be assisted. We have budgeted a total of \$87,000 for these activities.

H. Recommended Environmental Threshold Decision

There will be no detrimental effects on the environment by this project. See Annex C.

ORGANIZATIONAL STRUCTURE FOR THE PRODUCTIVITY CENTER (CONDEPRO)



1/ Assisted and trained by a long-term advisor.

PANAMA
PRODUCT DEVELOPMENT AND PRODUCTIVITY
PROJECT DESIGN SUMMARY:

IMPROVEMENT PROJECT, 525-0272
LOGICAL FRAMEWORK

Life of Project: 3 years
From FY 1987 to FY 1990
Total U.S. Funding \$3.0 Millions
Date Prepared: March 12, 1987

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
<p>A. <u>Program of Sector Goal:</u> To accelerate and sustain the rate of economic growth.</p>	<p><u>Measures of Goal Achievement:</u></p> <ol style="list-style-type: none"> 1. Growth in Gross Domestic Product. 2. Growth in Export market. 3. Growth in non-traditional exports. 4. Increase in employment in the industrial, agro-industrial and small enterprise sector. 5. Increase in Capital investment. 	<ol style="list-style-type: none"> 1. (a) GNP Series. (b) Inflation Series. (c) Consumer POG. 2. Export Data. 3. Import Data from major trading partners. 4. Reports from individual companies receiving CONDEPRO's assistance. 5. (a) Employment Statistics. (b) GOP Economic Report. 6. (a) Export Data (b) International Banking Commission's files. (c) Investment Council of Panama 	<p><u>Assumptions for Achieving Goal Targets:</u></p> <ol style="list-style-type: none"> 1. Continuation of the present GOP policy to rely on the private sector as the "motor" for export-driven economic growth. 2. Present world economic recovery will continue. 3. No increase in protectionism in target export market areas. 4. Adequate long-term financing is available. 5. Companies that create or increase export markets will hire more employees.

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NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
<p><u>Project Purpose:</u> To improve the competitive position of Panamanian enterprise.</p>	<p><u>Conditions that will indicate Purpose has been achieved: EDPS</u></p> <ol style="list-style-type: none"> 1. Increase in the number of export products from the product mix of 1986. 2. Growth in Private Sector productivity. 	<ol style="list-style-type: none"> 1. (a) Company reports. (b) Export Data. (c) Export Promotion Institute Statistics. 2. (a) GNP and Labor Series. (b) CONDEPRO's own statistical reports. 3. (a) Post-Productivity Audits and Productivity Diagnoses within companies. (b) U.S. Chamber of Commerce, World Bank and other special (c) USAID Evaluation Reports/Audits 	<p><u>Assumptions for Achieving Purpose:</u></p> <ol style="list-style-type: none"> 1. (a) Panamanian companies that receive technical training and assistance will implement Experts' recommendations. (b) The dollar will not rise significantly. 2. Tariff reductions will remain on schedule. 3. Increased exports will encourage shippers to reduce their tariff rates.

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NARRATIVE SUMMARY		OBJECTIVELY VERIFIABLE INDICATORS				MEANS OF VERIFICATION		IMPORTANT ASSUMPTIONS	
<u>OUTPUTS</u>									
1.0 <u>Institutional Development</u> An organization which has built the technical and administrative capacity sufficient to competently administer a follow-on project and which has made significant progress toward attaining self sufficiency.	1.1 Training Personnel Administrative - 2 Productivity Engineers - 2 Agro-Industry Officer	1.2 Operating procedures in place and demonstrated.				1. (a) USAID/Panama Evaluation Reports. (b) USAID Audits, CONDEPRO's Annual Reports.	<u>Assumptions for Achieving Outputs:</u> 1. The demand projected for CONDEPRO's services will not be significantly lower due to unavoidable circumstances beyond control.		
2.0 <u>Productivity Awareness Campaign</u> Approximately 6,600 Panamanian business managers and staff trained in productivity and quality management through awareness campaign.						2. (a) thru (d): -USAID/Panama Evaluation Reports or Audits. -CONDEPRO's Annual Reports. 3. CONDEPRO's Annual Reports, Income Statements, and Journals; Operating Statements (e.g., Budgets); USAID Audits. 4. CONDEPRO's Financial Records; Operating Budgets; USAID	2. The enthusiasm evident now (as observed from personal meetings and discussions with over 100 people in Panama's cross section of companies) will continue to grow.		
2.1 Major Productivity Awareness Conferences completed.	1. No. of managers and staff who attended awareness conferences.		<u>Yr. 1</u>	<u>Yr. 2</u>	<u>Yr. 3</u>	<u>Total</u>			
			1,350	2,000	1,000	4,350			

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NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS				MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS	
<u>OUTPUTS</u>						<u>Assumptions for Achieving Outputs:</u>	
2.2 Manager and staff of businesses who have received productivity and quality management, awareness training.	1.	Managers trained in productivity principles and applications.	Yr. 1	Yr. 2	Yr. 3	Total	-CONDEPRO's Contracts. -USAID Audits. -CONDEPRO's Financial Records. -USAID Audits. -CONDEPRO's Income Statements. -USAID Audits.
	2.	No. of managers trained in general productivity and quality management techniques.	450	600	300	1,350	
	3.	No. of managers and supervisors trained in industry specific productivity mgmt.	240	300	150	690	
			60	120	60	240	
	<u>TOTAL</u>		750	1,020	510	2,280	

NARRATIVE SUMMARY		OBJECTIVELY VERIFIABLE INDICATORS				MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
OUTPUTS		Yr. 1	Yr. 2	Yr. 3	Total		
7.0 Special studies to assess the impact of Government influence cost factors affecting productivity and production cost of Panamanian firms.	7.1 A study document of the impact of electricity.	1	-	-	1		
	7.2 A study document of the impact of port charges.	1	-	-	1		
	7.3 A study document of the impact of cement cost.	-	1	-	1		
	7.4 A study document of the impact of internal transportation costs.	-	1	-	1		
	7.5 A study document of the impact of Labor Code.	-	1	-	1		
	7.6 A study document of the impact of Government regulations.	-	-	1	1		
	7.7 Other Studies	-	-	1	1		
8.0 Evaluation to measure the project's achievement	8.1 Evaluation reports to measure progress and implementation according to the design.	-	1	-	1		
	8.2 Final evaluation report to measure the project's achievement.	-	-	1	1		

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NARRATIVE SUMMARY		OBJECTIVELY VERIFIABLE INDICATORS				MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
OUTPUTS		Yr. 1	Yr. 2	Yr. 3	Total		
3.0 Productivity and quality management assistance provided to approximately 600 firms.	3.1 Productivity diagnoses completed.	75	157	80	312		
	3.2 Productivity measurements projects completed.	23	48	40	111		
	3.3 Productivity Improvement Action Plans completed.	18	38	39	95		
	3.4 Productivity Improvement Implementations completed.	14	29	31	74		
4.0 Product Development Assistance provided to approximately 40 firms.	4.1 Product Development Studies completed.	5	10	11	26		
	4.2 New Product Developments completed.	2	4	5	11		
5.0 Product Modification Assistance provided to approximately 60 firms.	5.1 Product Diagnoses completed.	5	10	11	26		
	5.2 Product Modifications and Improvement Actions Plans completed.	3	6	7	16		
	5.3 Product Improvement Implementations completed.	3	6	7	16		
6.0 The Development and Maintenance of National Productivity Statistics	8.1 A designed measure-based data collection system.	1	-	-	1		
	8.2 The maintenance of the system.	-	1	1	2		

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NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS				MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
	INPUTS	ANNUAL FINANCIAL PLAN (\$000's)				
		Yr. 1	Yr. 2	Yr. 3	Total	
1. FINANCIAL RESOURCES (\$000's)						
AID Grant	3,000	995	1,150	855	3,000	
CONDEPRO	1,945	405	745	795	1,945	
TOTAL	4,945	1,400	1,895	1,650	4,945	
			TOTAL EVENTS		TOTAL PERSON/MTHS	
2. LONG-TERM CONSULTANTS			592		192	
3. SHORT-TERM CONSULTANTS			264		188	
4. EVALUATIONS			2		6	
5. PROJECT MANAGEMENT			-		84	
6. COMMODITIES	\$210,000		1		-	
7. PROMOTION MATERIALS	\$200,000		1		-	

1. (a) Project Paper
 (b) Yearly Disbursement Schedule
 (c) Annual Work Plan.
 (d) Audits.
2. USAID Audits.
3. USAID Reports and Audits.

Assumptions for Providing Inputs:
 1. (a) All mechanisms functioning and coordinated.
 (b) Effective outreach program by CONDEPRO.

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INITIAL ENVIRONMENTAL EXAMINATION

<u>Project Location:</u>	Panama
<u>Project Title:</u>	Product Development and Productivity Improvement
<u>Funding:</u>	\$3.0 million
<u>Life of Project:</u>	Three Years
<u>Prepared by:</u>	Frank Skowronski

Project Description

The purpose of the project is to improve the competitive position of Panamanian enterprises, and through productivity gains, to make Panamanian products more cost-competitive. CONDEPRO, with USAID assistance, will institute a national productivity and quality awareness campaign and will provide general, industry and company-specific training and technical assistance to Panama's enterprises.

Environmental Impact:

Project activities will include new product development, product modification or improvement, productivity improvement, development of national productivity data and studies concerning factor costs. USAID assistance will include technical services and training for the development of CONDEPRO's staff and technical services for Panamanian enterprises.

The specific products to be developed under the project are difficult to predict since they will be determined on a case-by-case basis. However, USAID funded advisors will monitor closely the product development component to ensure there will be no detrimental impact on the environment. The remaining components covered under this project will consist mainly of training activities.

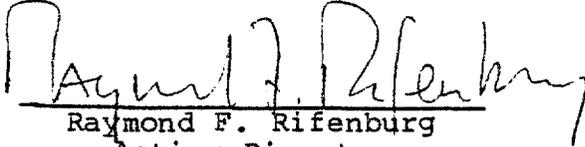
Section 216.2(c) (ii) of 22 CFR Part 216, Environmental Procedures, describes the classes of action which are eligible for categorical exclusion and for which an Initial Environmental Examination is not generally required. The activities of the subject project are applicable to the following categorical exclusion:

216.2(c) (ii)

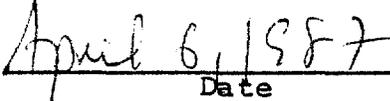
Where "USAID does not have knowledge of or control over... the details of specific activities that have an effect on the physical and natural environment..."

Environmental Action Recommended:

Based on the categorical exclusion discussed above, the Mission recommends that the Product Development and Productivity Improvement Project be given a Negative Determination requiring no further environmental review.



Raymond F. Rifenburg
Acting Director



Date

ODR:PTuebner:enb 11-14-86
amp/PSD 02-10-87;03-05-87
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PRELIMINARY FINANCIAL ANALYSIS

In a preliminary analysis of self-sustainability USAID examined the cost/revenue expectations of CONDEPRO at a level of operations commensurate with estimated long-term annual demand. We estimated that in a typical year approximately 1500 persons and/or firms would request participation in conferences, seminars and workshops; approximately 80 firms would request assistance to initiate a productivity cycle and 30 would complete the cycle; about 20 firms would request assistance to initiate product development activities and about 10 would carry the activities to completion.

The array of services adequate to meet this demand would require operational outlays of about \$935,000 per year and overhead outlays of about \$150,000. The CONDEPRO Board of Directors has stated that CONDEPRO will be able over the next several years to generate enough revenues from dues and donations to meet overhead costs. Therefore, self-sustainability would be dependent upon full recovery of operational costs. Allocation of costs and revenues are shown in Annex D4.

Three factors affect the feasibility of full cost recovery (1) the perceived value of services, (2) The price of services and (3) the rhythm of annual demand. We assumed for the purpose of our analysis that over a period of several years that CONDEPRO's services had been, and were known to be highly valuable to their clients and that clients were prepared to pay for those services.

From CONDEPRO's view the price of services would have to at least equal their costs (with the exception of certain services in which cross-subsidization seemed justified and feasible). From the clients points of view the costs should be less than the value of those services to the firm. In our analysis we developed standardized service costs based upon full utilization of a five person technical staff. Service costs range from as little as \$25 per participant in a conference to \$5000 for detailed productivity diagnosis and measurement services. Small mark ups on the costs of these services provided for cross-subsidies. Total costs of services rendered would approximately equal revenues of about \$330,000. The rhythm of annual demand could however, distort the cost and price structure. Underutilization of staff as a result of uneven scheduling of remunerative work would yield lower revenues without a commensurate lowering of costs. In our

analysis we assumed a back-log of orders for services which permitted orderly work scheduling and full utilization of available staff time.

The recovery of costs of externally contracted consultants is not affected by a potential underutilization problem. The consultants are contracted for fixed terms, at negotiated prices. In our analysis we estimated approximately 80 person months of short-term consultant services, of which about 60% would be provided by IESC. Costs at an estimated weighted average of \$7,600 per month would total a bit more than \$600,000 with small markups yield slightly more than that amount of revenues. Pricing of services to be provided by short-term consultants will range from \$3,000 for a productivity plan to \$12,000 for development of a new product. These fees, according to CONDEPRO Board are acceptable and affordable by a substantial portion of the business community.

Self-sufficiency under the assumptions outlined above appears feasible after CONDEPRO has developed and tested, and adjusted its program assumptions. However, given the preponderance of small firms within the Panamanian business universe continuous subsidy of some categories of those firms may be economically justified. During the project paper preparation and Phase I of this project the justification for and methods of providing such subsidy will be examined. CONDEPRO will explore with the GOP the possibility of recovery of some portion of the social tax now levied on Panamanian business and which is earmarked for industrial training. It will also examine alternative service delivery configurations so as to reduce costs. It will also experiment with price adjustments to provide, if possible, for certain categories of cross subsidization within self-sufficiency parameters.

Project costs during Phase I are estimated to be \$4.95 million. USAID will provide \$3.0 million in grant funds and CONDEPRO will fund \$1.95 million from dues, donations and fees for services. Approximately \$500,000 of the grant will be used to fund evaluations and USAID project management activities. The remaining amount will fund technical assistance, training, commodities, special studies and some operational costs (Annex D.1).

During each successive year of the three year project, USAID grant funds will fund approximately 65, 60 and 50 percent of annual project costs, respectively CONDEPRO will assume an ever greater amount of its expenses. The projections assume that companies will first be offered CONDEPRO services at subsidized rates. These rates will gradually be increased so that in year 3, companies will be paying at least an average 50% of the cost of CONDEPRO services. Annex D.2 shows the progress that CONDEPRO is expected to make toward

self-sufficiency by year 3. Benchmarks, established during project preparation, will be used to measure progress and the degree to which the project conforms to the self-sustainability assumptions.

During the first year of CONDEPRO's operation, administrative staff costs are somewhat higher than technical staff costs. This is due to the assumption that the administrative staff will be on board from the beginning of the project, and in the start-up year, that technical staff and long-term consultants will be employed for half a year. Annex D.3 shows workload, staff, long-term and short-term consultant requirements. Other assumptions are attached to and are shown in Annex D.1, page two.

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March/20/87

ESTIMATED REVENUES & PROJECTED EXPENSES

In (\$ 000's)

YEAR 1 YEAR 2 YEAR 3 TOTAL

EXPECTED REVENUES

Dues and Donations 1/	40	50	75	165
Conferences & Seminars Fees 2/	85	120	80	285
Productivity Cycle Services Fees 3/	220	450	500	1,170
Product Development Services Fees 4/	60	125	140	325
TOTAL/YR.	405	745	795	1,945

CONDEPRO EXPENSES

I. PERSONNEL				
a- Administrative Staff- 3 persons	95	100	110	305
b- Technical Staff				
3 Technical	70	140	140	350
c- Long Term Advisors				
4 Persons	280	550	370	1,200
d- Short-Term Consultants				
1. IESC	160	330	365	855
2. Others	110	220	245	575
II. OPERATING EXPENSES	45	50	55	150
III. SEMINAR & CONFERENCE LOGISTICS	100	185	125	410
VI. PROMOTIONAL MATERIALS	100	50	50	200
V. PRODUCTIVITY STATISTICS				
Data Base System Instal.	70			70
VI. SPECIAL STUDIES 5/				
7 Studies	70	100	70	240
VII. COMMODITIES 6/	100	50	0	150
TOTAL CONDEPRO EXPENSES	1,200	1,775	1,530	4,505

USAID PROJECT MGMT EXPENSES

I. EVALUATIONS	0	50	50	100
II. USAID PROJECT MANAGEMENT	200	70	70	340
TOTAL USAID PROJ. MGMT ACT	200	120	120	440

TOTAL PROJECT EXPENSES 1,400 1,895 1,650 4,945-----
USAID DEFICIT FINANCING (995) (1,150) (855) (3,000)

ASSUMPTIONS UNDERLYING
ESTIMATED REVENUES & PROJECTED EXPENSES

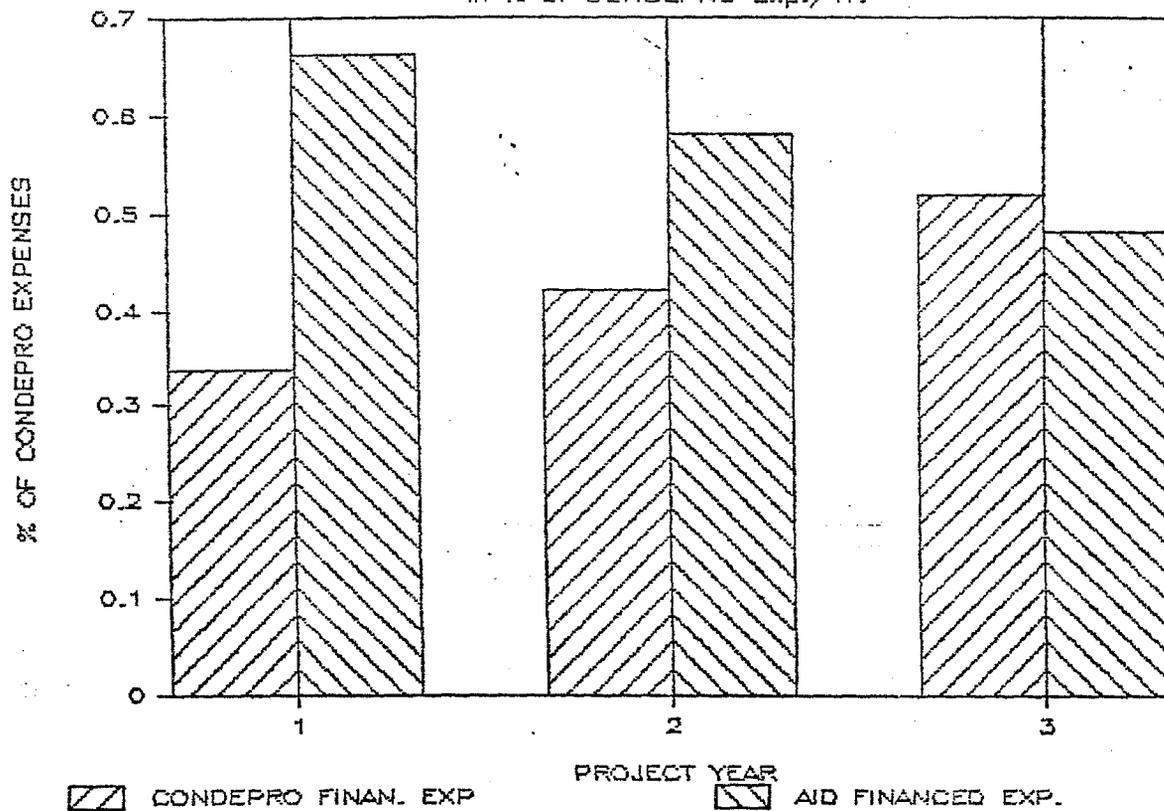
		<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>
<u>1/</u>	No. Members*	170	187	206
	<u>Dues and Donations</u>	\$40,000	\$50,000	\$75,000
<u>2/</u>	<u>Year 1:</u>			
	27 Conferences	1,350 participants		
	26 Seminars	780 participants		
	<u>Year 2:</u>			
	40 Conferences	2,000 participants		
	36 Seminars	1,080 participants		
	<u>Year 3</u>			
	20 Conferences	1,000 participants		
	18 Seminars	540 participants		
		<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>
<u>3/</u>	<u>Productivity Cycle Services:</u>			
	Prod. Assistance to Firms	130	272	190
<u>4/</u>	<u>Product Development Services:</u>			
	Prod. Dev. Assist. to Firms	18	36	41
<u>5/</u>	<u>Special Studies:</u>			
	a. Impact of Electricity			
	b. Impact of Port Charges			
	c. Impact of Cement Cost			
	d. Impact of Internal Transportation			
	e. Impact of Labor Code			
	f. Impact of Government Regulation			
	g. To be determined			
<u>6/</u>	<u>Commodities:</u>			
	- Furniture	\$42,950		
	- Office Equipment (Computers, printers, typewriters, word processors).	\$56,000		
	- Audio Visual Equipment	\$36,000		
	- Library Materials	\$30,000		
	- Productivity Equipment	\$30,000		
	- Transport (Mini Van)	\$15,000		

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AID & CONDEPRO CONTRIB. TO PROJECT ^{1/}

In % of CONDEPRO Exp./Yr.



(In \$000's)	CONDEPRO EXPENSES	CONDEPRO REVENUES	AID DEFICIT FINANCING	CONDEPRO REVENUE AS % OF EXP.	AID FINAN. AS % OF EXP.	% TOTAL
1	1200	405	795	33.75%	66.25%	100.00%
2	1775	745	1030	41.97%	58.03%	100.00%
3	1530	795	735	51.96%	48.04%	100.00%
TOTAL	4,505	1,945	2560			

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^{1/} USAID Project Management Expenses are not included.

PROJECT PERSONNEL REQUIREMENTS PER ACTIVITY

ANNEX D.3

	Year 1		Year 2		Year 3		TOTAL	
	EVENTS	P/Mths	EVENTS	P/Mths	EVENTS	P/Mths	EVENTS	P/Mths
Long Term Advisors		24		48		30		102
CONDEPRO Technical Staff		18		36		36		90
TOTAL		42		84		66		192
LONG TERM TECHNICAL STAFF ACTIVITIES								
Awareness Conferences	27	5.4	40	8	20	4	87	17.4
Productivity Principles Conf.	15	3	20	4	10	2	45	9
Productivity/Quality Mgt. Seminar	8	2.4	10	3	5	1.5	23	6.9
Industry-Specific Prod. Workshop	3	1.2	6	2.4	3	1.2	12	4.8
Productivity Cycle:								
Productivity Diagnosis	75	7.5	157	15.7	80	8	312	31.2
Productivity Measurement	23	17.3	48	36	40	30	111	83.3
Supervision & Coordination	--	5.2	--	11.9	--	16.3	0	33.4
Statistical Processing	--	--	1	3	1	3	2	6
Sub Total	151	42	282	84	159	66	592	192
SHORT TERM CONSULTANT								
Productivity Plan Of Action	18	6.3	38	13.3	39	13.7	95	33.3
Prod. Implementation/Post Audit	14	14	29	29	31	31	74	74
Product Development:								
Product Development Studies	5	5	10	10	11	11	26	26
New Product Development	2	3	4	6	5	7.5	11	16.5
Product Modification Diagnosis	5	2.5	10	5	11	5.5	26	13
Modification Plan Of Action	3	1.8	6	3.6	7	4.2	16	9.6
Product Modi. Implementation	3	3	6	6	7	7	16	16
Sub Total	50	35.6	103	72.9	111	79.9	264	188.4
TOTAL	201	78	385	157	270	146	856	380

ACTIVITIES, COSTS AND REVENUES
IN BREAK-EVEN YEAR

<u>ACTIVITIES</u>	<u>P/MONTH</u>	<u>COSTS</u>		<u>REVENUES</u>
		<u>P/COSTS</u>	<u>SUPPORT COSTS</u>	
CONDEPRO TECHNICAL STAFF				
1. Conferences, seminars and workshops	9	\$ 30,000	\$ 24,000	\$ 57,000
2. Initiation of Prod. Cycle	38	130,000	98,000	271,000
3. Others:				
1. Supervisory	10	35,000		
2. Stat. Processing	<u>3</u>	<u>10,000</u>	<u>-</u>	<u>-</u>
SUB-TOTAL	60	205,000	122,000	328,000
SHORT-TERM CONSULTANTS				
1. Productivity Cycle	45	340,000	-	340,000
2. Produc. Develop.	<u>35</u>	<u>268,000</u>	<u>-</u>	<u>267,000</u>
SUB-TOTAL	80	608,000	-	607,000
 TOTAL	 <u>140</u>	 <u>\$813,000</u>	 <u>\$122,000</u>	 <u>\$935,000</u>

35

EXCERPTED FROM: STATE 153464/03, SUBJECT: REVIEW OF THE PANAMA FY 87/88 ACTION PLAN FROM SECSTATE WASHDC, MAY 1986.

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10. PROJECT DEVELOPMENT AND PRODUCTIVITY IMPROVEMENT PROJECT. ISSUES WERE RAISED REGARDING COST RECOVERY MECHANISMS AND THE APPROPRIATENESS OF GRANT FUNDING OF ASSISTANCE TO PRIVATE SECTOR FIRMS. THE MISSION AGREED TO INCLUDE FEE FOR SERVICES OR OTHER COST SHARING MECHANISMS IN THE PROJECT DESIGN. ISSUES WERE RAISED REGARDING THE SIZE OF THE PROJECT BUDGET, AND WHETHER THE PROJECT WAS FOCUSED SOLELY ON ASSISTANCE TO PRIVATE SECTOR FIRMS OR ALSO ON DEVELOPING AN INAPPROPRIATE LEVEL OF ONGOING INSTITUTIONAL STAFF CAPABILITY. LACK SUGGESTED THAT THE PROJECT BE PHASED AND INCREMENTALLY FUNDED; HOWEVER, THE MISSION VOICED A PREFERENCE FOR CARRYING OUT A PROCESS EVALUATION EARLY IN THE PROJECT. SINCE A NUMBER OF BASIC DESIGN PARAMETERS ARE STILL EVOLVING (INCLUDING THE APPLICATION OF FEE FOR SERVICES, THE ROLE OF THE IMPLEMENTING INSTITUTION AS A PROVIDER OR A BROKER OF TECHNICAL SERVICES/TRAINING, POSSIBLE INITIATION OF THE PROJECT AS A PILOT RATHER THAN A FULL SCALE PROJECT) THE MISSION IS REQUESTED TO PROVIDE AN EXPANDED AND CLARIFIED 2-3 PAGE NEW PROJECT DESCRIPTION FOR AID/W REVIEW BEFORE A DECISION ON PID DELEGATION IS MADE.
11. EMPLOYMENT OBJECTIVE. NOTWITHSTANDING CONCERNS AS TO WHETHER AND HOW PANAMA WOULD BE ABLE TO EMPLOY MOST OR ALL OF THE 25,000 NEW LABOR MARKET ENTRANTS EACH YEAR, IT WAS AGREED THAT GREATER PROGRAM EMPHASIS SHOULD NOT BE PLACED ON LABOR INTENSIVE EMPLOYMENT GENERATION FOR FEAR OF PROMOTING INEFFICIENT AND NONCOMPETITIVE ACTIVITIES.

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ACTION: USAID-2 INFO: DCM ECON (4)

VVZCZCPNC897
OO RUEHZP
DE RUEHC #3739/01 0560223
ZNR UUUUU ZZH
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FM SECSTATE WASHDC
TO AMEMBASSY PANAMA IMMEDIATE 9379
BT
UNCLAS SECTION 01 OF 02 STATE 053739

25-FEB-87 TOR: 01:59
CN: 31559
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DIST: AID

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E.O. 12356: N/A

TAGS

SUBJECT: PRODUCT DEVELOPMENT AND PRODUCTIVITY
IMPROVEMENT PROJECT 525-0272

REF (A) STATE 163464, (B) PANAMA 17372, (C) 361467

1. THE BUREAU APOLOGIZES FOR THE DELAY IN RESPONDING TO THE MISSION'S REQUEST TO REVIEW AND AUTHORIZE THE PID FOR THE SUBJECT PROJECT AT THE MISSION. IT WAS DECIDED THAT THE PID SHOULD BE REVIEWED IN WASHINGTON BECAUSE OF SPECIFIC DESIGN ISSUES AND POLICY CONCERNS AS MENTIONED BELOW, AS WELL AS THE ABSENCE OF A STRATEGY FRAMEWORK WITHIN WHICH TO REVIEW THE PROJECT PROPOSAL. THE PID SHOULD ADDRESS THE FOLLOWING CONCERNS.

2. PROGRAM STRATEGY: IF THE PID IS SUBMITTED PRIOR TO THE CDSS REVIEW, IT SHOULD PROVIDE A CLEAR STATEMENT ON THE MISSION'S PRIVATE SECTOR STRATEGY AND THE ROLE OF THE PROJECT IN CARRYING OUT THAT STRATEGY.

3. MAJOR DESIGN ISSUES - SUSTAINABILITY THE SELF-SUFFICIENCY OF CONDEPRO IS NOT EVIDENT. SINCE THIS IS A FUNDAMENTAL REQUIREMENT FOR PROJECT APPROVAL, A PRELIMINARY REPEAT PRELIMINARY DEMONSTRATION THAT

CONDEPRO CAN BE SELF-SUSTAINING SHOULD BE INCLUDED IN THE PID.

4. POLICY CONCERNS

(A) COMPETITION

IT IS AID POLICY TO ENCOURAGE FREE, OPEN AND COMPETITIVE MARKETS. ASSISTANCE TO IMPROVE THE COMPETITIVENESS OF ENTERPRISES IN SECTORS WHERE THERE IS SIGNIFICANT INTERNATIONAL COMPETITION IS ENCOURAGED. HOWEVER, ASSISTANCE TO ENTERPRISES WHICH WOULD LEAD TO THE CREATION OF MONOPOLY INTERESTS IN THE SECTOR AND THE CONCOMITANT REDUCTION OF COMPETITIVENESS OR TO ENTERPRISES IN SECTORS PROTECTED BY HIGH TARIFFS IS NOT ACCEPTABLE. GIVEN THE SMALL PANAMANIAN MARKET AND THE NUMBER OF FIRMS WHICH EXERCISE MONOPOLY CONTROL OF SPECIFIC MARKETS, HOW WILL THIS PROJECT ASSURE THAT

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COMPETITIVENESS WILL BE INCREASED?

(B) CAPITAL SAVINGS AND EMPLOYMENT GENERATION

AID ASSISTANCE TO PRIVATE ENTERPRISES SHOULD BE CAPITAL SAVING AND LABOR GENERATING. GIVEN THE NATURE OF THE PANAMANIAN ECONOMY (HIGH LABOR COSTS COMPARED WITH MANY DOCS AND NO POSSIBILITY OF REDUCTION THROUGH CURRENCY DEVALUATION), MANY POSSIBLE PRODUCTIVITY IMPROVEMENTS ARE LIKELY TO BE LABOR SAVING. HOW WILL THE PROJECT BE STRUCTURED TO ASSURE THAT FIRM LEVEL PRODUCTIVITY IMPROVEMENTS REFLECT APPROPRIATE CAPITAL/LABOR RATIOS FOR CONDITIONS IN PANAMA?

5. ISSUES FOR FURTHER CLARIFICATION.

(A) CONDEPRO PROGRAM AND INSTITUTIONAL ARRANGEMENTS. (IN ADDITION TO THE FOR-PROFIT OR NON-PROFIT ISSUE OF 2.C., THE INSTITUTIONAL STRUCTURE OF CONDEPRO IS NOT CLEAR. IN THE ACTION PLAN PROJECT DESCRIPTION, CONDEPRO WILL BE SUBORDINATE TO CEDEPRO AND ATTACHED TO THE PANAMANIAN MANUFACTURERS ASSOCIATION (SIP). REF C STATES THAT CEDEPRO WILL BE A MEMBER OF CONDEPRO, WHICH APPEARS TO BE AN INDEPENDENT ENTITY WITH MUCH WIDER MEMBERSHIP THAN REPRESENTED BY SIP. FURTHER, IT IS NOT CLEAR WHETHER THE NUMEROUS PANAMANIAN PARASTATALS WILL BE ELIGIBLE FOR CONDEPRO MEMBERSHIP AND SERVICES.

WHILE IT IS LEGITIMATE FROM A POLICY STANDPOINT TO SUPPORT MANAGEMENT IMPROVEMENT AND TECHNOLOGY TRANSFER THROUGH TRAINING AND ADVISORY SERVICES ON A CONCESSIONAL

BASIS, THE MAGNITUDE OF THESE SERVICES AND TRAINING IS NOT CLEAR. AT ONE POINT IN REF C, PUBLIC SERVICE PROGRAMS ARE ALLUDED TO AS A MINOR ACTIVITY AND, IN A LATER PARAGRAPH, THESE ARE QUOTE THE BULK OF CONDEPRO'S EARLY ACTIVITIES UNQUOTE. PLEASE CLARIFY THESE CONCERNS REGARDING CONDEPRO.

(B) PROJECT BUDGET.

THE REVISED PROJECT DESCRIPTION DOES NOT CONTAIN A PROJECT BUDGET AS REQUIRED BY REF A. ALTHOUGH THE PROJECT HAS BEEN REDUCED FROM ITS ORIGINAL LEVEL, WE ARE STILL CONCERNED THAT IT IS OVERLY AMBITIOUS, GIVEN THE NATURE OF THE IMPLEMENTING INSTITUTION, THE SIZE OF THE POTENTIAL CLIENTELE POPULATION, AND THE OBJECTIVE OF MAKING CONDEPRO SELF-FINANCING. THE PID SHOULD ASSESS THE OPTIONS FOR A MORE MODEST INITIAL EFFORT AND THE BASIS FOR YOUR CONCLUSION THAT A LARGE, MULTI-FACETED PROJECT WITH A NEW INSTITUTION IS APPROPRIATE.

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(C) GRANT S. FINANCING.

REF C DOES NOT SPECIFY WHETHER CONDEPRO WILL BE A FOR-PROFIT OR A NON-PROFIT SERVICE ORGANIZATION. A MUCH STRONGER CASE CAN BE MADE FOR GRANT FINANCING IF CONDEPRO IS A NON-PROFIT ORGANIZATION.

6. GIVEN THE NOVELTY OF THE PROJECT CONCEPT, THE ABOVE-MENTIONED POLICY CONSIDERATIONS AND THE LIMITED SUCCESS OF OTHER PRODUCTIVITY ENHANCEMENT EFFORTS, PARTICULARLY IN LDC'S, A WASHINGTON REVIEW OF THE SUBJECT PID WOULD PROVIDE A WIDER EXCHANGE OF IDEAS. THIS WOULD BENEFIT NOT ONLY THE MISSION, BUT INTERESTED AID/W STAFF AS WELL. THE BUREAU WILL ARRANGE A DAEC REVIEW AS SOON AS THE MISSION CAN SUBMIT THE PID.

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