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525-0221

PD-AAL-474

UNCLASSIFIED

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

PANAMA

PROJECT PAPER

EMPLOYMENT PLANNING AND GENERATION

AID/LAC/P-077

Loan Number: 525-W-051
Project Number: 525-0221

UNCLASSIFIED

AGENCY FOR INTERNATIONAL DEVELOPMENT

PROJECT DATA SHEET

1. TRANSACTION CODE

A = Add
 C = Change
 D = Delete

Amendment Number

DOCUMENT CODE

3

2. COUNTRY/ENTITY

PANAMA

3. PROJECT NUMBER

525-0221

4. BUREAU/OFFICE

LAC

05

5. PROJECT TITLE (maximum 40 characters)

Employment Planning and Generation

6. PROJECT ASSISTANCE COMPLETION DATE (PACD)

MM DD YY
 08 31 85

7. ESTIMATED DATE OF OBLIGATION

(Under 'B.' below, enter 1, 2, 3, or 4)

A. Initial FY 81

B. Quarter 4

C. Final FY 81

8. COSTS (\$000 OR EQUIVALENT \$1 =)

A. FUNDING SOURCE	FIRST FY 81			LIFE OF PROJECT		
	B. FX	C. L/C	D. Total	E. FX	F. L/C	G. Total
AID Appropriated Total						
(Grant)	(975)	()	(975)	(975)	()	(975)
(Loan)	(5000)	()	(5000)	(5000)	()	(5000)
Other U.S.						
1.						
2.						
Host Country		6878	6878		6878	6878
Other Donor(s)						
TOTALS	5975	6878	12853	5975	6878	12853

9. SCHEDULE OF AID FUNDING (\$000)

A. APPROPRIATION	B. PRIMARY PURPOSE CODE	C. PRIMARY TECH. CODE		D. OBLIGATIONS TO DATE		E. AMOUNT APPROVED THIS ACTION		F. LIFE OF PROJECT	
		1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan
(1) ST	710-B	710	840			975	5000	975	5000
(2)									
(3)									
(4)									
TOTALS						975	5000	975	5000

10. SECONDARY TECHNICAL CODES (maximum 6 codes of 3 positions each)

720 730 740 840 830 810

11. SECONDARY PURPOSE CODE

760

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

A. Code BU LAB DEL
 B. Amount 4000 6000 2000

13. PROJECT PURPOSE (maximum 480 characters)

To strengthen the GOP's institutional capacity to analyze, develop and evaluate policies and stimulate private investment in labor intensive activities.

14. SCHEDULED EVALUATIONS

Interim MM YY MM YY Final MM YY
 1 2 8 3 - - - - 0 1 8 5

15. SOURCE/ORIGIN OF GOODS AND SERVICES

000 941 Local Other (Specify)

16. AMENDMENTS/NATURE OF CHANGE PROPOSED (This is page 1 of a _____ page PP Amendment)

17. APPROVED BY

Signature

Title

Aldelmo Ruiz, Director, USAID

Date Signed

MM DD YY
 08 11 85

18. DATE DOCUMENT RECEIVED IN AID/W, OR FOR AID/W DOCUMENTS, DATE OF DISTRIBUTION

MM DD YY

INSTRUCTIONS

The approved Project Data Sheet summarizes basic data on the project and must provide reliable data for entry into the Country Program Data Bank (CPDB). As a general rule blocks 1 thru 16 are to be completed by the originating office or bureau. It is the responsibility of the reviewing bureau to assume that whenever the original Project Data Sheet is revised, the Project Data Sheet conforms to the revision.

Block 1 - Enter the appropriate letter code in the box, if a change, indicate the Amendment Number.

Block 2 - Enter the name of the Country, Regional or other Entity.

Block 3 - Enter the Project Number assigned by the field mission or an AID/W bureau.

Block 4 - Enter the sponsoring Bureau/Office Symbol and Code. *(See Handbook 3, Appendix 5A, Table 1, Page 1 for guidance.)*

Block 5 - Enter the Project Title *(stay within brackets; limit to 40 characters).*

Block 6 - Enter the Estimated Project Assistance Completion Date. *(See AIDTO Circular A-24 dated 1/26/78, paragraph C, Page 2.)*

Block 7A. - Enter the FY for the first obligation of AID funds for the project.

Block 7B. - Enter the quarter of FY for the first AID funds obligation.

Block 7C. - Enter the FY for the last AID funds obligations.

Block 8 - Enter the amounts from the 'Summary Cost Estimates' and 'Financial Table' of the Project Data Sheet.

NOTE: The L/C column must show the estimated U.S. dollars to be used for the financing of local costs by AID on the lines corresponding to AID.

Block 9 - Enter the amounts and details from the Project Data Sheet section reflecting the estimated rate of use of AID funds.

Block 9A. - Use the Alpha Code. *(See Handbook 3, Appendix 5A, Table 2, Page 2 for guidance.)*

Blocks 9B., C1. & C2. - See Handbook 3, Appendix 5B for guidance. The total of columns 1 and 2 of F must equal the AID appropriated funds total of 8G.

Blocks 10 and 11 - See Handbook 3, Appendix 5B for guidance.

Block 12 - Enter the codes and amounts attributable to each concern for Life of Project. *(See Handbook 3, Appendix 5B, Attachment C for coding.)*

Block 13 - Enter the Project Purpose as it appears in the approved PID Facesheet, or as modified during the project development and reflected in the Project Data Sheet.

Block 14 - Enter the evaluation(s) scheduled in this section.

Block 15 - Enter the information related to the procurement taken from the appropriate section of the Project Data Sheet.

Block 16 - This block is to be used with requests for the amendment of a project.

Block 17 - This block is to be signed and dated by the Authorizing Official of the originating office. The Project Data Sheet will not be reviewed if this Data Sheet is not signed and dated. Do not initial.

Block 18 - This date is to be provided by the office or bureau responsible for the processing of the document covered by this Data Sheet.

PROJECT AUTHORIZATION

Name of Country: Republic of Panama
Name of Project: Employment Planning and Generation
Number of Project: 525-0221
Number of Loan: 525-W-051

1. Pursuant to Section 106 of the Foreign Assistance Act of 1961, as amended, I hereby authorize the Employment Planning and Generation Project for the Republic of Panama (the "Cooperating Country") involving planned obligations of not to exceed Five Million United States Dollars (\$5,000,000) in loan funds ("Loan") and Nine Hundred Seventy Five Thousand United States Dollars (\$975,000) in grant funds ("Grant") over a four year period from date of authorization, subject to the availability of funds in accordance with the A.I.D. OYB/allotment process, to help in financing foreign exchange and local currency costs for the project.

2. The project ("Project") consists of strengthening the Government of Panama's institutional capacity to analyze, develop and evaluate policies and programs to stimulate private investment in labor intensive activities and establish a credit fund to foster increased employment generation and productivity in the private sector.

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

a. Interest Rate and Terms of Repayment

The Cooperating Country shall repay the Loan to A.I.D. in U.S. Dollars within twenty (20) years from the date of first disbursement of the Loan, including a grace period of not to exceed ten (10) years. The Cooperating Country shall pay to A.I.D. in U.S. Dollars interest from the date of first disbursement of the Loan at the rate of (i) two percent (2%) per annum during the first ten (10) years, and (ii) three percent (3%) per annum thereafter on the outstanding disbursed balance of the Loan and on any due and unpaid interest accrued thereon.

b. Source and Origin of Goods and Services (Loan)

Goods and services, except for ocean shipping, financed by A.I.D. under the Loan shall have their source and origin in Panama or in countries included in A.I.D. Geographic Code 941, except as A.I.D. may otherwise agree in writing. Ocean shipping financed by A.I.D. under the Loan shall, except as A.I.D. may otherwise agree in writing, be financed only on flag vessels of countries included in A.I.D. Geographic Code 941 or of Panama.

c. Source and Origin of Goods and Services (Grant)

Goods and services, except for ocean shipping, financed by A.I.D. under the grant shall have their source and origin in the United States or in Panama, except as A.I.D. may otherwise agree in writing. Ocean shipping financed by A.I.D. under the Grant shall, except as A.I.D. may otherwise agree in writing, be financed only on flag vessels of the United States.

d. Condition Precedent to Initial Disbursement

Prior to any disbursement, or the issuance of any commitment documents under the Project Agreement to finance other than technical assistance, the Cooperating Country shall, except as A.I.D. may otherwise agree in writing, furnish to A.I.D., in form and substance satisfactory to A.I.D.

(1) Evidence of the establishment of a Policy Analysis Research System ("PARS"), composed of an Employment Development Commission and a Technical/Administrative Unit and the establishment of appropriate procedures for registering and utilizing private consultants.

(2) A time phased plan and budget for the utilization of technical assistance for the PARS and a preliminary list of studies to be undertaken.

e. Condition Precedent for Disbursement for the Supervised Credit Program

Prior to any disbursement, or the issuance of any commitment documents (Loan and Grant) to finance activities under the Supervised Credit Program ("SCP"), the Cooperating Country shall, except as A.I.D. may otherwise agree in writing, furnish to A.I.D., in form and substance satisfactory to A.I.D.:

(1) Evidence that a staffing plan has been established for the Employment Development Division of Banco Nacional de Panama ("BNP") and that personnel have been assigned to key positions.

(2) Evidence of arrangements to provide technical management assistance ("TMA") to the sub-borrowers, through private consultants, which include the procedures for registering private consultants and utilizing the TMA services.

(3) The eligibility requirements to be applied in the SCP to ensure that credit is provided only to small and medium sized enterprises that are unable to obtain credit from the commercial banking system.

f. Condition Precedent for Disbursement for the Manpower Information System

Prior to any disbursement, or the issuance of any commitment documents under the Project Agreement, to finance activities under the Manpower Information System, the Cooperating Country shall furnish to A.I.D., in form and substance satisfactory to A.I.D. a time phased implementation plan and budget for the utilization of technical assistance for the Manpower Information System.

g. Covenants

The Cooperating Country shall covenant that, unless A.I.D. otherwise agrees in writing, it shall:

- (1) Maintain sub-loan interest rates at not less than the average of the BNP's cost of capital, the interest rates charged by development institutions and interest rates charged by commercial banks in Panama;
- (2) Set aside for TMA Services three points of the sub-loan interest rate; and
- (3) Cause the BNP to establish subloan interest rates quarterly for A.I.D. review.

Acting Assistant Administrator
Bureau for Latin America
and the Caribbean

Aug 6 1981

Date

Clearances:

GC/LAC:RVeret: date / / subject to expiration of CN waiting period

LAC/CEN:WmLuker: date / /

LAC/DR:MBrown: date / /

GC/LAC:DAAdams:ekg:7/16/81:29183

EMPLOYMENT PLANNING AND GENERATION PROJECT PAPER
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ACRONYMS

<u>APEDE</u>	-	Asociación Panameña de Ejecutivos de Empresa
<u>BDA</u>	-	Banco de Desarrollo Agropecuario
<u>BNP</u>	-	Banco Nacional de Panamá
<u>COFINA</u>	-	Corporación Financiera Nacional
<u>DNE</u>	-	Dirección Nacional de Empleo
<u>DNED</u>	-	National Directorate of Enterprise Development
<u>EDC</u>	-	Employment Development Commission
<u>EDD</u>	-	Employment Development Division
<u>EEP</u>	-	Emergency Employment Division
<u>GDSM</u>	-	General Directorate of Small Enterprise
<u>GOP</u>	-	Government of Panama
<u>ICI</u>	-	Intermediate Credit Institution
<u>IFARHU</u>	-	Executive Directorate of Human Resources Planning & Utilization
<u>IDB</u>	-	Interamerican Development Bank
<u>IIPUP</u>	-	Type C - Small Enterprise Development Projects
<u>IBRD</u>	-	World Bank
<u>IPHE</u>	-	Instituto Panameño de Rehabilitación Especial
<u>INDESA</u>	-	Investigación y Desarrollo, S. A.
<u>MIS</u>	-	Manpower Information System
<u>MICI</u>	-	Ministry of Commerce and Industry
<u>MIPPE</u>	-	Ministerio de Planificación y Política Económica
<u>MITRAB</u>	-	Ministerio de Trabajo
<u>PARS</u>	-	Policy Analysis and Research System
<u>PCI</u>	-	Per Capita Income
<u>SCF</u>	-	Supervised Credit Fund
<u>SCF</u>	-	Supervised Credit Program
<u>SENAFORP</u>	-	Department of Training Needs Surveys
<u>T/AU</u>	-	Technical/Administrative Unit
<u>TMA</u>	-	Technical and Management Assistance
<u>URBE</u>	-	Regional Growth and Service Centers Project

I. Summary and Recommendations

A. Recommendations

The USAID Panama recommends authorization of a loan for \$5.0 million and a grant of \$975,000 to the Government of Panama (GOP) to provide assistance to stimulate employment generation through a program of policy analysis and credit and technical assistance to small and medium size businesses. The loan is to be fully funded (\$5,000,000) in FY 81 with terms of 20 year repayment, with 10 years grace, and interest of 2% during the grace period and 3% thereafter. The loan is to be disbursed within four years from the date conditions precedent to initial disbursement have been satisfied. The grant will also be fully funded in FY 81 at \$975,000 to support project activities and contract studies which will be developed in the projects first year of implementation.

B. Borrower/Grantee

The Borrower/Grantee will be the GOP; with the project to be implemented, administered and coordinated by the Ministries of Commerce (MICI) and Labor (MITRAB) and the Panamanian National Bank (BNP). Signatories for the GOP will be the Minister of Planning and the General Manager of the BNP.

C. Project Summary

The project goal is to increase employment, productivity and income levels of the poor in Panama. The purpose is to strengthen the GOP's institutional capacity to analyze, develop and evaluate policies and stimulate private investment in labor intensive activities. To achieve these ends the project will support three related activities: (1) formation of an employment policy analysis and research system within the Ministry of Commerce and Industry (MICI) which will analyze existing GOP economic policies and programs and propose modifications or the introduction of new programs supporting employment generation either by the GOP itself or by the private sector; (2) strengthening collection, storage, processing and access to accurate and current manpower information through a series of activities to be coordinated by the Ministry of Labor; (3) establishment of a model fund within the National Bank of Panama for labor intensive small and medium firms.

The Ministry of Commerce and Industry's National Directorate for Enterprise Development will establish a Policy Analysis and Research System (PARS) to conduct studies on economic policy and employment generation and make recommendations to the executive. The PAR System will be composed of a National Employment Development Commission and a technical secretariat. AID Grant Funds totalling \$625,000 will be used to finance policy studies. The GOP in counterpart will finance the operating and support costs of some \$70,000 annually, (\$280,000 LOP), of the PAR System.

The Ministry of Labor's National Employment Directorate, in cooperation with other public and private organizations, will establish a Manpower Information System (MIS) to help the government and private sector more effectively match Panama's labor supply with its demand. AID Grant Funds (\$200,000) will be

used to finance technical assistance and training costs related to establishing the system. The \$98,000 in GOP counterpart (LOP) funds will finance operation of the system.

The Employment Development Division of the BNP working as an intermediate credit institution (ICI) will make investment and working capital loans to labor-intensive small and medium size firms in manufacturing, construction, commerce and services sectors throughout Panama. This new Supervised Credit Program (SCP) will help alleviate some of the constraints to small and medium business access to credit. AID Grant Fund (\$150,000) will provide technical assistance to the BNP required to establish the program. Approximately 3,000 new jobs (1,600 direct, 1,400 indirect) are expected to result from \$10,000,000 (\$5,000,000 AID, \$5,000,000 GOP) in supervised credit on-lent to some 300-350 firms over the four year life of the project.

It is the Mission's conclusion that the Employment Planning and Generation project appropriately addresses three major the constraints to employment generation. It addresses policy constraints inhibiting increased private investment in labor intensive activities, initiates a model credit program directed at small and medium businesses and upgrades manpower information for use by the GOP, employers and employees. The project has been determined to be economically, financially and administratively sound; the implementing institutions have been found capable of implementing the planned activities; the project meets all applicable statutory criteria (Annex II) and, therefore, is considered ready for implementation.

D. Financial Summary

It is expected that AID Loan and Grant and GOP counterpart funds will be allocated as follows:

	<u>Financial Plan</u>		<u>GOP</u>	<u>TOTAL</u>
	<u>(US \$000)</u>			
	<u>DL</u>	<u>USAID DG</u>		
Employment Policy & Planning				
PARS		625	280	905
MIS		200	98	298
Supervised Credit Program				
SCP	5000	150	6500	11650
	<u>5000</u>	<u>975</u>	<u>6678</u>	<u>12853</u>

E. Summary Project Rationale

Over the next five years the Mission's country development strategy in will focus on two major problems -- (1) employment creation, primarily in urban Panama and (2) low productivity in rural Panama. Mission efforts in these two areas will support GOP initiatives underway and planned. Because Panama is experiencing heavy rural to urban migration which is expected to continue over the next 20 years, the focus of the Employment Planning and Generation project will be on near-term assistance in the urban sector (Panama City- Colon metropolitan corridor and secondary cities).

The Mission based its decision to consider employment as an urban sector problem on the following general conclusions derived from extensive data analysis presented in our overall employment strategy statement (Annex VI).

a. Changing demographic conditions indicate that the country, which is now 58% urban, will become 72% urbanized by the year 2000. Currently, 50% of the population lives in the metropolitan corridor. By the year 2000 the percentage will rise to 60%.

b. Unemployment in the urban areas, especially the metropolitan corridor, is more serious than in the rural areas. And, when the urban underemployed are added to the 14-22% urban unemployment rate, the situation has potential for political and social instability.

c. Unless the economy begins to grow at close to 8% with an almost 50% increase in the labor/output ratio, Panama may well find itself with an unemployment rate in the vicinity of 18-30% in the future.

d. AID's primary target group, the poor families whose incomes are barely sufficient to meet basic needs standards, currently shows a 60-40 split between rural and urban areas. With increased urbanization, the split will tend to be equalized so that as many poor families will be found in urban as in rural areas.

e. While the quality of the data is subject to imperfect and while some of the estimations are informed conjectures, the implication is clear: unemployment is already a significant problem and may grow to be a severe problem if investment is not stimulated and output made more labor intensive.

The Mission understands and appreciates full-well that unemployment does not necessarily imply poverty, that some unknown percentage of the unemployed undoubtedly come from families with one or more income earners, and that as a result the loss of one income may not be terribly significant. Therefore, unemployment statistics as an indicator of poverty may overstate the case to some unknown degree. With full knowledge of this shortcoming, the Mission believes the unemployment evidence to be so overpowering that the conclusions drawn from the data are correct and carry with them the responsibility to act now rather to react later.

The goal of Mission employment strategy is to enable Panama to develop and implement an ongoing program marshalling public and private sector resources to increase employment opportunities and raise resource productivity. The Mission's employment strategy targets are to stimulate investment in job creating enterprises, to increase usage of the skills of the currently unemployed and to strengthen the government's capabilities to analyze the dimensions of the employment problem and develop and implement programs and policies leading to its resolution. These targets are based upon analysis of the constraints to job creation. Constraints to expansion of job-creating opportunities for the majority of the unemployed, include, (a) legislation and government programs whose effect is to discourage labor-intensive investments and favor capital-intensive investments, and price controls which have performed erratically and inflexibly; (b) a credit system which discourages access by small borrowers by imposing expensive and confusing requirements, demanding unrealistically high collateral, and, in general, by treating small and large borrowers alike; (c) lack of managerial and technical knowledge on the part of small and potential entrepreneurs; and (d) lack of an adequately trained, skilled workforce despite relatively high education levels.

The Employment Planning and Generation (EPG) project addresses all of these constraints except the last which, due to its magnitude, is to be addressed in a project planned for FY 82, Workforce Development. For the short term the Mission concluded that, although these and other constraints severely restrict job creation, the first three can be dealt with most effectively through policy reform and information gathering while simultaneously initiating a model small business credit program.

The EPG project will: (1) establish within the GOP a policy analysis unit to undertake studies and analyses to promote private sector investment and employment generation, (2) strengthen GOP data collection and analysis to assist the public and private sector identify and anticipate labor requirements for semi-skilled or un-skilled workers and (3) implement of a model supervised credit mechanism for small and medium firms which in addition to credit, also has a substantial technical/managerial assistance component designed to reduce many of the technical constraints that prevent medium and small firms from improving their profitability, increasing production and hiring more labor.

F. ISSUES

1. Lack of an Employment Policy

Considerable concern has been expressed by various donors at the GOP's delay in completion of the next five-year development plan (1981-85). After reviewing past efforts and ongoing activities, USAID considers that the lack of labor and employment data and the lack of a working group identified to perform policy analyses has led to continued delays. While the policy analysis and manpower information systems established under this project are not utopian they will help the GOP better define and cope with the employment problem.

Although development of the Plan has been suspended, and UN-financed advisors have departed, numerous statements by Government officials,

confirmed by press analyses, support the Mission's belief that employment generation remains a priority objective of Panamanian government policy. Working documents for the next five year plan - as its predecessor - specifically identified employment generation as an area of concern. The private sector, through the Chamber of Commerce and other representatives, as well as independent analysts, have also targeted employment generation as a problem, and have expressed their willingness to cooperate with the GOP in decreasing the unemployment rate.

2. Utilization of the PARS

Key to the long-term generation of jobs and an active growing investment climate will be Panama's ability to recognize, analyze and adapt appropriate policies and programs. Whereas, initial GOP interest in a policy study group was taken as AID's bureaucratic requirements, the PAR system as developed by MICI has achieved the personal support of the President and Vice-President (who chairs the Finance Commission) as well as interest of the World Bank. Nevertheless, whether the GOP will use the PAR system effectively can only be determined over time.

3. Replication

The \$5 million fund being developed in this project is described as a "model" fund, i.e., unless replicated it will fall far short of significantly ameliorating unemployment. The issue, then, is upon what assumptions does the USAID believe that the fund may be replenished.

The answers are:

- a. The IBRD has expressed interest in contributing to the fund, and is prepared to field a team as early as late CY 1982.
- b. The GOP by contributing an equal amount to the fund as AID, is itself making a significant contribution and,
- c. The BNP, by reforming its own administrative policies including reducing collateral requirements has signalled its intent to stand fullsquare behind the approach.

G. Conditions and Covenants

In addition to standard conditions the following are recommended:

1. Conditions Precedent to Initial Disbursement

Prior to any disbursement or the issuance of any commitment document under the Project Agreement, except for technical assistance, to finance development of portions of the Project, the Cooperating Country shall furnish in form and substance satisfactory to AID:

a. Policy Analysis and Research System (PARS)

Evidence of the establishment of a Policy Analysis Research System within the GOP, composed of an Employment Development Commission and a Technical/Administrative Unit with the appropriate procedures for registering and utilizing private consultants.

b. Manpower Information System (MIS)

A time phased implementation plan for the utilization of technical assistance funds.

c. Supervised Credit Program (SCP)

1- Evidence that a staffing plan has been established for the Employment Development Division of Banco Nacional de Panama and that personnel have been hired to fill vacant positions.

2- Evidence of arrangements to provide TMA to the sub-borrowers, through private consultants, describing the procedures for registering and utilizing the TMA Services.

2. Covenants

The Cooperating Country covenants as follows:

1- Unless otherwise agreed in writing by AID, to maintain sub-loan interest rates at not less than the average of BNP's cost of capital, interest rates charged by development institutions and interest rates charged by commercial banks in Panama. Three points of the sub-loan interest rate will be set aside for TMA. Sub-loan interest rates will be determined quarterly by the BNP and reviewed by AID.

2- To conduct joint evaluations of the project as may be established by implementation letters.

H. Project Development Group

AID

USAID/Panama

J. Michael Patrick/ABD - Project Manager
Douglas Arnold/CONT
Tom Chapman/HRD
L. Harlan Davis/ABD
Robert Hechtman/ODP
Harald Marwitz/ABD
Steve Ryner/ODR
Ben Severn/ODP
Bernai Velarde/ODR

USAID/Washington

Alan Broehl/PDC/OLAB
Clarence Zuvekas, Jr./LAC/DP
Peter Bittner/LAC/DR

GOP

Ministerio de Comercio e Industria (MICI)

Lic. Antonio Richa, Director Nacional de Desarrollo
Empresarial
Lic. Bosco Quintero, Director General de la Pequeña Empresa
Lic. Angelina de Gracia, Dirección de la Pequeña Empresa
Lic. Odila de Espinosa, Dirección de la Pequeña Empresa

Ministerio de Trabajo y Bienestar Social (MITRAB)

Lic. Norberta Tejada, Directora Nacional de Empleo
Lic. Miguel Del Cid, Jefe del Depto. de Análisis y Políticas de
Empleo

Banco Nacional de Panama (BNP)

Lic. Jaime Simons, Director FODEM
Lic. Jaime Rivera, Sub-Director, FODEM
Lic. José De La Guardia, FODEM

Ministerio de Planificación y Política Económica (MIPPE)

Lic. Aurora de Correa, Jefe, Sección de Recursos Humanos y
Empleo

Consultants

Nelson Wall, Industrial Engineer, Georgia Institute of
Technology
Dr. Guillermo Chapman, Economist, Presidente, Investigación y
Desarrollo, S.A. (INDESA)
Lic. José Galán, Economist, Investigación y Desarrollo, S.A.
(INDESA)

Special Review

The Honorable Lic. Ricardo de la Espriella, Jr., Vice
President, Republic of Panama
The Honorable Ing. Arturo Melo, Minister of Commerce and
Industry
The Honorable Lic. Oyden Ortega, Minister of Work and Social
Welfare
Lic. Luis Arias, General Manager, BNP
The Honorable Lic. Orville Goodin, Viceminister of Planning
and Economic Policy
The Honorable Ing. Rodrigo Spiegel, Viceminister of Commerce and
Industry

II. Project Background

A. Background 1/

Beginning in the 1950's and continuing through the 1960's, Panama experienced rapid and strong economic growth approaching 8.0% annually. Growth was strongest in the metropolitan areas of Colon and Panama City with construction, manufacturing, commerce and services increasing at a rate slightly below 10% annually. The expansion of agricultural production was considerably less dynamic and reached only 3-4%. Government of Panama (GOP) involvement in the economy during this period was marginal limited largely to support for traditional public services in the metropolitan areas; a few nominal programs in education and public health were undertaken in the rural areas. As a partial result of declining employment and income generating opportunities in rural areas and rapid growth in urban-based economic activities, thousands of rural residents migrated to the metropolitan areas. While, Panama's population was predominantly rural (62%) in 1940, by 1978 the majority (57%) lived in urban areas. Current projections indicate that by the year 2000 Panama's population will be 72% urban and 28% rural.

In contrast to past Panamanian governments, the "Revolutionary Government" that assumed power in 1968 has taken an active role in the country's economic development. The Revolutionary Government, concluding that past economic growth had been inadequate geographically and sectorially, undertook a number of actions to promote broad-based economic growth and employment. Efforts to develop the rural sector included education and health programs. Agrarian reforms were undertaken and small producers organized into groups (i.e. asentamientos) as measures to increase agricultural production. In the metropolitan areas public investments in power and telecommunication facilities, airports, ports and roads were undertaken to encourage private sector investment. In addition, the Colon Free Zone was expanded along with fiscal incentives designed to stimulate industrial growth. Liberal banking legislation was passed establishing Panama as an international banking center. Government involvement in the economy also included public investment and management of several productive activities including production of cement, sugar, citrus products and bananas. Finally the government sought to influence the character and benefits of the country's economic growth through price controls, labor legislation and other regulations and incentives.

The results of the Government's efforts to promote economic growth with equity are mixed. While rural social programs produced major and broad benefits for the rural poor, the agrarian reform program failed to stimulate production and generate higher incomes and employment. Public investment in metropolitan infrastructure laid the foundation for economic growth but government policies, i.e., price controls, labor legislation, fiscal incentives did not stimulate private sector investment. Indeed, in many cases government policies led to less investment and less employment.

1/ Additional information can be found in the Mission Employment Strategy, Annex VI.

During 1974-79 Panama suffered one of its worst recessions in the past 30 years with GDP increasing by only 2.5% a year. The sharp decline in Panama's economic growth was due in part to external events -- rising oil prices and slowdown in world trade and, in part to internal events -- collapse in urban construction, exhaustion of easy import-substitution opportunities, uncertainty surrounding the outcome of the Canal Treaty negotiations and government policies that created a climate of investment uncertainty. Accompanying the decline in economic growth was a significant increase in open unemployment from 30,000 persons in 1974 to 44,800 persons in 1978, according to government sources. The deterioration in Panama's employment situation has not only become a major economic problem but a potentially disturbing political and social one as well.

1. Employment Problem

a. Unemployed and Underemployed

Although unemployment in Panama presently is high, the investment climate is improving and the GOP is encouraging private investment especially in sectors which will provide significant employment opportunities for Panamanian workers. Positive economic trends of the late 1970's continue; growth in GDP rose from 4-5% (1979) to 5-6% (1980). Private sector investment increased from 13% of GDP (1979) to 19% of GDP (1980). Economic growth continues to be strong in construction, commerce (Free Trade Zone) and services. In spite of these recent improvements in Panama's economic growth rate, the open unemployment rate for the country is still probably at least 10% and 18-22% in urban areas.

Many knowledgeable observers feel the current rate of economic growth is not likely to be sustained however, and increases in unemployment will occur unless there is appropriate modification of public policies such as price controls that affect investment and economic growth levels, technology choices and employment generation.

The Mission believes that deficiencies in official labor force data cause the magnitude of the unemployment problem to be significantly understated. As a consequence, the Mission has provided an adjusted estimate of unemployment (Table 1) by making some revisions in official estimates and related data. (The methodology used for these revisions is described Mission's Employment Strategy in Annex VI). The adjusted data concludes that the unemployment rate rose from 5.0% in 1970 to 17.0% in 1977 and then fell to 15.4% in 1979. Total unemployment during 1979 was approximately 92,000 according to these estimates (GOP estimates 50,700).

While unemployment can be found throughout the country it is concentrated largely in the metropolitan corridor (75%) with the balance spread between the Central region (15%), the Western region (9%) and the Eastern region (1%) (Table 2). According to Mission estimates, based on adjustments of GOP statistics, in 1978 the metropolitan unemployment rate was 22% or 72,900 persons (Table 3). The magnitude of the underemployment problem is even more difficult to measure than that of unemployment. A 1974 study by ILD/PRELAC estimated that

20-50% of the labor force was underemployed, depending upon sector and geographical area. In 1977 30.5% of the labor force classified as employees were underemployed, an increase of 10% over 1976. (Underemployed are employees who work less than 35 hours a week or earn less than \$30 per week - 31,810 workers and 63,280 were classified respectively in 1977).

b. Economic Growth and Employment

The service sector dominates Panama economy producing 48% of the country's GDP and employing 39% of the labor force (1979). Manufacturing, construction and commerce also play an important role accounting for 32% of Panama's GDP and 30% of the labor force. Agriculture, on the other hand, accounts for 14% of the country's GDP and 29% of the labor force. The Canal area accounts for 6% of GDP and 3% of the labor force. While the service, manufacturing, construction and commerce sectors have increased their shares of GDP and employment during the past two decades, those of agriculture and the Canal area have declined. (See Table 4).

The importance of the relationship between economic growth, economic structure (i.e., the degree of labor or capital intensiveness of various production processes) and employment generation is illustrated in a recent AID sponsored study. ^{1/} Utilizing alternative assumptions regarding Panama's GDP growth rate, the labor intensiveness of its production processes (measured by an employment/output coefficient), and the labor force participation rate, the study provides 18 separate unemployment scenarios ranging from 3.3% to 25.1% in 1985 and from 6.3% to 29.5% in 1990 (Table 5). One 1979-1990 scenario, representative more or less of the present state of Panama's economy -- 6% GDP growth rate, an employment/output coefficient of 0.50 (higher than that achieved during 1960-74) and an economically active participation rate of 60% projects unemployment nationwide at 18.6% (138,000 persons) in 1985 and 18.0% (153,000 persons) in 1990.

Panama's past trend toward a more capital intensive economic structure may preclude any significant reduction in the country's unemployment rate because required investment levels would be prohibitive. Between 1970 and 1979, for example, total investment (private and public) in Panama's economy was approximately \$3.0 billion. During this period the economy produced 92,726 jobs at an average cost of \$31,750 per job. Therefore, assuming no change in Panama's economic structure, total investment for the 1980-1990 period will have to be approximately \$9.0 billion, or triples the 1970-1980 level, to bring the unemployment rate down to 5% (i.e., 42,500 unemployed) by the year 1990.

These projections highlight the importance of higher GDP growth rates and a more labor-intensive economic structure. Given the limited potential of Panama's small domestic market careful attention needs to be given to the export markets. In addition, modification of existing GOP policies and programs that promote the use of labor-intensive production technologies are necessary.

^{1/} AID/INDESA, Factores Que Afectan la Demanda por Mano de Obra en Panama, (1979)

The metropolitan provinces of Panama and Colon are the principal generator's of Panama's GDP and employment, accounting for over 80% of the country's non-agricultural GDP (Table 6) and 56% of the labor force (Table 3). In 1979, small (1-19 employees) and medium (20-49 employees) firms in manufacturing, commerce and services activities accounted for 69% of all firms, 11% of the labor force and 21% of gross sales in the metropolitan area. When divided by economic activity, small and medium size firms are found to play their greatest role in commerce and services. In the commercial sector they account for 75% of all firms, 15% of the labor force, and 25% of gross sales. In the service sector, they account for nearly 90% of all firms, 12 percent of the labor force and 10% of gross sales. In the manufacturing sector, small and medium size firms account 50% the firms, 7% of the labor force and 6% of gross sales (Table 7).

Available data, although limited and incomplete, indicates that given Panama's this shift towards capital intensiveness over the past 10-15 years small and medium size firms remain more labor-intensive than large firms. (See Table 6). A national survey of Panama's manufacturing sector in 1975 ^{1/}, for example, found small and medium size firms played a major role in the production of food products, wood and wood products, non-metal furniture, newsprint, non-machinery metal products and non-metal mineral products (See Table 9). The production of these products normally utilize relatively labor intensive methods. Discussions with businessmen, government officials and representatives of the World Bank and the Inter-American Development Bank support the belief that small and medium firms in Panama are in general more labor intensive than larger firms.

2. Constraints to Investment and Employment

A complex and often contradictory array of Government policies and regulations including price controls, labor legislation, investment incentives, import and export incentives, and the tax system have had a negative impact on a wide range of productive activities in the Panamanian economy. In general, small and medium size firms seem to be affected more by Government policies than larger firms that have greater access to information, are aware of alternative courses of action and have the financial and technical resources necessary to satisfy the requirements of the bureaucracy.

Poorly administered price controls have contributed to production and investment declines in industrial and commercial activities as well as agriculture. Panama's labor legislation is seen as an obstacle to investment, particularly labor intensive activities. Present legislation raises the cost of labor and lowers labor productivity by increasing social welfare outlays and by imposing unduly inflexible and costly employee termination procedures on employers. Many observers argue that Government import tariffs and quota policies encourage the importation of various semi-finished and finished products thereby discriminating against relatively labor intensive Panamanian firms that can produce the products using local resources.

1/ Alberto E. Lassus, Políticas de Empleo para las Pequeñas y Medianas Empresas del Sector de la Industria Manufacturera, ILO, Octubre 1978.

Although the government has developed several investment incentive programs, they seem to benefit more the larger firms which understand and are capable of complying with numerous bureaucratic requirements and paper work. Many small firms that would otherwise qualify and benefit from many of the program, do not do so because of difficulties and costs involved in preparing the voluminous and complex documents required by the authorities. Other analysts have also questioned the value of the GOP's investment incentives such as corporate income and property tax write-offs and reduced import and export tariffs. They note little evidence to tie such that GOP investment incentives with past investment increases.

GOP economic policies are not the only constraints facing many Panamanian firms. For small and medium size firms, in general, the difficulty in gaining access to credit, technical and managerial assistance has limited their ability to maintain current production levels, let alone increase production. Recent studies 1/ confirm that small and medium size firms find it extremely difficult to secure their credit needs, particularly working capital, through the private banking sector or Government institutions. The private banks view small and medium size firms as credit risks. They have inadequate credit guarantees, their profits margins are too narrow to survive economic downturns and the administrative costs to the banks of handling small loans are too high. While government credit programs can be structured to de-emphasize the inherent risk of working with small and medium size firms, the bureaucratic inefficiencies inherent in such programs makes them virtually inaccessible to the client group.

Based on a survey 2/ conducted by the Ministry of Commerce and Industry in 1974 whose findings were corroborated by a number of recent studies 3/ commissioned by AID, it is evident that many small and medium size firms lack the technical and management assistance necessary to expand production, improve productivity and expand their labor force. The business surveys identified technical assistance needs in areas of production, marketing and management/administration. A representative sampling of such needs covers virtually the entire spectrum of management concerns and includes such considerations as maintenance, quality and production control, production technologies, materials handling procedures; credit and debt collection, product promotion, marketing alternatives, product design and packaging, worker incentive systems, management-labor relations, cost control, budgeting and accounting.

Meeting the technical and managerial requirements of many firms will contribute to increased production and will provide opportunities to hire additional employees. Other possibilities for increasing production and employment

1/ See Part III A. Demand Analysis

2/ Ministerio de Comercio e Industrias, Investigación sobre las Necesidades de Asistencia Técnica para la Pequeña Industria de Panamá, Enero 1975

3/ AID/INDESA, Situación de la Pequeña Empresa en Panamá, Agosto, 1980; AID/MIPPE Survey of 250 Small and Medium Size Business Establishments in San Miguelito, December, 1980.

include the development and marketing of new products, the development of new markets for existing products and the development and use of labor intensive production and distribution technologies.

Production of selected Panamanian products for international markets with labor intensive methods is a potential method for increasing employment opportunities. However, to compete effectively in international markets, Panamanian firms will have to produce quality products at reasonable prices. To accomplish this, many firms will need assistance in identifying international markets, developing marketing channels and designing reliable cost-effective systems for raw material procurement and production. Appropriate GOP policies or policy revisions will also be required.

Another avenue for increasing employment as well as production is through modifications in existing production technologies so that production can take place in a more labor-intensive manner. Evidence from developing countries ^{1/} throughout the world indicates that the substitution of labor for machinery in the production of many products can be done economically. Nevertheless, specific firm and product studies are needed to determine the extent to which adoption of alternative production technologies can be expected to increase labor use. It has been noted that even with large firms, peripheral or ancillary activities (such as material receiving and handling, packaging and storage) often offer possibilities for labor/machinery substitution. Nevertheless, while it may be technically feasible to adopt more labor-intensive technologies, it may not be economically possible because of official policies which distort factor prices and cause capital (machinery and equipment) to be undervalued and labor overvalued.

In summary, available information from studies, surveys and observations indicate that many Panamanian firms face an array of interrelated constraints that prevent them from expanding production and their labor force. Consequently, efforts to generate employment require a clear understanding of the constraints, their interrelationships, impact on production, and what alternatives are available to reduce or eliminate the constraints. In other words, employment planning in Panama is a complement, and often times a prerequisite, activity to employment generation.

3. Panamanian Response

As Panama's post - 1973 economic crisis continued into the late 1970's, and unemployment and underemployment continued to rise, solving the

^{1/} Lawrence J. White, "The Evidence on Appropriate Factor Proportions for Manufacturing in Less Developed Countries: A Survey", Economic Development and Cultural Change, 1978; C. Peter Timmer, et. al., The Choice of Technology in Developing Countries (Cambridge Mass., Harvard University Press, 1975); Francis Stewart, "Technology and Employment in LDC's," in Edgar O. Edwards, Employment in Developing Countries (New York: Columbia University Press, 1974); A. S. Bhalla, Technology and Employment in Industry, (Geneva: ILO, 1975).

employment problem became one of the government's principal concerns. The GOP's most direct response to the problem was the initiation in November 1977 of the Emergency Employment Program (EEP), under which 25,000 public-sector jobs were created at a salary of \$100.00 per month. Over 17,000 previously unemployed persons were reported to be working under the EEP in February 1980 when it was terminated. However beneficial the EEP may have been from a short-run perspective, its long-run consequences were less favorable. First it imposed a considerable strain on public finances, which the GOP was struggling to bring under control. Second, much of the employment created was in marginally productive activities, with little thought given to providing people with lasting improvements in their income generating capacity. Most programs were of a "make work" nature with little emphasis on training, employment related discipline or maximizing productivity.

For the most part the GOP has approached employment generation in a piecemeal way. It has fiscal incentives similar to those in many countries that are intended to promote investment. These incentives, which date from the Industrial Incentive Act of 1971 allow for tax holidays, duty free imports of machinery, raw materials and semi-finished products under certain conditions, and protection from foreign competition. Legislation to encourage foreign investment in light assembly industries in Panama provides for duty free import of raw materials, semi-finished components and assembly equipment and machinery; in addition, the assembled finished products are exempted from income and capital gains taxes on exports. Between 1975 and 1979 over 15,000 new jobs were created using incentives under the Industrial Incentive Law at an average cost of approximately \$10,000 per job. The World Bank however has concluded that these incentives have been ineffective in creating employment; that virtually all these jobs would have been created without them.

The GOP has also tried to stimulate private sector investment through various public channels. The Ministry of Commerce and Industry (MICI) promotes with some success business development in the Central and Western regions through direct lending (partially financed with an AID Loan). COFINA, the national investment corporation, finances industries, including agroindustries, with both AID and World Bank funds. The National Bank of Panama (BNP) has received its fourth Inter-American Development Bank Industrial Development Loan, however, for the most part these funds are directed at sub-loans in excess of \$100,000.

Financing available from these institutions has been primarily investment capital for machines, equipment, buildings and facilities and have generated a relatively few expensive jobs. While COFINA has financed large tourism, transportation, and national resource exploration activities, the BNP has made most their loans to large and some medium firms in industry and manufacturing. MICI has made several loans to small businesses but he has had inadequate funds to meet demand.

The GOP has established several state enterprises producing sugar, cement, citrus products, bananas, and other agricultural and agro-industrial products. While these enterprises have created a number of permanent direct and indirect jobs the cost per job has been high (\$20,000 - \$35,000). In addition, most of the state enterprises have lost money contributing to the public-sector deficit. The government subsidized "asentamientos" established under the agrarian

reform program have had little success in raising agricultural productivity and incomes or generating employment. According to the World Bank production techniques on the "asentamientos" are overly capital intensive as seems to be true also of some state enterprises in agriculture and other economic sectors.

The GOP largest urban development effort to date is the City of Colon revitalization project. The project, co-financed by the World Bank and a group of private banks lead by the Industrial Bank of Japan, Ltd., expects to create 8,000 new jobs through an expansion of the Colon Free Zone. Housing, urban renewal, and infrastructure projects will provide other jobs, though of a more temporary nature, in the construction industry. The Colon Free Zone sub-project will include expansion of the existing duty free commercial area and the first phase of an industrial estate that is designed to attract labor intensive manufacturing industries.

Several future projects are now under GOP consideration, including a large mixed (public/private) copper-mining project in the eastern region of the country. The project is expected to cost over \$2 billion and create 7,000 new permanent jobs. Also preliminary discussions have been held with Japan and the U.S. on a possible new sea level canal. The canal would cost as much as \$15 billion, and while it would create thousands of jobs during construction, it would require only a few hundred people to operate. A large number of indirect jobs in related service and supply activities would be produced however. Although these projects promise to generate new jobs the expected investment per job created is very high.

In an effort to improve the overall business climate, the GOP has initiated a dialogue with the business community to review the impact of various government policies and programs on private sector investment. Discussions on such sensitive issues as price regulations and labor legislation are underway. Although actual policy changes to date have been modest, the GOP has exercised some wage restraint and has loosened some of the many price controls that hinder both industrial and agricultural production. The climate of uncertainty and even hostility in government - private sector relations that existed a few years ago appears to have changed. Private investment accounted for all of the 38% increase in the volume of construction activity in the Panama City area last year, thus reviving the sector with the largest unemployment rate. Another sign of growing private-sector confidence is the 26% increase in domestic bank lending in 1979, following four years of virtually no growth.

The GOP is aware that achieving a higher rate of economic growth and employment generation will require diversifying the economy, since no single sector will be able to provide a solution to the recent problem of sluggish growth and higher unemployment. Discussions with authorities and a review of the working papers for the GOP's 1981-1985 National Development Plan indicate that generation of employment will receive highest priority in the 1980's. The GOP's development strategy calls for stimulating private investment in all sectors, promoting the economic integration of rural and urban areas, developing the country's resources, particularly the canal area and reducing the country's economic vulnerability to external forces and events.

In the agricultural sector the GOP will focus on improving agricultural productivity, establishing a stable domestic food supply, increasing exports and developing agro-processing industries. To achieve these objectives the GOP will review, modify and replace present agricultural policies where necessary, expand credit and technical assistance and insure its greater access to small farmers, promote the use of productivity-increasing technology, and increase production for export markets. In the non-agricultural sectors the GOP will focus on stimulating economic diversification and export promotion. Specific attention will be given to developing canal area resources to their fullest potential. Programs and policies promoting exports are planned. Attention will also be given to the development and use of production technologies that will use Panama's natural resources and labor force to the greatest extent possible.

Most importantly, the GOP intends to expand its dialogue with the private sector on policy and program issues. Special attention will be focused on designing appropriate programs and policies to meet the credit, technical assistance and product/market information assistance needs of small and medium-size firms and other labor intensive enterprises.

4. USAID Employment Strategy ^{1/}

Panama's 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 1990's. The USAID employment strategy is to promote a series of GOP/AID activities designed to (1) improve the GOP's policy formulation and analysis capabilities, (2) improve resource and worker productivity and, (3) stimulate private sector investment.

Although unemployment is greatest in the metropolitan area, the Mission employment strategy is nationwide in focus with the goal of promoting employment generation activities that are appropriate to the circumstances at hand, be they in the rural, urban, or rural-urban fringe areas. The EPG project is one such activity evolving from the Mission's employment strategy.

The EPG project will focus on small and medium size firms in industry (construction and manufacturing), commerce, and service activities located in Panama's metropolitan area, although not exclusively. The focus is on small and medium size firms because they are (1) relatively labor intensive and (2) their needs are largely ignored by existing programs and the assistance efforts of other donors, e.g., World Bank, Inter-American Development Bank and the UNDP. Furthermore, the focus is on the metropolitan area because of (1) the growing severity of the urban unemployment problem and (2) the presence of other AID on-going development efforts in the rural areas. Project activities will focus on several constraints -- GOP policies and programs, manpower information, credit, and technical assistance -- that limit the growth and employment generation potential of small and medium size firms.

^{1/} Additional information is available in Annex VI

B. Detailed Project Description

1. Statement of Goal and Purpose

The goal of this project is to increase employment, productivity and income levels of the poor in Panama. The Project's general target group includes approximately 90,000 unemployed and some 125,000-150,000 underemployed individuals.

The purpose of the project is to strengthen the GOP's institutional capacity to analyze, develop and evaluate employment generation policies and stimulate private investment in labor intensive industries. Several thousand direct and indirect jobs are expected to be created as a result of the project's policy analysis activities, product, market and technology investigations, and manpower information system. Through the provision of credit and technical assistance to some 300-350 small and medium size firms the project expects to create approximately 1,600 direct jobs. Linkages with the rest of the economy are expected to generate an additional approximately 1,400 indirect jobs.

2. Project Description

To achieve the project goal of increasing Panama's employment, productivity and income levels three interrelated activities (components) will be carried out under the Project. The first and second of these activities are designed to generate employment through the improvement of GOP policy and planning capabilities. While it is widely recognized that modification of several GOP policies is desirable for stimulating private sector investment, the precise nature of the necessary modifications are not yet fully known. Consequently, the employment planning component of the project will assist the GOP in establishing the institutional and analytical capability necessary for identifying policy problems and opportunities for change that will stimulate private sector investment in employment generating activities. Also, assistance will be provided to the GOP for the development of a manpower information system designed to efficiently match Panama's labor supply with its labor demand.

The third component is designed to stimulate private sector investment in labor intensive activities through the provision of credit and technical assistance for small and medium size enterprises. The principal activity of the employment generation component is a supervised credit program designed to provide small and medium-sized firms (in industry, manufacturing, commerce and services) with necessary financial and technical assistance to overcome credit, production, marketing, and management problems.

The project components are closely interrelated. For example, experience and information gained from small and medium-size firms participating in the supervised credit program will be valuable in evaluating the consequences of alternative policy changes and the potential impact of new products, markets and technology on employment generation. In addition, knowledge of the manpower needs of these firms will strengthen the data base of the manpower information system.

a. Policy Analysis and Research System (PARS) (\$625,000 DG-AID;
\$280,000 - GOP)

Although the GOP recognizes that many of its policies and programs are falling short of their intended objectives, particularly with respect to employment generation, they have not until now assembled the "critical mass" of expertise needed to evaluate existing policies and programs and consider alternatives. After extensive consultations the Mission and the GOP concluded that establishment of a policy analysis and research activity is needed to undertake studies, evaluate and propose policies, programs and other measures to encourage private sector investment in employment generation activities. In addition, it was felt that particular attention should be given to small and medium size firms due to their labor-intensive nature and potential for generating unskilled and semi-skilled jobs at relatively low costs.

The Mission has worked closely with the Ministry of Commerce and Industry, the GOP component implementation designee in developing a policy analysis and research system (PARS) (See Annex IX). The PARS will contain three units with interdependent activities -- (1) Employment Development Commission composed of key GOP heads of Ministries (or their representatives) and members from the business community, (2) a technical/administrative unit composed of highly qualified professionals and, (3) a cadre of consultants. (See Annex IX for organization chart).

The Employment Development Commission (EDC) membership will include the Minister of Commerce and Industry (chairman), the Minister of Planning, the Minister of Labor, the General Manager of BNP, the Chairman of the Banking Commission, the head of MICI's National Office of Business Development, and representatives from such business organizations as the Union of Small Scale Industries and the Syndicate of Panamanian Industries. The Commission will meet monthly, or more frequently as needed to (1) identify policies, program and problem areas requiring attention, (2) establish a work agenda for the technical/administrative unit, (3) review the analyses and recommendations presented by the technical/administrative unit and, (4) make recommendations to appropriate decision-makers at the executive and legislative levels of government.

The Technical/Administrative Unit (T/AU) will function as a technical secretariat to the EDC with two professionals, a lawyer and an economist, and a secretary. The T/AU will be responsible for responding to EDC requests for information, studies, analyses and recommendations on policies, programs and other matters affecting private sector investments and employment generation.

The T/AU will contract with consultants, domestic and/or international as needed, to carry out necessary studies and evaluations. In contracting consultants, the T/AU will be responsible for developing scopes of work, monitoring and evaluating consultant performance, and assisting consultants in locating information and making contacts with officials and businessmen in the public and private sectors. The T/AU will be responsible for reviewing the studies and analyses submitted by the consultants, for synthesizing it and putting it into the form of action recommendations for the EDC.

Consultants and consulting firms, domestic and international will be contracted to carry out specific studies and analyses identified by the Technical/Administrative Unit.

Initially the PARS will focus on key government policies, regulations, and programs, such as price controls, labor legislation, investment incentives and credit programs, to determine their impact on enterprise financial viability, investment decisions, choices of production technology and other factors that influence employment levels. The goal of such analyses is the development of policy and program recommendations that will encourage private sector investment and employment generation.

In addition to policy related studies, studies may also be undertaken to determine:

(a) those sectors and industries that have the greatest employment generation potential,

(b) the extent to which presently imported products can be produced by Panamanian firms using labor-intensive methods,

(c) the potential for developing new products and markets -- domestic and international -- that will result in additional employment,

(d) the potential for modifying the production technologies of many products so as to use more labor and less capital (i.e., machinery and equipment),

(e) the technical and economic constraints facing existing as well as prospective firms that discourage or prevent the adoption of labor-intensive technologies,

(f) the potential for government set-asides, group marketing and supply purchases to enhance the viability of small-scale enterprises thereby preserving existing jobs and generating new ones,

(g) the potential for bilateral and multi-country trade agreements that will expand market opportunities for Panamanian products, particularly those produced by labor-intensive means.

b. Manpower Information System (MIS) (\$200,000 DG-AID \$98,000-GOP)

The purpose of the Employment Planning and Generation Project is to improve employment planning and to stimulate private investment in employment generating activities. For this linkage to be achieved between planning and investment on the one hand and improved employment and income opportunities on the other, manpower information will play a vital role.

The MIS component of the Project, therefore, is designed to initiate a linkage between activities which will stimulate employment and income improvements and the institutions for informing and preparing workers. It will provide modest inputs to institutions already engaged in manpower and labor market analysis to initiate a systematic capacity to compile, analyze and disseminate: (1) information on current and future manpower requirements at sufficient levels of detail to make skills training institutions more responsive to labor market needs and to inform job seekers of areas of potential employment, (2) on the availability of workers at all skill levels so that planners, investors and administrators develop and implement projects on the basis of the optimum utilization of existing manpower, (3) information on the sources of employment/income support assistance such as skills training, sources of assistance for small enterprises or self-employment, community facilities for child care, etc., which can benefit job seekers and low-income workers, and (4) information on the employment and income characteristics of the low income population, their access to employment/income related services and their present and future requirements for employment/income related assistance.

For the most part, sufficient information currently exists to initiate the a MIS. While these basic data have many weaknesses (e.g., excessive processing time; lack of sufficient occupational, industrial or geographic disaggregation; failure to fully exploit social security, fiscal or license information for employment purposes), a more fundamental weakness is the lack of local capability to completely utilize and analyze existing information. This has resulted in many expensive field surveys when existing data could have been manipulated to provide appropriate results. In addition, surveys of manpower requirements have been fragmented and limited to specific occupational, industrial or geographic areas. Global estimates of employment demand have only been made as a result of special surveys, often requiring the assistance of outside experts.

A number of institutions currently have responsibility for doing some form of manpower analysis and, when combining all of their personnel, a rather sizable number of technicians are involved. However, they have been incapable of developing a comprehensive information system due to a lack of a comprehensive systems format for organizing information; serious overlapping of responsibilities and the resulting duplication of some activities and gaps in others; inadequate trained personnel, and lack of access to or inability to utilize data processing capabilities as an analysis tool.

The MIS component will provide a mechanism to functioning institutions to join together and will provide them modest inputs of technical assistance, staff upgrading, access to computer facilities or appropriate office machines and technical materials to initiate the system. These inputs will allow Panamanian institutions to more rationally utilize their existing resources, to more fully exploit existing data sources, to formulate their own qualitative improvements in employment/manpower information, and to begin to develop comprehensive information on the employment/manpower situation in Panama.

The Panamanian agencies currently engaged in manpower analysis and which will directly benefit from the MIS are Department of Social Planning,

Ministry of Planning and Economic Policy (MIPPE); Department of Analysis and Employment Policy, National Employment Directorate, Ministry of Labor (MITRAB); Department of Training Needs Surveys, National Training Service (SENAFORP), Ministry of Labor (MITRAB); Executive Directorate of Human Resources Planning and Utilization, Human Resources Training and Utilization Institute (IFARHU); and Department of Administrative Planning, Ministry of Planning and Economic Policy (MIPPE). Other institutions occasionally engage in manpower related studies but do not maintain a permanent staff of manpower analysts. The Department of Statistics and Census, while the major collector of manpower information, does very little data analysis. If it is able to develop and maintain a human resources/manpower "data file" as part of the general data bank that it is planning, it will be added to the above list of participating agencies.

The MIS will be managed by the National Employment Directorate of the Ministry of Labor because it has by far the largest staff of manpower/human resources analysts in Panama; it has established previous working relationships with MIPPE, IFARHU and SENAFORP; it has continuous and respected technical leadership; it has a recognized GOP mandate for compiling, analyzing and disseminating manpower/human resources information, and it has recently made significant improvements in the quality of its analysis staff and their working conditions.

This Project activity will not require additional inputs from any of the participating agencies. There is an adequate number of persons already employed in the manpower analysis related activities to carry out the workload requirements:

Agency	Number of People <u>1/</u>
1. Department of Social Planning, MIPPE	6
2. National Employment Directorate, MITRAB	22
3. Department of Training Needs Surveys, SENAFORP	6
4. Executive Directorate of Human Resources Planning & Utilization, IFARHU	10
5. Department of Administrative Planning, MIPPE	6

1/ Includes clerical staff. These estimates are based on interviews in August, 1979 and modified from subsequent inquiries.

The Manpower Information System will be initiated with currently available information again representing no additional costs to participating agencies. In fact, changing the emphasis from relying on costly field surveys (as is the present case) to using data from existing sources may actually lower costs and increase the staff time available for data analysis.

c. Employment Generation Component: Supervised Credit Program (SCP) (\$5,000,000 DL-AID; \$150,000 DG-AID; \$6,500,000 - GOP)

To ease constraints to obtaining credit and meet technical assistance needs of many small and medium size firms and new businesses the project will establish a supervised credit program to be managed by the BNP. The SCP will provide credit and technical/management assistance (TMA) to new or existing firms in the manufacturing, commerce and service sectors that successfully demonstrate a need for assistance and effective employment generation while at the same time maintaining or increasing the firm's financial viability.

Small business access to credit will be increased through an innovative supervised credit program which eases collateral requirements and lengthens repayment periods. To assure sub-borrowers access and utilization of needed technical assistance, 3 points of the sub-loan interest income will be set aside for the financing of contracts for small business consultants to assist the sub-borrowers.

To realize the employment generation objective of the project, the BNP will utilize several loan criteria including cost per job created, indirect jobs created, the tenure status of the business, and maximum loan sizes. As standard practice, loans will be made only to those firms that generate jobs at a set maximum cost per job or less: manufacturing - \$10,000; commerce - \$5,000 and service - \$5,000. The BNP will make an effort to also estimate the indirect employment effects of each loan application. A large enterprise may be considered by BNP for a sub-loan if employment of low-income persons can be demonstrated, i.e. size of the firm in itself may not be the key factor but rather employment generation is a more basic concern. Sub-loans will be reviewed by BNP staff to assure financial and technical soundness. Loans will be made only to owner-operated businesses to ensure that the emphasis on small and medium size firms is maintained. This focus will also be furthered by limiting loan amounts to \$100,000 for manufacturing and industrial firms, \$50,000 for commercial firms and \$30,000 for service-oriented firms. In addition, as a Condition Precedent to disbursement, the GOP will establish eligibility criteria for the SCP to ensure that credit is provided only to small and medium sized enterprises that are unable to obtain credit from the commercial banking system.

Sub-loan interest rates will be determined by a formula that takes into account the BNP's cost of capital, the interest rates charged by development institutions, and the interest rates charged by commercial banks in Panama. (See Annex XI). Rates will be adjusted quarterly. Three points of sub-loan interest rates will be set aside for TMA. Repayment and grace periods will be set in accordance with firm needs, but in no case will exceed 10 years and 3 years, respectively. A summary of the criteria for different loans and their terms is provided in Section IV.A.

To support the credit activity, the BNP has planned a public information program to support advertisement of the new SCP and will carry out a series of studies to identify potential small and medium size firm investment and

employment generation opportunities in the economy. Such information coupled with a promotion program will enable the BNP to target loan monies where they are likely to achieve the greatest employment generation results.

The number of jobs generated as a result of the BNP's supervised credit program will depend for the most part upon the loan portfolio distribution. If we assume a sub-loan distribution of 40% industrial/construction/manufacturing, 35% commercial, and 25% service we can expect the generation (over the four year project period) of 1604 direct jobs at an average cost of \$6,234 per job, plus the generation of an additional 1284 indirect jobs (see Tables 10-13). These jobs generation numbers are based upon relationships and assumptions presented in Annex XI.

The BNP will establish a new unit -- the Employment Development Division to implement the program. The unit will be responsible for the \$10 million loan fund, technical assistance and limited research activities of the program. To implement these programs the BNP will hire and/or train four management and technical personnel to complement existing personnel. In addition, a group of qualified private consultants will be retained to diagnose firms' production, marketing and management problems and recommend appropriate corrective actions.

The total estimated four year operating costs for the BNP supervised credit program are some \$1.5 million. These costs, which will be paid for with BNP/GOP counterpart funds, are partially based upon a six-month start-up period during which time the BNP will establish necessary organizational structures and procedures, and hire and train personnel. The BNP has authorized in Code 0.27.1.45.8.1 8.004.3 the counterpart fund and put up \$1.0 million. AID will help finance (DG-\$150,000) BNP's special technical assistance and training needs as required for establishing the program. All technical and/or managerial assistance rendered by private consultants registered under the program will be paid for by the sub-borrowers TMA set aside.

The overall estimate staff needs and associated operating costs for the program are presented in Table 14. Staffing projections and operating costs on an annual basis are presented in Tables 15-18.

In designing the TMA system two potential methods for providing the required services were explored. One method is to establish a large and diversified staff within the BNP. Training and management of the staff, however, proved to be very expensive and did not afford maximum flexibility to respond to entrepreneurial needs. The alternative selected is to utilize the services and expertise of private consultants. Panama's private consultant community (over 50 firms) offers a broad range of technical expertise including general business management, industrial, engineering, production control, personnel, marketing, advertising, etc. In addition, there are several trade organizations and associations that can be tapped for technical and management assistance. One such association, APEDE, has expressed interest in supporting the consulting and training needs of the small businessman. This combined effort would strengthen APEDE's of activities with the small enterprises as initially financed by AID OPG in 1980. Interviews with randomly chosen consulting firms indicates an interest in participating in the TMA system.

To establish the TMA system the BNP will first hire and train a small core TMA staff. The staff will, in turn, register private consulting firms that are interested in participating. The activities of the TMA system will range from traditional loan application reviews by in-house staff to determine the financial and technical feasibility of loan applications to private consultants on-site plant diagnostic inspections to identify problems and recommend courses of action. TMA personnel will also organize and/or assist such organizations as APEDE co-sponsor management training sessions and workshops based upon the identification of problems common to firms participating in the loan program.

III. Project Analyses

A. Demand Analysis

Demand for credit in Panama is difficult to quantify but several recent studies and surveys ^{1/} have identified access to credit as a constraint to small and medium size firm development and expansion. The studies and surveys have found that credit policies and lending practices of private as well as public financial institutions effectively preclude small borrowers.

While other donors, business groups and various associations believe small and medium size firms have credit needs, the magnitude in terms of dollar levels is hard to measure. Conversations with several commercial banks in Panama and representatives of Panama's Bankers Association produced no empirical record of small and medium size firm credit demand because the firms rarely complete the loan application process after they learn of the collateral and loan term requirements. In the public sector the only tangible evidence of unmet small and medium size credit demand is supplied by MICI. From June 1979 to June 1980, MICI could not fund 156 loan requests totalling \$1,506,700 (average \$9,558) due to the lack of funds.

In the private banking sector small and medium size firms are faced with restrictive collateral requirements, short repayment periods and loan application information requirements they either do not understand and/or comply with. Small and medium size firms seeking credit often face prohibitive collateral requirements of 150% and more. Regulations governing the practices of private sector banks in Panama require banks to secure loans with their best (non-risk) customers at a minimum collateral level of 70%, and slightly more risky loans at 80-90%. According to a representative of Panama's Bankers Association collateral requirements of 100% is common practice.

Although commercial banks will make small loans to firms in the \$5,000 - \$50,000 range that can meet the collateral requirements repayment periods are

^{1/} AID/INDESA Study - Factores Que Afectan La Demanda Por Mano de Obra en Panamá, (1979); AID/INDESA Study - Situación de la Pequeña Empresa en Panamá, (1980); Panama Chamber of Commerce/INDESA Study, Estudio de Factibilidad: Banco Agro-Ganadero de Producción y Desarrollo, (1980); AID/MIPPE Survey of Selected Business Establishments in San Miguelito, (1981); AID/APEDE Survey of Small Business Establishments in Selected Low-Income areas of Panama, (1981).

very short - from 6 months to 3 years. The tight cash flow position of most small and medium size firms preclude them meeting such short repayment schedules.

Also, many small and medium size firms that would probably qualify for commercial loans do not because they do not submit proper applications. The firms either do not have the necessary information to develop required balance sheets, profit and loss statements, cash flow statements, feasibility studies and other information, and/or they do not know how to put the information together. The banks for the most part do not help because of the alleged resultant high administrative costs to them.

Since the recessionary period of the 1970's many commercial banks have sought to reduce their exposure in Panama. Recent trends in credit policies in the commercial banking sector indicate a continuation of such efforts. According a recent study ^{1/} (by Panama Chamber of Commerce/INDESA) during the past few years commercial bank deposits have been increasing at a faster rate than loans. In 1977 loans within Panama were made at a rate of \$1.70 per \$1.00 deposited, by 1980 the rate had dropped to \$1.05 per \$1.00 deposited. In addition, during this period loan sizes increased in real terms in all sectors. The study concluded that there has been a conscious decision in the commercial banking system to restrict credit and the victim of the new selective credit policies are the small and medium size firms that have little collateral and represent unacceptable risks.

The GOP has attempted to fill the small and medium size credit gap by establishing programs in three institutions -- the National Bank of Panama (BNP), the National Finance Corporation (COFINA) and the Ministry of Commerce and Industry (MICI). Except for a number of the MICI loans, credit extended by these institutions has not reached the small and medium size enterprises.

The BNP, through its industrial lending window (Banca Industrial) has provided fixed and working capital to small ^{2/} and medium ^{3/} size enterprises since the late 1960's. The BNP industrial loans have been financed with a series of BID Industrial Development loans. The first BID loan for \$1 million, in 1965, matched by an additional \$1 million from BNP and sub-borrower sources, financed 53 sub-loans and created 295 new jobs. Average loan size was close to \$38,000 and cost per job approximately \$6,780. A second Industrial Development BID loan was made to the BNP for \$3 million, matched by \$3 million from BNP and sub-borrowers for a total of \$6 million in available loan funds. Thirty seven loans, average size of \$170,000 were made, creating 695 new jobs at an average cost of over \$9,000 per job.

1/ Panama Chamber of Commerce/INDESA Study, Estudio de Factibilidad: Banco Agro-Ganadero de Producción y Desarrollo (1980).

2/ 3/ Under this BNP program small enterprises are defined as those with a net Fixed investment of \$200,000 or less (excluding land and buildings) and medium size enterprises are those with a net fixed investment (excluding land and buildings) of over \$200,000.

Following the success of the first two BID loans the BNP received a third loan (\$5 million, matched with \$5 million by BNP and sub-borrowers) which was divided into two sub-loans, one for small industrial firms and the second for medium size industrial firms. Twenty seven small industrial sub-loans were made creating 207 new jobs. The average loan size was \$158,630 and cost per job of \$20,690. Seven sub-loans were made to medium size industrial firms generating 36 new jobs. Average loan size was \$390,132 and the average cost per job generated was \$75,000.

COFINA, established by the GOP to promote economic development, has concentrated on making large loans to private and quasi-public entities in manufacturing, exports, tourism, transportation and the exploitation of natural resources. COFINA's loans have benefitted few small or medium-size businesses. The average investment per job generated in 1977-78 was \$35,000.

B. Economic and Financial Analysis

1. Economic Analysis

A major concern of GOP policy makers is determining where scarce resources can best be directed to maximize economic growth and accomplish employment generation objectives. While it is recognized that the funding level of the EPG (\$ 5,975 million AID, \$6,878 GOP counterpart) is inadequate to solve Panama's unemployment problem, the Mission believes that it will provide a good start toward easing constraints to increased business investment and employment generation. Although the lack of adequate information and data makes a detailed macro/micro economic analysis of the project impossible at this time, the following observations can be made.

a. To the extent that the project's components alleviate constraints and lead to employment generation, Panama's economy as a whole will benefit. Panama's high levels of unemployment and underemployment represent an absolute production loss and drag on the economy. GOP revenues are less due to economic activity below its potential, while GOP expenditures are increasing for relatively non-productive, social welfare maintenance programs. Scarce resources needed for the country's economic development are being required in growing amounts to import food and other basic commodities that the economy previously produced. Increased private sector investment is critical to stimulating Panama's economy and promoting the country's economic development.

b. The project's components are economically efficient. The project sub-components are considered cost effective when compared to alternatives that are acceptable (i.e., politically feasible) to the GOP such as the very costly 1977 emergency employment program which provided no permanent jobs. The BNP's supervised credit program will generate new direct jobs at an average cost of approximately \$7,000 per job. The average cost to create about 8,000 permanent jobs under the urban employment sub-project of the Colon Urban Development Project is also estimated to be \$7,000 per job. This compares favorably with current job creation costs. During the past decade, for example, Panama's economy produced jobs at an average cost of \$30,000 per job.

c. The precise economic and employment impact of the project will be determined by sector studies and input-output analyses undertaken by MICI-PARS. Information from a recent input-output study of Chile's manufacturing sector indicates however that the total employment generation potential of small industry can be considerable when direct and indirect affects are taken into account. Direct labor intensity for small industry (i.e., workers per value of output) was about 2 1/2 times greater than for large industry. Small industry was found to have an indirect employment multiplier of 1.3. Key small industries where total employment generation (direct and indirect) was the greatest included -- wood, non-electrical machinery and miscellaneous manufacturing. Available data on Panama's economy (see Table 9,) supports the labor intensive nature of small and medium size firms in the manufacturing sector.

2. Financial Analysis

For the purpose of this project the financial analysis will focus on the supervised credit program. Since the other two project components MICI-PARS and MITRAB - MIS are not direct revenue earning activities their financial analysis is not considered feasible. The primary objective of these two projects components is to establish the GOP's institutional capability to carry out economic policy and manpower studies and analysis that will lead to employment generation policies and programs. Since the actual employment generation impact of these activities will not be known for several years project evaluation procedures have been designed to analyze these delayed project benefits.

The total level of fund operation in the project disbursement is estimated to be \$12,715,300 of which 47% will be financed by USAID and 53% by the GOP. As observed below 9.5% of the total resources will be used to finance the PARS and MIS system which are vital in achieving project goals. The SCP which will serve as a pilot project to demonstrate the feasibility of producing jobs (at 1/5 of the national average cost during the last decade) will consume 90.5% of the project's financial resources.

OVERALL FINANCIAL PLAN ((\$000's))

<u>Component</u>	<u>AID (%)</u>	<u>GOP (%)</u>	<u>TOTAL</u>
Policy Analysis and Research System	625.0 (69)	280.0 (31)	905.0
Manpower Information System	200.0 (67)	98.0 (33)	301.0
Supervised Credit			
Technical Assistance	150.0	--	150.0
Credit Fund	5,000.0 (50)	5,000.0 (50)	10,000.0
Operating Budget	--	1,362.3	1,362.3
PROJECT TOTAL	<u>5,975.0</u>	<u>6,740.3</u>	<u>12,715.3</u>
% of Project Total	(47)	(53)	100

The disbursement period for program resources is estimated to take place during a four year period from the date that it goes into effect. Due to GOP interest and advanced planning it is believed that the disbursement schedule for the project will be met without delays. The GOP/AID disbursement schedule is shown below showing annual disbursement of 13.4%, 27.3%, 33.1% and 31.2% respectively. AID's proposed reimbursement schedule by quarter is shown in Annex XI. Percentage wise the disbursement schedule for AID funds will be distributed 14.3%, 22.9%, 33.5% and 29.3% during the four year IOP.

PROJECT DISBURSEMENT SCHEDULE BY YEAR AND COMPONENT OF FUNDING

(\$000's)

<u>Component</u>	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>TOTAL</u>
PARS	125.0	250.0	250.0	-	625.0
MIS	80.0	120.0	-	-	200.0
SCP	650.0	1,000.0	1,750.0	1,750.0	5,150.0
<u>TOTAL USAID</u>	<u>855.0</u>	<u>1,370.0</u>	<u>2,000.0</u>	<u>1,750.0</u>	<u>5,975.0</u>
PARS	70.0	70.0	70.0	70.0	280.0
MIS	34.5	63.5	-	-	98.0
SCP	736.8	1,336.8	2,144.4	2,144.4	6,362.3
<u>TOTAL GOP</u>	<u>841.3</u>	<u>1,470.2</u>	<u>2,214.4</u>	<u>2,214.4</u>	<u>6,740.3</u>
<u>GRAND TOTAL</u>	<u>1,696.3</u>	<u>2,840.2</u>	<u>4,214.4</u>	<u>3,964.4</u>	<u>12,715.3</u>

a. Financial Analysis of BNP/SCP Program

Based on past BNP experience with its industrial development loans new jobs had been generated at an average cost of \$23,335 each. It is planned that the SCP will generate jobs at an average cost of \$7,000. Financial feasibility is ensured by requiring all sub-loans financed by the SCP have an internal rate of return that is equal to, or greater than, the cost of capital. The sub-loan limits for the proposed program sub-categories are \$100,000 for industrial, Construction and Manufacturing; \$50,000 Commercial and \$30,000 Service. Repayment and grace periods will be set in accordance with BNP analysis of firm needs but in no case will exceed 15 and 1.5 years, respectively.

In financial analysis a resource flow model was developed to illustrate the amount of resources that will be generated by the project and its impact. Assumptions made for this analysis are presented in Annex XI. The relevant conclusions of the analysis are:

1) The internal rate of return (IRR) of the SCP is projected to be 9.8%. This is the return earned on the amount of capital invested in each of the first four years of the project after allowing for the repayment of the capital invested. The BNP is making efficient use of their resources since they are lending the money at the market rate which is the opportunity cost of the capital.

2) The Net Residual Value of the SCP after 20 years is \$975,000. This is the net cash income resulting from the reinvestment at the end of the projects life.

3) The SCP risk factor is theoretically high the first two years since the BNP will have to borrow \$366,800 to meet operating expenses not covered by earnings.

4) The equilibrium point of operation will be reached before the year five of the project when total income and total expense are equal as illustrated in Chart No. 3 Annex XI. The break even point of the project will be reached in year nine. At this point the expense or deficit generated by the project will have been covered.

5) The \$10 million credit fund will be disbursed during the LOP as follows:

<u>Year</u>	<u>\$ Amount</u>
1	1,000,000
2	2,000,000
3	3,500,000
4	3,500,000
Total	<u>10,000,000</u>

6) The initial \$10,000,000 credit fund will generate reflows (principal and interest) amounting to approximately \$14 million over the life of the project (20 years). The reflows when reinvested are expected to generate approximately 2,000 additional new direct jobs over the life of the project. (See Annex XI).

b. Financial Analysis of Sub-Borrowers

The BNP will evaluate each sub-borrower application to determine its technical and financial feasibility. As discussed in Part II B.4 technical assistance will be provided to sub-borrowers as needed and appropriate.

The BNP financial analysis will determine the internal rate of return (IRR) and the employment generation impact including whether or not the cost per job generated criteria are met. To conduct the financial analysis potential sub-borrowers, with the help of BNP personnel, will provide financial and technical information regarding their current business operations, their proposed expansions or establishment of new business. In addition to descriptive background information on their products, markets and competition potential sub-borrowers will submit balance sheets, profit and loss statements and cash flow statements.

Sub-borrower applications will be reviewed by a loan committee established within the Employment Development Division of the BNP. Loan approvals will be based upon the following criteria:

- (1) technical feasibility;
- (2) financial feasibility, i.e., the proposed activity has an IRR equal to or greater than the cost of capital;
- (3) collateral requirements and other loan terms can be met; and
- (4) costs per direct job generated are met.

With BNP utilizing these procedures on each sub-loan application financial feasibility is assured as well as employment generation, thereby, meeting project objectives.

C. Social Analysis

Two classes of beneficiaries have been identified in the Project: small and medium size firms and the unemployed in the metropolitan area of Panama. Characteristics of the intended project beneficiaries are reviewed below.

(1) Small and Medium Size Firms

As discussed in earlier sections, small and medium size firms make-up the majority of firms (69%, Table 7) in the metropolitan area. The

majority of workers are employed in the following activities (Table 9): food products, clothing, wood and wood products, furniture (non-metal), newsprint, non-industrial (other) chemical products, and mineral (non-metal) products. Evidence from around the world ^{1/} indicates that these economic activities are relatively semi and non-skilled workers.

A recent AID/Ministry of Planning and Political Economy (MIPPE) survey of 250 business establishments in the poor barrio of San Miguelito produced similar results. Small and medium size firms made-up 97% of all firms surveyed. With respect to qualifications of workers employed in the 250 businesses, 53% were non-skilled, 25% semi-skilled and 22% in the director, supervision, administrator, technical category. Of the semi-skilled 24% were in metal industries, 20% in wholesale activities, 15% in manufacture of metal products, 12% in food production and food processing, and 7% in retail activities. For the non-skilled workers 31% were in retail activities, 29% in metal industries, 16% in wholesale activities and 7% in the manufacture of chemical products.

Since the focus of this project, particularly the BNP/SCP component will be on small and medium size firms, and given that these firms tend to be relatively labor intensive and employ semi and non-skilled workers, the project expects to generate employment opportunities for the target population (i.e. low-income) job seekers.

(2) The Unemployed

A recently completed AID study ^{2/} of a representative sample of families living in poor communities in Panama City and Colon produced the following findings.

a. Characteristics of Survey Respondents

The general characteristics are shown in Table 19. Important survey results include the high education levels, especially among the unemployed, the economically inactive and the salaried; the large percentage of unemployed who are not migrants (indicating the presence of a hard core urban poverty group); and the prevalence of unemployment among younger labor force participants and women. From other tables in the study,

^{1/} Albert Berry, The Relevance and Prospects of Small Scale Industry in Colombia, AID/CSD-2492, 1972; The World Bank, Employment Creation and Small Scale Enterprise Development, Report No. 1543, 1977, The United Nations Industrial Development Organization, Small-Scale Industry in Latin America, Report ID/27, 1969.

^{2/} A study of the Employment and Related Characteristics of Residents of Four Low-Income Neighborhoods in Panama City and Colon, USAID/Panama, April 1980.

the following can be noted. The average per capita income (PCI) for respondents was about \$1,100 (compared to a metropolitan area average of about \$3,000); there were over 8 persons in the average below poverty line family (500 or less PCI annually) with a dependency ration of 5.6 to 1; 95% of the sample household have electricity, 57% have their own kitchen; 56% own their houses or apartment; average monthly salary of employees is \$222; monthly payment for housing is \$34; 79% have a refrigerator; 87% a TV; 76% a radio; 54% a record player and 34% a sewing machine. These latter figures vary little between below poverty line and higher income families. Among the employed, 70% work in modern sector establishments (i.e. those having 6 more employees); nearly half in organizations of 51 or more (a high percentage of whom work for the government). The salaries for employees of the modern sector are significantly higher than those of the informal sector.

b. Unemployment

The communities studied had extremely high levels of unemployment especially among households with low per capita incomes, women and youth. Unemployment was 24% for the sample and 39% for individuals from families with incomes below the metropolitan area poverty line of \$500 per capita annually. Unemployment was 31% for women and 43% for youth of 15 - 24 years (45% and 64% respectively, for persons from below poverty line income families). Of those working age people not in the labor force, 78% said they be interested in working if jobs were available. Over 80% of the unemployed and over two thirds of the economically inactive over 25 years of age have worked at some time, indicating a high level of "dropping out" due to unavailability of jobs.

c. Aspirations and Job Search Strategies of the Unemployed and Inactive

The vast majority of the unemployed desire salaried positions (87%) and full time jobs (91%). Unemployed respondents had a strong preference for industrial jobs (24%) and the service sector (40%). The economically inactive would settle for the lowest paying sectors, with 37% desiring service sector jobs and 17% jobs in commercial establishments. The respondents look for jobs mainly through friends and relatives (58%) or door to door search (26%). Little use is made of newspaper ads (6%) or the National Employment Service (1%). Most of the unemployed attribute their lack of success to unavailability of jobs (58%). Other reasons given were lack of skills (7%) and not knowing how to search for jobs (9%). Of those in the labor force, 84% expressed a desire for additional training, indicating very little over cynicism or of lack of interest. Of the unemployed, 95% want additional training

(3) Conclusions

The studies' concluded that:

- unemployment is a very serious problem, with real rates

perhaps twice as high as reported statistics. Furthermore, there is a very high percentage of people "waiting in the wings" to enter the labor force if jobs become available.

- given the employment patterns, occupational skills and job aspirations of workers from low income families, employment generation activities should not be restricted to micro-business, but should include modern sector commercial, service and industrial operations as well. Industrial jobs are particularly desired by the unemployed, a high percentage of whom have technical/vocational training.

- geographical targetting of unemployment opportunities (within the metropolitan region at least) is probably unnecessary. "Poor" communities contain a high percentage of above poverty line families. Poor families and the unemployed are probably widely dispersed throughout the region and those desiring jobs are willing to travel a good distance to take advantage of opportunities.

In conclusion, the project addresses social problems by generating employment for AID's target group.

D. INSTITUTIONAL ANALYSIS

1. Institutional Analysis of MICI

The Ministry of Commerce and Industry (MICI) was created on June 3, 1969 by Cabinet Decree No. 145 as the national institution in charge of developing activities intended to create and expand industry, commerce and to make use of the country's natural and marine resources. The principal functions of MICI are: to plan, organize, coordinate, direct and control all activities related with the formulation and execution of government policies in these areas.

MICI is composed of 7 Directorates, i.e., Internal Commerce, External Commerce, Enterprise Development, Marine Resources, Mineral Resources, Finance and a Provincial and Regional Directorate.

The Minister and Vice-Minister are charged with formulation of sector policy on the basis of general policies established by the Executive and Legislative Branches. Operational responsibilities rest with Directorate Chiefs and their staff. MICI's operating expenses are provided for in the GOP's annual budget, which amount to \$5,883,000 for 1981. The PARS system will be part of MICI's annual budget and allotted accordingly. The National Directorate of Enterprises Development (DNED), which directs MICI's small enterprise development activities, will be responsible for managing the policy analysis and research system. Among its many responsibilities DNED carries out sector and enterprise development studies.

During the past 10 years DNED has completed two industrial sector surveys. The GOP and MICI have plans to undertake a new industrial sector study this year, financed by the IDB, to provide a sound basis for the formulation of national and regional industrial development policies and the identification of investment projects in the sector. DNED has also carried out firm feasibility studies, market studies and fiscal incentive studies. The results of the DNED/IDB study will also provide the basis for establishing a work agenda for the PAR system.

The General Directorate of Small Enterprise (GDSM) is also part of DNED, has as its main objectives the development of small enterprises with emphasis on labor intensive investment. The GDSM also manages the small business credit component of the Rural Growth and Service Centers financed by USAID. MICI has regional offices in Colon, Cocle, Chiriqui, Herrera, Los Santos, Veraguas and East Panama covering almost the whole Republic. MICI's statutory charge for promoting industry and commerce in Panama and DNED experiences in sector analyses and development efforts qualify it to manage the PAR system. To strengthen MICI's institutional capability to achieve the objectives of the PAR system the AID grant component will finance the services of consultants to conduct the policy studies. MICI will provide and pay for staff, office space, equipment, furniture and secretarial services.

The PAR system will be composed of three units as discussed in B.2.a. (see Charts I, II, Annex IX). The policy body, the Employment Development Commission (EDC) chaired by the Minister of Commerce and composed of public and private sector representatives will identify policies and problems for study, review study findings and conclusions and make recommendations to the executive and legislative bodies. The technical secretariat (technical/administrative unit - T/AU) will define scopes of work and contract with consultants to carry out necessary studies and analyses, review and synthesize study results and make recommendations to the EDC.

The technical secretarial (T/AU) will consist of an economist, lawyer and a secretary. The economist will be in charge of the unit. The unit will function as a broker matching the EDC policy study requests with consultants capable of carrying out the necessary analyses.

The Vice-President's interest and support for the PAR system (see Annex IX) is an indication of the importance the GOP places on policy analysis and employment generation.

2. Institutional Analysis of NED/MITRAB

To simplify the administration of the MIS one agency within MITRAB has been designated as the primary coordinator with the understanding it will work with the other groups. Since the final operation of the system will remain with the National Employment Directorate (NED) and because they have the largest staff of manpower analysts, it is a feasible selection.

The National Employment Directorate which will be the agency responsible for implementation of the MIS. NED has a Department for

Employment Analysis and Policy employing 22 people that will be the focal point for the Manpower Information System. This Department is further divided into sections dealing with sectoral employment, technology related to employment, basic needs analysis and statistics. These divisions closely parallel the data components of the MIS.

The Director of the Employment Analysis and Policy Department will serve as Coordinator of the MIS. He has held that job for a number of years and is recognized in Panama as an authority on manpower and employment. He has collaborated successfully with the other participating institutions in the past. It is his Department which was responsible for the initial design of a Manpower Information System; an activity which has been further elaborated with the assistance of the Social Planning Department, MIPPE.

The NED recently went through a significant upgrading process. Persons without the requisite skills to do their assigned work were let go while adequately trained people were hired to replace them. New office facilities more conducive to meeting work objectives were obtained and new furniture and office machines were installed thus further enhancing productivity.

The Ministry of Labor has not in the past always had the full support of the private sector. This has been due primarily to its labor law enforcement functions. More recently, however, efforts have been made to separate the two images of the Ministry in the public's mind. Employment and manpower activities have been assigned a separate location. A public relations effort is underway to inform employers of the Ministry's new facilities. New leadership in the Ministry has given both employment generation and labor legislation equal importance and the dynamics necessary for working with the private and public sectors.

3. Institutional Analysis of BNP

The choice of the BNP as the implementing agency for the supervised credit component of the project was based on two considerations. First, due to the nature of the activity, an established financial institution is required. This limited the choices to the BNP, COFINA or BDA (Agricultural Development Bank). COFINA was eliminated as it does not have the institutional structure which could provide sufficient geographical coverage and it is not set up to handle a large volume of relatively small loans. The BDA was eliminated because its major focus is the agricultural sector and because it is not organized in a manner that would permit effective administration of this kind of supervised credit activity. The BNP on the other hand, is a large, established and well run financial institution with broad geographical coverage. Its basic commercial lending approach fits well with the project requirements.

The second consideration was performance under AID projects. COFINA is just now implementing its first AID funded activity and it is still too early to judge its success. The BDA has just finished administering AID's Cooperative Development Loan - where its performance left much to be desired.

The BNP has handled several AID projects, administering the Municipal Development Fund (FODEM) and serving as fiduciary agent for a Housing Guaranty Loan. In both of these projects, it has performed reasonably well. The BNP's Industrial Development Bank is currently negotiating its fourth loan with the Inter-American Development Bank (IDB) for the amount of \$12 million. The IDB loan will be used (as have past IDB loans) to finance purchase of machinery, equipment and tools, construction, assembly and installation of large manufacturing plants. While there maybe some complementary between the BNP's Industrial Bank's activities and the projects proposed supervised credit component they are distinct, non-competing, non-duplicating activities. The BNP was founded in October 1904 (Decree Law 74 of 1904 and Law 27 of 1906), as the financial entity of the State, with its main function defined as that of executing monetary and fiscal policy in the country, being the official depository and judicial entity of all the funds of the Nation's Provinces, Municipalities and all government enterprises. The BNP is controlled by the General Manager and a Board of Directors consisting of five members nominated by the GOP Executive Branch. The Board of Directors established the general guidelines of the institution in the administrative, economic and legal aspects as directed by the Executive Branch. The BNP's organization chart may be found in Chart 1, Annex XI. The BNP has a staff of some 2,000 persons, 10% of which are professionals, with 45 branch banks distributed throughout the country's nine provinces.

The BNP will establish an Employment Development Division to administer supervised credit fund (Fondo de Generación de Empleo). The Division Manager will be responsible for the management of the Fund and will report to the BNP's Vice-President. The organizational scheme for the Division and Fund is presented in Chart 2, Annex II.

BNP revenues and expenditures have grown substantially over the past, reflecting a significant increase in its development activities. Total income for 1980 was \$58,434,881, while total expenses amounted to \$51,929,307 for the same period. During the period 1976-1980, BNP's total assets increased at an average annual growth rate of 16.3% climbing from US\$505.3 million into US\$741.5 million in 1980. The BNP's 1980 total assets are shown in Annex XI.

Overall BNP liabilities increased at an average annual rate of 15.9% over the 1976-1980 period, from US\$386.9 million in 1980. The BNP's total liabilities (Annex XI) as of December 31, 1980, represents 94% of its total assets. The level of indebtedness is 15.8 times its capital and reserves, which is considered reasonable. Also, since the BNP functions as a quasi-central bank for Panama its financial obligations are guaranteed by the GOP.

The amount of loans in arrears have been diminishing over the past few years in the BNP. In December 1975 arrears amounted to 23.6% of BNP's portfolio. By 1979 arrears had been reduced to 15.4%. To decrease the level of arrears in its loan portfolio the BNP has increased coordination between the loan division and the National Collection Division.

E. Relationship with Other Projects

1. Mission Projects

While the Mission's project portfolio is designed to assist Panama's economic development and employment generation efforts on a countryside basis, the focus of the EPG project is in the metropolitan area. The project will complement but not compete with several on-going and planned projects in the metropolitan area.

Presently the Mission has two small enterprise development and employment generation projects underway in the Panama City area. One is a \$408,000 community-based Small Enterprise Development project (IIPUP-Type C) which is focusing on the rapidly growing San Miguelito area. This is very low-income area with high rates of unemployment and underemployment. (See Social Soundness Analysis). The project has financed a survey of 250 of the 1,200 or so business establishments in San Miguelito and will help establish a community-based development corporation that can identify and financially support productive small business ventures. The other project is a \$485,000 OPG with the Panamanian Association of Business Executives (APEDE). APEDE will identify and provide some 100 small entrepreneurs (firms of less than six worker) 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 Mission, the GOP, and APEDE recognize the complementary between these two projects and the EPG project. The BNP has indicated an interest in cooperating with APEDE to identify potential sub-borrowers and provide technical/management assistance. To ensure additional achievement of the closely related goals of the three projects, periodic meetings will be held with the implementing agencies to identify opportunities for coordination of project activities.

Two EPG related projects planned for the future include the Workforce Development project and the Development Administration project. The Workforce Development will improve vocational instruction in several skilled and semi-skilled training institutions, improve worker access to the institutions, and strengthen coordination between the institutions and private sector employers. The Development Administration project will work with several ministries, including MICI, to improve their administrative and policy-analysis capabilities.

Although the major focus of the EPG's BNP Supervised Credit component will be in the urban/metropolitan area the project does not exclude assistance to small and medium size firms in semi-rural communities that are points of regional growth and population concentration. In reaching-out the EPG project will coordinate, as appropriate, with the USAID Regional Growth and Service Centers project (URBE). URBE 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.

2. Other Donor Projects

The EPG project will not duplicate or compete with other donor projects. International donors utilize a variety of approaches in assisting Panama with its development needs. The World Bank and IDB tend to concentrate their assistance on capital-intensive infrastructure and natural resource development projects, although some assistance has been given to agricultural and industrial development efforts. The UNDP, the OAS, and other bilateral donors concentrate on relatively small technical assistance and training activities.

Over the past few years donor activity in Panama has been substantial. During the 1974-1979 period, the World Bank (IBRD) and Inter-American Development Bank (IDB) provided nearly \$400 million, over half of which was for hydroelectric and transport development. The balance was distributed between agriculture, industry and education. Lending reached a peak in 1977 when the IDB provided \$122 million for hydroelectric power and tourism development and the IBRD provided \$57.7 for hydroelectric power, livestock development and improvement in Panama's fishing fleet.

Other donor activities include the UN system which in 1979 provided about \$4.6 million in technical assistance, \$2.2 million from the United National Development Program and \$2.4 million from specialized agencies. This assistance has gone to a number of sectors with a heavy emphasis on health, agriculture, transportation, communications and social and economic planning. Future UN assistance is expected to emphasize agriculture, industrial development, and regional planning. Bilateral programs of the DAC countries consist primarily of procurement credits, training and scholarships, amounting to \$8.3 million in 1980. OAS and IICA activities consist mainly of advisors and scholarships, totaling \$1.2 million in 1980.

IV. Implementation Arrangements

A. Administrative Arrangements

The borrower will be the GOP, executing agencies will be the Ministry of Commerce and Industry (MICI), the Ministry of Labor (MITRA), and the National Bank of Panama (BNP). MICI's National Directorate for Enterprise Development will manage project funds for the activities of the policy analysis and research system. MITRA's National Employment Directorate will disburse project funds for the manpower information system. Project funds for the supervised credit activity will be disbursed through the BNP's Employment Development Division.

During implementation, the executing/administrative units of project activities will, in addition to disbursement of funds be responsible for arranging for the contracting of training and technical assistance, submitting necessary reports, and participating in program evaluations.

1. Policy Analysis and Research System (PARS).

The establishment of the Employment Development Commission and its Technical/Administrative Unit is condition precedent to the grant component of this project. The T/AU's annual detailed plan of studies and operations will be approved by the EDC and reviewed by AID annually as condition precedent for disbursement of any AID grant funds for contracted studies.

In operation, a study will be commissioned and completed by the consultant(s); the synthesis and recommendations will be developed by the T/A Unit and then presented to the EDC. The Commission will duly consider and evaluate the conclusions and recommendations of each study and take appropriate action. If, for example, new legislation or changes in existing legislation is deemed desirable the Commission will make this recommendation to the appropriate government institution.

The project will provide \$625,000 in grant funds to finance the studies, analyses and evaluations to be carried out by the consultants. GOP counterpart funds, \$70,000 annually, will pay for the personnel, office space, equipment, furniture and transportation costs of the technical/administrative unit and costs associated with Commission activities. For a detailed financial plan for the operation of the T/AU see Annex IX.

2. Manpower Information System (MIS).

The Project inputs will be administered through the National Employment Directorate (DNE), Ministry of Labor which will be the central coordinating and information processing point for the System. The Director of the Department of Analysis and Employment Policy in the DNE will be the Panamanian Coordinator of the System. DNE will encourage maximum participation of the other agencies. Chart 1, Annex X demonstrates graphically how the Manpower Information System will operate, Information will enter the system in four categories:

Labor Market Requirements: Estimates of the employment requirements of existing public and private sector establishments as well as new firms preparing to enter the labor market. Techniques will be developed for the forecasting of future employment requirements.

Persons Available for Work: Flow charts of persons leaving education and training programs together with information on those seeking work or those who would be seeking work were it available.

Persons in Low Income Families: Information on the employment/income requirements of low income families even though adult family members are working full time or are not in the labor force.

Employment/Income Support Activities: Comprehensive listing of facilities that may permit individuals to improve their own

employment/income situations (e.g., skills training programs, support for small firms or self-employment activities, community facilities such as day care centers).

Information is currently available in all of the above categories. It must, however, be analyzed, standardized, and structured to be continuously available on a flow basis into the system. The following sources of information will be considered for incorporation in the Manpower Information System:

a. Labor Market Requirements

- (1) Public (Mixed) Sector (Wage and Salary Workers; Department of Administrative Planning, MIPPE)

Public sector census, 1977; Training Needs Surveys of the Public Sector and Social Security Program.

- (2) Private Non-Agricultural Organized Sector (Employers and Wage and Salary Workers; National Employment Directorate and SENAFORP)

Economic Censuses, Manufacturing Surveys, Establishment Employment Surveys, Industrial Economic Surveys, Social Security Program, Training Needs Surveys, Licensing Information on Commercial Establishments, Register of Industrial Establishments, Pre-investment Fund, MIPPE, National Bank of Panama and National Investment Corporation (COFINA).

- (3) Informal Non-Agricultural Sector (Employers, Wage and Salary Workers, Self-Employed and Unpaid Family Workers; National Employment Directorate).

Population Census

- (4) Agriculture Private Sector (Employers, Wage and Salary Workers, Self Employed and Unemployed; National Social Development Directorate, Ministry of Agriculture).

Population Census, Agriculture Census, Agricultural

Sector Training Needs.

b. Persons Available for Work

- (1) Formal Education System (Ministry of Education, Universities and IFARHU)

Abroad.

Administrative Records, Register of Students Studying

(2) Non-Formal Education and Skills Training (Ministries of Education and Agriculture, IFARHU, SENAFORP, IPHE and DIGEDECOCOM) 1/

Administrative Records

(3) Unemployed Seeking Work and Not-In-The-Labor Force (National Employment Directorate)

Population Census, Household Survey Information, Employment Service Information, Community Groups.

c. Assistance to Persons with Limited Employment Potential

(1) Persons in Low Income Families (Department of Social Planning MIPPE)

Population Census, Household Survey Information, Community Groups.

(2) Employment/Income Support Activities (National Employment)

Skills Training Program, Small Firms and Self-Employment Assistance, Community Facilities.

For each of the above categories, the institution(s) primarily responsible for organizing and delivering data for the system have been identified. The existing data sources also are specified. The National Employment Director of the Ministry of Labor will provide the technical leadership and the coordination for the collaborating institutions. In addition, the actual combining and processing of information will be done by the National Employment Directorate.

3. Supervised Credit Program (SCP).

The BNP's Employment Development Division will manage the \$11.6 million supervised credit program. An initial six month start-up period is anticipated during which time the organizational structure for the implementing unit will be established, operating procedures developed and initial personnel trained. Approximately \$100,000 of AID grant funds will finance consultants who will assist the BNP with these activities. An additional \$50,000 will be utilized by the BNP to finance consultants who will assist in organizing the banks system for conducting appropriate studies to determine investment and employment generation potential at the regional, sectorial and firm level.

1/ IPHE - Panamanian Institute for Training the Handicapped; DIGEDECOCOM - General Directorate for Community Development.

Each sub-loan application will be reviewed by a specialized BNP loan officer for its financial and technical soundness. In addition to the standard loan request evaluation, the BNP's (in-house) technical staff will determine borrower technical and management needs, such as assistance with production, marketing and management problems. Technical and management assistance (TMA) will be provided to the borrower by registered private consultants under contract with the BNP. Three points of the interest charged on the sub-loans will be earmarked to finance the TMA.

The procedure for registering and utilizing private consultants in the project will be for the BNP's TMA staff to contact private consultant firms to explain the program, and evaluate the qualifications of interested firms. Firm qualifications will be determined vis-a-vis evaluation of past work i.e., projects and reports, professional references, and interviews with principal staff members. Qualified firms will be registered and placed on a roster according to their area of expertise. Sub-borrowers having technical and/or managerial problems can secure assistance either by self-selection from the registry of qualified consultants or by having BNP loan officers or TMA personnel make selection for them.

For sub-loans financed by the project the BNP recognized that flexible collateral requirements reflecting the circumstances and needs of the small businessmen will be necessary to ensure their access to the credit fund. Time and experience however will be necessary to determine the appropriate requirements. In the meantime, the BNP has agreed that the following collateral guidelines will serve as a base for project on lending:

- a. Maximum collateral required per loan will be no more than 100% of the loan and, can be less in those cases where the BNP considers the risks to be limited.
- b. Sub-borrowers demonstrate managerial capabilities.
- c. Sub-borrowers be full time owner/managers of the loan financed activity.
- d. The loan funded activity be financially sound, i.e., the activity will generate an IRR (internal rate of return) equal to or greater than the cost of capital.
- e. Acceptable collateral includes:
 - Land (100% m.v. (market value)
 - Equipment and machinery: new (100% m.v.), used: (m.v. minus depreciation)
 - Furniture (80% m.v.)
 - Homes (100% m.v.)
 - Bank accounts
 - Jewelry (90% m.v.)
 - Co-signers

Maximum loan amounts and loan terms in 1981 dollars will be as follows:

Type of Loan	Industrial/Construction/Manufacturing
Maximum Loan Size	\$100,000
Interest Rate:	Determined by the formula presented below with a 3 point set aside for financial of technical and management assistance.
Maximum Repayment Period:	
Fixed and Working Capital - (3 year Grace Period)	10 years
Maximum Collateral	95% collateral - 5% cash
Maximum (\$) Investment Per Job Created:	\$10,000
Type of Loan:	Commercial
Maximum Loan Size:	\$ 50,000
Interest Rate:	Determined by the formula presented below with 3 point set aside for financing of technical and management assistance.
Maximum Repayment Period:	
Fixed and Working Capital - (3 Year Grace Period)	10 years
Maximum Collateral:	85% collateral - 15% cash
Maximum Investment Per Job Created:	\$5,000
Type of Loan:	Service
Maximum Loan Size:	\$ 30,000

Interest Rate:	Determined by the formula presented below with a 3 point set aside for financing of technical and management assistance
Maximum Repayment Period:	
Fixed and Working Capital - (3 Year Grace Period)	7 years
Maximum Collateral:	90% collateral - 10% cash
Maximum (\$) Investment Per Job Created:	\$ 5,000

The formula for calculating sub-loan interest rates involves determining an average interest rate composed of - (1) the BNP's cost of capital, (2) the interest rates charged by development institutions (e.g., COFINA, MICI, BNP's industrial development bank window) and, (3) the interest rates charged by commercial banks in Panama. To derive the sub-loan interest rates first have to be determine for each of the BNP/SCP loan categories -- industrial/manufacturing/construction, commercial and services. The average of these will be the interest rate charged on sub-loans. (See Annex XI for illustrative and numerical examples).

4. AID. Administrative Management

The project has been developed in accordance with AID Handbook 3 and 13. Standard provisions for loan and grant activities will be utilized for procurement of goods and services. All country contracting is expected to be accomplished by the implementing agency. However, should AID's assistance be required it is not precluded. In implementing of the project AID's role will be of to monitor project activities and evaluate jointly with the COP project accomplishment in light of project objectives. Disbursements are expected to be made in accordance with normal AID reimbursement procedures. Disbursements and loan repayments will be made in US dollars. Since the local currency, the Balboa, is equivalent to the US dollar, no foreign exchange loss is considered.

B. Implementation Plan

The anticipated sequence of major events in the implementation of this project is as follows:

	Fiscal Year 1981				1982				1983				1984				1985				
	Quarter				Quarter				Quarter				Quarter				Quarter				
	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	
<u>Project Monitoring</u>																					
Loan/Grant Agreement Signed				x																	
Meeting of Conditions Precedents					x																
Quarterly Project Reviews																					
Evaluations		x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	
PACD											x							x			
<u>Project Activities</u>																					
MICI Policy Analysis and Research System																					
a. Organization of System				x	x	x	x	x													
b. Contracting for Studies							x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
<u>MITRA Manpower Information System</u>																					
a. Organization of System					x	x	x														
b. Implementation of System						x	x		x	x	x	x	x	x	x	x	x	x	x	x	
<u>BNP Supervised Credit Activity</u>																					
a. Organization of Credit-Technical/Management Assistance System																					
b. Disbursement of Supervised Credit			x	x	x	x	x	x													
					x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	

C. Evaluation Plan

The Mission has designed and negotiated this project with Panamanian authorities to demonstrate the ability of each component to develop and introduce new approaches to employment generation in Panama - (a) at the policy level through an employment policy analysis unit (PARS), (b) at the employment level through a manpower information system (MIS), (c) directly through a special supervised credit program (SCP). The ultimate success and impact of these components will in large measure depend upon future willingness of the Government of Panama or other donors to continue and provide further resources to increase the scope and coverage of the program elements. Evaluation, therefore, is central not only to providing AID, the GOP and other donors with a technical review of the impact of project components themselves, but in developing the foundation for future Panamanian or donor support in these areas.

During the four year life of project the Mission plans two major evaluations, plus such additional special reviews related to policy matters as may seem necessary. These evaluations are additional to normal implementation reviews and are described below:

1. First Evaluation

18 months after first disbursement, the Mission and participating Panamanian institutions, will prepare a scope of work for the first project evaluation. Since at this time the number of studies completed, subloans made or manpower data produced is likely to be limited, this evaluation will focus on implementation of the three components including such issues as - for the PARS:

- a. Adequacy of the study selection process,
- b. Breadth of the study results dissemination process,
- c. Technical competence of PARS personnel,
- d. PARS operational linkages with the manpower information system and credit program.

For the manpower information system:

- a. General administration and inter-institutional coordination
- b. Adequacy of data being covered, definitions, and sources,
- c. Adequacy and access to data storage, retrieval and publication facilities.

For the supervised credit program:

- a. Selection criteria employed for sub-loans including restrictiveness of collateral interest rates, number and type of loans made, number of direct jobs generated, average cost per direct job generated, etc.

- b. Adequacy of program publicity,
- c. Geographic coverage,
- d. General administration

2. Final Evaluation

During project paper development, the IBRD expressed interest in sending a project evaluation team to consider a second tranche for the credit component of this project as early as October 1982. This could happen prior to the first evaluation. The Mission feels that regardless of the IBRD team timing and conclusions, the final evaluation will be a critical determinant of future support for this employment generation program. This evaluation, then, will be focussed upon impact. In general, it will try to determine the additional employment generated in Panama attributable to the program - either directly through sub-loans, or indirectly through policy reform, introduction of new policies or through improved manpower information

This evaluation is tentatively scheduled for between six and three months before project termination and earlier if it becomes possible to combine the AID evaluation with a technical review by other potential donors. In addition to the foregoing and general issues the final evaluation will consider, for the PARS:

- a. Study impact, including the level of consideration of study conclusions, the results of recommendations of studies which have been implemented and,
- b. cost-effectiveness of the policy unit.

For the Manpower Information System:

- a. Validation that credit to the selected target group is employment-intensive.
- b. Clarify that subloan reflows are being effectively utilized for program objectives.

For the Supervised Credit Program:

- a. The utility of this system to planners and workers, as well as its cost vs its benefits to identified beneficiaries.

3. Special Evaluations

During the course of project implementation PARS may examine a policy or program which either the GOP or the Mission wish to pursue and further examine. These special evaluation studies will be conducted as necessary in cooperation with Panamanian authorities and other donors by Panamanian, AID direct hire or other consultants as required.

ANNEX I

DRAFT AUTHORIZATION

DRAFT PROJECT AUTHORIZATION

Name of Country: Republic of Panama
Name of Project: Employment Planning and Generation
Number of Project: 525-0221

1. Pursuant to Section 106 of the Foreign Assistance Act of 1961, as amended, I hereby authorize the Employment Planning and Generation Project for the Republic of Panama (the "Cooperating Country") involving planned obligations of not to exceed Five Million United States Dollars (\$5,000,000) in loan funds ("Loan") and Nine Hundred Seventy Five Thousand United States Dollars (\$975,000) in grant funds ("Grant") over a four year period from date of authorization, subject to the availability of funds in accordance with the A.I.D. OYB/allotment process, to help in financing foreign exchange and local currency costs for the project.

2. The project ("Project") consists of strengthening the Government of Panama's institutional capacity to analyze, develop and evaluate policies and programs to stimulate private investment in labor intensive activities and establish a credit fund to foster increased employment generation and productivity in the private sector.

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

a. Interest Rate and Terms of Repayment

The Cooperating Country shall repay the Loan to A.I.D. in U.S. Dollars within twenty (20) years from the date of first disbursement of the Loan, including a grace period of not to exceed ten (10) years. The Cooperating Country shall pay to A.I.D. in U.S. Dollars interest from the date of first disbursement of the Loan at the rate of (i) two percent (2%) per annum during the first ten (10) years, and (ii) three percent (3%) per annum thereafter on the outstanding disbursed balance of the Loan and on any due and unpaid interest accrued thereon.

b. Source and Origin of Goods and Services (Loan)

Goods and services, except for ocean shipping, financed by A.I.D. under the Loan shall have their source and origin in Panama or in countries included in A.I.D. Geographic Code 941, except as A.I.D. may otherwise agree in writing. Ocean shipping financed by A.I.D. under the Loan shall, except as A.I.D. may otherwise agree in writing, be financed only on flag vessels of countries included in A.I.D. Geographic Code 941 or of Panama.

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c. Source and Origin of Goods and Services (Grant)

Goods and services, except for ocean shipping, financed by A.I.D. under the grant shall have their source and origin in the United States or in Panama, except as A.I.D. may otherwise agree in writing. Ocean shipping financed by A.I.D. under the Grant shall, except as A.I.D. may otherwise agree in writing, be financed only on flag vessels of the United States.

d. Condition Precedent to Initial Disbursement

Prior to any disbursement, or the issuance of any commitment documents under the Project Agreement to finance other than technical assistance, the Cooperating Country shall, except as A.I.D. may otherwise agree in writing, furnish to A.I.D., in form and substance satisfactory to A.I.D.

(1) Evidence of the establishment of a Policy Analysis Research System ("PARS"), composed of an Employment Development Commission and a Technical/Administrative Unit and the establishment of appropriate procedures for registering and utilizing private consultants.

(2) A time phased plan and budget for the utilization of technical assistance for the PARS and a preliminary list of studies to be undertaken.

e. Condition Precedent for Disbursement for the Supervised Credit Program

Prior to any disbursement, or the issuance of any commitment documents (Loan and Grant) to finance activities under the Supervised Credit Program ("SCP"), the Cooperating Country shall, except as A.I.D. may otherwise agree in writing, furnish to A.I.D., in form and substance satisfactory to A.I.D.:

(1) Evidence that a staffing plan has been established for the Employment Development Division of Banco Nacional de Panama ("BNP") and that personnel have been assigned to key positions.

(2) Evidence of arrangements to provide technical management assistance ("TMA") to the sub-borrowers, through private consultants, which include the procedures for registering private consultants and utilizing the TMA services.

(3) The eligibility requirements to be applied in the SCP to ensure that credit is provided only to small and medium sized enterprises that are unable to obtain credit from the commercial banking system.

f. Condition Precedent for Disbursement for the Manpower Information System

Prior to any disbursement, or the issuance of any commitment documents under the Project Agreement, to finance activities under the Manpower Information System, the Cooperating Country shall furnish to A.I.D., in form and substance satisfactory to A.I.D., a time phased implementation plan and budget for the utilization of technical assistance for the Manpower Information System.

-3-

g. Covenants

The Cooperating Country shall covenant that, unless A.I.D. otherwise agrees in writing, it shall:

- (1) Maintain sub-loan interest rates at not less than the average of the BNP's cost of capital, the interest rates charged by development institutions and interest rates charged by commercial banks in Panama;
- (2) Set aside for TMA Services three points of the sub-loan interest rate; and
- (3) Cause the BNP to establish subloan interest rates quarterly for A.I.D. review.

Acting Assistant Administrator
Bureau for Latin America
and the Caribbean

Date

Clearances:

GC/LAC: BVeret: ✓ date 7/7 subject to expiration of CN waiting period
LAC/CEN: WmLukens: ✓ date 7/7
LAC/DR: MBrown: date
GC/LAC: DAA ^{QAA} Adams: ekg: 7/16/81: 29183

ANNEX II

STATUTORY CHECKLIST

AID HANDBOOK	3, App 5C(1)	VJ. ANN. MEMO NO. 3:32	EFFECTIVE DATE June 7, 1979	PAGE NO. 5C(1)-1
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5C(1) - COUNTRY CHECKLIST

Listed below are, first, statutory criteria applicable generally to FAA funds, and then criteria applicable to individual fund sources: Development Assistance and Economic Support Fund.

A. GENERAL CRITERIA FOR COUNTRY ELIGIBILITY

1. FAA Sec. 116. Can it be demonstrated that contemplated assistance will directly benefit the needy? If not, has the Department of State determined that this government has engaged in a consistent pattern of gross violations of internationally recognized human rights?

2. FAA Sec. 481. Has it been determined that the government of recipient country has failed to take adequate steps to prevent narcotics drugs and other controlled substances (as defined by the Comprehensive Drug Abuse Prevention and Control Act of 1970) produced or processed, in whole or in part, in such country, or transported through such country, from being sold illegally within the jurisdiction of such country to U.S. Government personnel or their dependents, or from entering the United States unlawfully?

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

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

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

A. GENERAL CRITERIA FOR COUNTRY ELEGIBILITY.

1. The Project demonstrates that the assistance will benefit the needy.

2. No such determination has been made.

3. The Secretary of State has determined that Panama is not controlled by the International Communist movement.

4. A.I.D. knows of no such cases.

5. There is no evidence of such action.

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A.

6. FAA Sec. 620(a), 620(f); FY 79 App. Act, Sec. 106, 114 and 606. Is recipient country a Communist country? Will assistance be provided to the Socialist Republic of Vietnam, Cambodia, Laos, Cuba, Uganda, Mozambique, or Angola?

6. Panama is not a communist country nor will any assistance be provided to any of the countries indicated.

7. FAA Sec. 620(1). Is recipient country in any way involved in (a) subversion of, or military aggression against, the United States or any country receiving U.S. assistance, or (b) the planning of such subversion or aggression?

7. A.I.D. has no evidence of any subversion or aggression plans for such action.

8. FAA Sec. 620 (1). Has the country permitted, or failed to take adequate measures to prevent, the damage or destruction, by mob action, of U.S. property?

8. No.

9. FAA Sec. 620(1). If the country has failed to institute the investment guaranty program for the specific risks of expropriation, inconvertibility or confiscation, has the AID Administrator within the past year considered denying assistance to such government for this reason?

9. No.

10. FAA Sec. 620(o); Fishermen's Protective Act of 1957, as amended, Sec. 5. If country has seized, or imposed any penalty or sanction against, any U.S. fishing activities in international waters:

10. Panama has not seized or imposed any penalties or sanctions against U.S. vessels because of their activities in international waters during recent years.

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

a. No.

b. has complete denial of assistance been considered by AID Administrator?

b. No.

11. FAA Sec. 620; FY 79 App. Act, Sec. 603. (a) Is the government of the recipient country in default for more than 6 months on interest or principal of any AID loan to the country? (b) Is country in default exceeding one year on interest or principal on U.S. loan under program for which App. Act appropriates funds?

11. (a) No.

(b) No.

12. FAA Sec. 620(s). If contemplated assistance is development loan or from Economic Support Fund, has the Administrator taken into account the percentage of the country's budget which is for military expenditures, the amount of foreign exchange spent on military equipment and the

12. Yes.

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B.1.

b. FAA Sec. 104(d)(1). If appropriate, is this development (including Sahel) activity designed to build motivation for smaller families through modification of economic and social conditions supportive of the desire for large families in programs such as education in and out of school, nutrition, disease control, maternal and child health services, agricultural production, rural development, and assistance to urban poor?

2. Economic Support Fund Country Criteria

a. FAA Sec. 502B. Has the country engaged in a consistent pattern of gross violations of internationally recognized human rights?

b. FAA Sec. 533(b). Will assistance under the Southern Africa program be provided to Mozambique, Angola, Tanzania, or Zambia? If so, has President determined (and reported to the Congress) that such assistance will further U.S. foreign policy interests?

c. FAA Sec. 609. If commodities are to be granted so that sale proceeds will accrue to the recipient country, have Special Account (counterpart) arrangements been made?

d. FY 79 App. Act, Sec. 113. Will assistance be provided for the purpose of aiding directly the efforts of the government of such country to repress the legitimate rights of the population of such country contrary to the Universal Declaration of Human Rights?

e. FAA Sec. 620B. Will security supporting assistance be furnished to Argentina after September 30, 1978?

(b) Over the long-term, improved economic conditions for rural and urban poor, promoted by development assistance programs such as this one, are expected to impact positively.

2. Economic Support Fund Country Criteria.

(a) Panama has not engaged in gross violations of human rights.

(b) Not applicable.

(c) Not applicable.

(d) No.

(e) Not applicable.

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A.12.

amount spent for the purchase of sophisticated weapons systems? (An affirmative answer may refer to the record of the annual "Taking Into Consideration" memo: "Yes, as reported in annual report on implementation of Sec. 620(s)." This report is prepared at time of approval by the Administrator of the Operational Year Budget and can be the basis for an affirmative answer during the fiscal year unless significant changes in circumstances occur.)

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

13. No.

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

14. Panama is not in arrears to the extent described in Article 19 of the U.N. Charter.

15. FAA Sec. 620A, FY 79 App Act, Sec. 607. Has the country granted sanctuary from prosecution to any individual or group which has committed an act of international terrorism?

15. No.

16. FAA Sec. 666. Does the country object, on basis of race, religion, national origin or sex, to the presence of any officer or employee of the U.S. there to carry out economic development program under FAA?

16. No.

17. FAA Sec. 669, 670. Has the country, after August 3, 1977, delivered or received nuclear enrichment or reprocessing equipment, materials, or technology, without specified arrangements or safeguards? Has it detonated a nuclear device after August 3, 1977, although not a "nuclear-weapon State" under the nonproliferation treaty?

17. No.

B. FUNDING CRITERIA FOR COUNTRY ELIGIBILITY1. Development Assistance Country Criteria

a. FAA Sec. 102(b)(4). Have criteria been established and taken into account to assess commitment progress of country in effectively involving the poor in development, on such indexes as: (1) increase in agricultural productivity through small-farm labor intensive agriculture, (2) reduced infant mortality, (3) control of population growth, (4) equality of income distribution, (5) reduction of unemployment, and (6) increased literacy?

B. FUNDING SOURCES CRITERIA FOR COUNTRY ELIGIBILITY.1. Development Assistance Country Criteria.

(a) Criteria for assessing progress in involving the poor in development have been set through sector and subsector assessments in agriculture, education, and nutrition.

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5C(2) - PROJECT CHECKLIST

Listed below are statutory criteria applicable generally to projects with FAA funds and project criteria applicable to individual fund sources: Development Assistance (with a subcategory for criteria applicable only to loans); and Economic Support Fund.

CROSS REFERENCES: IS COUNTRY CHECKLIST UP TO DATE?
HAS STANDARD ITEM CHECKLIST BEEN REVIEWED FOR THIS PRODUCT?

A. GENERAL CRITERIA FOR PROJECT

1. FY 79 App. Act Unnumbered; FAA Sec. 653 (b); Sec. 634A. (a) Describe how Committees on Appropriations of Senate and House have been or will be notified concerning the project; (b) Is assistance within (Operational Year Budget) country or international organization allocation reported to Congress (or not more than \$1 million over that figure)?

2. FAA Sec. 611(a)(1). Prior to obligation in excess of \$100,000, will there be (a) engineering, financial, and other plans necessary to carry out the assistance and (b) a reasonably firm estimate of the cost to the U.S. of the assistance?

3. FAA Sec. 611(a)(2). If further legislative action is required within recipient country, what is basis for reasonable expectation that such action will be completed in time to permit orderly accomplishment of purpose of the assistance?

4. FAA Sec. 611(b); FY 79 App. Act Sec. 101. If for water or water-related land resource construction, has project met the standards and criteria as per the Principles and Standards for Planning Water and Related Land Resources dated October 25, 1973?

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

6. FAA Sec. 209. Is project susceptible of execution as part of regional or multilateral project? If so why is project not so executed? Information and conclusion whether assistance will encourage regional development programs.

A. GENERAL CRITERIA FOR PROJECT

1. A Congressional Notification will be transmitted by A.I.D. to congress indicating funding requirements for this assistance program.

2. Yes.

3. No legislative action will be required within recipient country.

4. Not applicable.

5. N. A.

6. The Project is not suitable for execution as a part of a regional project nor will it necessarily encourage regional development programs.

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A.

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

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

9. FAA Sec. 612(b); Sec. 636(h). Describe steps taken to assure that, to the maximum extent possible, the country is contributing local currencies to meet the cost of contractual and other services, and foreign currencies owned by the U.S. are utilized to meet the cost of contractual and other services.

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

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

12. FY 79 App. Act Sec. 608. If assistance is for the production of any commodity for export, is the commodity likely to be in surplus on world markets at the time the resulting productive capacity becomes operative, and is such assistance likely to cause substantial injury to U.S. producers of the same, similar, or competing commodity?

B. FUNDING CRITERIA FOR PROJECT

1. Development Assistance Project Criteria

a. FAA Sec. 102(b); 111; 113; 2A1a. Extent to which activity will (a) effectively involve the poor in development, by extending access to economy at local level, increasing labor-intensive production and the use of appropriate technology, spreading investment out from cities to small towns and rural areas, and insuring wide participation of the poor in the benefits of development on a sustained

7. The project fosters increased private initiative and competition.

8. The technical services to be purchased under the Project is expected to be of U.S. origin and services of U.S. private enterprise will be used whenever possible.

9. The Government of Panama has agreed to contribute substantial counterpart funding for services and other program costs.

10. The U.S. does not own such excess currency.

11. Yes.

12. No specific assistance under this program is directed at promoting commodities for export. However should commodities be exported they are not expected to cause substantial competition.

B. FUNDING CRITERIA FOR PROJECT

1. Development Assistance Project Criteria.

(a) The Project is specifically directed toward promoting the participation of the urban poor and unemployed in business activities.
 (b) The reliance on local organizations and governmental institutions to participate in Project implementation will encourage participation.
 (c) The program focus on business development fosters self-help.
 (d) All elements of the program promote the status and participation of women.
 (e) The developmental and employment generating aspects of the project will serve as an example to other countries encouraging cooperation.

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B.1.a.

basis, using the appropriate U.S. institutions; (b) help develop cooperatives, especially by technical assistance, to assist rural and urban poor to help themselves toward better life, and otherwise encourage democratic private and local governmental institutions; (c) support the self-help efforts of developing countries; (d) promote the participation of women in the national economies of developing countries and the improvement of women's status; and (e) utilize and encourage regional cooperation by developing countries?

b. FAA Sec. 103, 103A, 104, 105, 106, 107.

Is assistance being made available: (include only applicable paragraph which corresponds to source of funds used. If more than one fund source is used for project, include relevant paragraph for each fund source.)

(1) [103] for agriculture, rural development or nutrition; if so, extent to which activity is specifically designed to increase productivity and income of rural poor; [103A] if for agricultural research, is full account taken of needs of small farmers;

(2) [104] for population planning under sec. 104(b) or health under sec. 104(c); if so, extent to which activity emphasizes low-cost, integrated delivery systems for health, nutrition and family planning for the poorest people, with particular attention to the needs of mothers and young children, using paramedical and auxiliary medical personnel, clinics and health posts, commercial distribution systems and other modes of community research.

(3) [105] for education, public administration, or human resources development; if so, extent to which activity strengthens nonformal education, makes formal education more relevant, especially for rural families and urban poor, or strengthens management capability of institutions enabling the poor to participate in development;

(4) [106] for technical assistance, energy, research, reconstruction, and selected development problems; if so, extent activity is:

(i) technical cooperation and development, especially with U.S. private and voluntary, or regional and international development, organizations;

(ii) to help alleviate energy problems;

(iii) research into, and evaluation of, economic development processes and techniques;

(iv) reconstruction after natural or manmade disaster;

(4) (106) The program objective is to strengthen the GOP's institutional capacity to analyze, develop and evaluate policies and stimulate private investment in labor intensive activities.

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B.1.b.(4).

(v) for special development problem, and to enable proper utilization of earlier U.S. infrastructure, etc., assistance;

(vi) for programs of urban development, especially small labor-intensive enterprises, marketing systems, and financial or other institutions to help urban poor participate in economic and social development.

c. [107] Is appropriate effort placed on use of appropriate technology?

d. FAA Sec. 110(a). Will the recipient country provide at least 25% of the costs of the program, project, or activity with respect to which the assistance is to be furnished (or has the latter cost-sharing requirement been waived for a "relatively least-developed" country)?

e. FAA Sec. 110(b). Will grant capital assistance be disbursed for project over more than 3 years? If so, has justification satisfactory to the Congress been made, and efforts for other financing, or is the recipient country "relatively least developed"?

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

g. FAA Sec. 122(b). Does the activity give reasonable promise of contributing to the development of economic resources, or to the increase or productive capacities and self-sustaining economic growth?

2. Development Assistance Project Criteria (Loans Only)

a. FAA Sec. 122(b). Information and conclusion on capacity of the country to repay the loan, including reasonableness of repayment prospects.

b. FAA Sec. 620(d). If assistance is for any productive enterprise which will compete in the U.S. with U.S. enterprise, is there an agreement by the recipient country to prevent export to the U.S. of more than 20% of the enterprise's annual production during the life of the loan?

c. (107) With respect to improved technologies the Project proposes to promote the use of improved labor intensive technologies.

d. 110 (a) The recipient country will provide at least 25% of the Project costs, and such contribution will be reflected in the Project Agreement.

e. 110 (b) The grant funds are to be disbursed over four years. However, the nature of assistance being provided under grant funds is such that more than three years will be required. Panama is a "relatively" developed country.

f. 281 (b) The Project has been designed to meet the desires and capacities of the populace of urban Panama. The Project encourages development of local businesses and will provide selected people in the government with an improved understanding of planning and data collection.

g. 122 (b) The Project will contribute directly to the economic development of Panama and improve its productive capacity.

2. Development Assistance Project Criteria (Loans Only)

a. The Mission has determined that the loan is within the debt-carrying capacity of the Government of Panama.

b. No. Due to the small size of the enterprises no competition is contemplated.

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A.7.

facilities of other Federal agencies will be utilized, are they particularly suitable, not competitive with private enterprise, and made available without undue interference with domestic programs?

8. International Air Transport, Fair Competitive Practices Act, 1974. If air transportation of persons or property is financed on grant basis, will provision be made that U.S.-flag carriers will be utilized to the extent such service is available?

8. Yes

9. FY 79 App. Act Sec. 105. Does the contract for procurement contain a provision authorizing the termination of such contract for the convenience of the United States?

9. Yes

B. Construction

1. FAA Sec. 601(d). If a capital (e.g., construction) project, are engineering and professional services of U.S. firms and their affiliates to be used to the maximum extent consistent with the national interest?

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

3. FAA Sec. 620(k). If for construction of productive enterprise, will aggregate value of assistance to be furnished by the United States not exceed \$100 million?

C. Other Restrictions

1. FAA Sec. 122 (e). If development loan, is interest rate at least 2% per annum during grace period and at least 3% per annum thereafter?

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

3. FAA Sec. 620(h). Do arrangements preclude promoting or assisting the foreign aid projects or activities of Communist-bloc countries, contrary to the best interests of the United States?

4. FAA Sec. 636(i). Is financing not permitted to be used, without waiver, for purchase, long-term lease, or exchange of motor vehicle manufactured outside the United States, or guaranty of such transaction?

B. Construction

1. N.A.

2. N.A.

3. N.A.

C. Other Restrictions

1. Yes

2. No international organizations will have administrative responsibilities under this program.

3. Yes

4. Yes

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5C(3) - STANDARD ITEM CHECKLIST

Listed below are statutory items which normally will be covered routinely in those provisions of an assistance agreement dealing with its implementation, or covered in the agreement by imposing limits on certain uses of funds.

These items are arranged under the general headings of (A) Procurement, (B) Construction, and (C) Other Restrictions.

A. Procurement

1. FAA Sec. 602. Are there arrangements to permit U.S. small business to participate equitably in the furnishing of goods and services financed?
2. FAA Sec. 604(a). Will all commodity procurement financed be from the U.S. except as otherwise determined by the President or under delegation from him?
3. FAA Sec. 604(d). If the cooperating country discriminates against U.S. marine insurance companies, will agreement require that marine insurance be placed in the United States on commodities financed?
4. FAA Sec. 604(e). If offshore procurement of agricultural commodity or product is to be financed, is there provision against such procurement when the domestic price of such commodity is less than parity?
5. FAA Sec. 608(a). Will U.S. Government excess personal property be utilized wherever practicable in lieu of the procurement of new items?
6. FAA Sec. 603. (a) Compliance with requirement in section 901(b) of the Merchant Marine Act of 1936, as amended, that at least 50 per centum of the gross tonnage of commodities (computed separately for dry bulk carriers, dry cargo liners, and tankers) financed shall be transported on privately owned U.S.-flag commercial vessels to the extent that such vessels are available at fair and reasonable rates.
7. FAA Sec. 621. If technical assistance is financed, will such assistance be furnished to the fullest extent practicable as goods and professional and other services from private enterprise on a contract basis? If the

A. Procurement

1. Yes, the Project Agreement and implementation procedures will so provide.
2. Yes
3. Yes
4. No such procurement is contemplated.
5. The Project Agreement will provide for compliance with this requirement.
6. Yes
7. Technical assistance to be provide under this program will be furnished to the fullest extent practicable by private organizations or individuals.

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B.

3. Project Criteria Solely for Economic Support Fund

a. FAA Sec. 531(a). Will this assistance support promote economic or political stability? To the extent possible, does it reflect the policy directions of section 102?

b. FAA Sec. 533. Will assistance under this chapter be used for military, or paramilitary activities?

3. Project Criteria solely for Economic Support Fund.

a. Yes

b. No

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C.

5. Will arrangements preclude use of financing:

a. FAA sec. 104(f). To pay for performance of abortions or to motivate or coerce persons to practice abortions, to pay for performance of involuntary sterilization, or to coerce or provide financial incentive to any person to undergo sterilization?

b. FAA Sec. 620(g). To compensate owners for expropriated nationalized property?

c. FAA Sec. 660. To finance police training or other law enforcement assistance, except for narcotics programs?

d. FAA Sec. 662. For CIA activities?

e. FY 79 App. Act Sec. 104. To pay pensions, etc., for military personnel?

f. FY 79 App. Act Sec. 106. To pay U.N. assessments?

g. FY 79 App. Act Sec. 107. To carry out provisions of FAA sections 209(d) and 251(h)? (Transfer of FAA funds to multilateral organizations for lending.)

h. FY 79 App. Act Sec. 112. To finance the export of nuclear equipment, fuel, or technology or to train foreign nations in nuclear fields?

i. FY 79 App. Act Sec. 601. To be used for publicity on propaganda purposes within United States not authorized by the Congress?

5. The Project Agreement will provide for specific use of A.I.D. funds for agreed upon purposes and thus preclude allocation of such funds for the purposes covered by the legislation cited in items 5.a through 5.i.

ANNEX III

ENVIRONMENTAL RECOMMENDATION

ENVIRONMENTAL RECOMENDATION

An IEE was presented to the PID requesting a Negative Determination for the Project's Threshold Decision, since the project is going to be implemented through an ICI. Regulation 16 on Environmental Procedures indicates that an environmental Impact Statement is not generally required if it falls into a categorical exclusion such as (C, X) "Support for intermediate credit institution when the objective is to assist in the capitalization of the institution or part thereof and when such support does not involve reservation of the right to review and approval individual loans made by the institution." Due to the scope of the individual subprojects the Mission does not foresee any action having a significant effect on the environment.

ANNEX IV

LOGICAL FRAMEWORK

PROJECT DESIGN SUMMARYLOGICAL FRAMEWORK

Life of Project:
 From FY 81 to FY 85
 Total US Funding:
 \$5,975,000
 Date Prepared: May 1981

NARRATIVE SUMMARYOBJECTIVELY
VERIFIABLE INDICATORSMEANS OF VERIFICATIONIMPORTANT ASSUMPTIONS

GOAL - To increase employment, productivity, and income levels in Panama.

Within 4 years of project start approx. 1600 additional people will be employed directly as a result of the project's activities.

Project activity records maintained by GOP implementing agencies and AID.

Employment generation will remain a GOP priority; the economy's rate of growth will be sufficient to expand investment and employment opportunities.

PURPOSE - To strengthen the GOP's institutional capacity to analyze, develop and evaluate policies and stimulate private investment in labor intensive activities.

GOP will have improved its institutional capacity to analyze, develop and evaluate employment generation policies. Private sector investment in labor intensive activities will have increased (i.e. cost per job created will have declined in real terms).

Monitor project activities to determine GOP actions in response to policy/program recommendations. Examine project activity records and monitor national statistics to measure changes in private sector investment and employment.

GOP cooperates in the development and implementation of project activities.

NARRATIVE SUMMARY

- OUTPUTS - Improved GOP institutional capacity in developing, analyzing, and evaluating policies.
- Improved investment climate for promoting labor intensive enterprise development on a self sustaining basis.
- Manpower information data bank established.
- 1,600 new direct jobs created in 4 years.

OBJECTIVELY
VERIFIABLE INDICATORS

1. PARS - Approximately 20 studies will be completed with policies recommendation to GOP executive and legislative bodies.
2. MIS - A functional manpower data bank will be established with improved manpower demand and supply forecasts ability.

	No. of Jobs		
	No. of Loans	No. of Direct	Indirect
3. <u>SCP</u>			
A. Manuf.	67	402	322
B. Comm.	117	702	562
C. Serv.	139	500	400
Total	323	1604	1284

D. Aver. Loan Size \$30,960
E. Aver. Cost per Job \$ 7,000

MEANS OF VERIFICATION

1. PARS - Number of studies contracted by MICI and action taken.
2. MIS - Number of persons, institutions and business utilizing the MIS.
3. SCP - Number of loans made by category and number of jobs created.

IMPORTANT ASSUMPTIONS

1. PARS - The National Employment Commission functions and the GOP implements its recommendations - MICI will hire qualified personnel to manage the technical secretariat.
2. MIS - There is continuing support from the public and private sector in the utilization of the MIS.
3. SCP - BNP can fund/or train qualified personnel to administer the SCP.
Firms receiving loans can generate new direct jobs at relatively low costs.
GOP counterpart resources are provided at adequate levels on a timely basis.

Yearly Disbursement Schedule is followed. Records of GOP and USAID.

Both AID and GOP provide project resources at adequate levels and on a timely basis.

- INPUTS - Technical Assistance-22 person month
- Training (3 local seminars, 90 participants)
- 20 studies on policies that affect employment
- Employment Generation Division with \$10 million Credit Fund.

	AID	GOP	TOTAL
PARS	625	280	905
MIS	200	98	298
SCP	5,150	6,500	11,650
TOTAL	5,975	6,878	12,853

ANNEX V

BORROWER/GRANTEE APPLICATION

REPUBLICA DE PANAMA

VICEPRESIDENCIA

12 de marzo de 1981

Ing. Aldelmo Ruiz
Director
Agencia Internacional
para el Desarrollo
E.S.D.

Estimado Ing. Ruiz:

Conocedores de la importancia que el Ejecutivo tiene en el Programa de Planificación y Generación de Empleos que el Gobierno Central se encuentra interesado en implementar, me permito informarle que se han impartido las instrucciones al Ministerio de Comercio e Industrias, para que integre una unidad técnica administrativa que sea responsable de encaminar actividades de estudios, planificación y recomendaciones en el fortalecimiento del sector del pequeño y mediano empresario.

Atentamente,

R. DE LA ESPRIELLA Jr.,
Vicepresidente de la República

/yb



Banco Nacional de Panamá

81(310-01)180

Panamá, 10 de junio de 1981

Ingeniero
Aldelmo Rufz
Director
Agencia Internacional de
Desarrollo en Panamá
E. S. D.

ACTION
TO ABD
DUE 6-30-81
TAKEN

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Estimado Señor Rufz:

Tomando como referencia la nota N° 80(102-012)014 del 26 de febrero de 1980, en la cual la Gerencia de esa Institución me designo para que negocie y encargarme del Programa denominado Generación de Empleos, me place informarle, que luego de más de un año de negociaciones hemos concluido responsablemente las negociaciones del mismo.

El Programa de Generación de Empleos, cuyo objetivo es el de fortalecer y fomentar pequeñas empresas, industriales, comerciales o de servicios; que contribuyan a crear nuevos empleos permanentes, contará con tres (3) componentes a saber: Asistencia Financiera, Capacitación y Asistencia Técnica. El capital semilla del Programa correspondiente al área de responsabilidad del B.N.P. ha sido estimado en B/.11,650,000, distribuyéndose de la siguiente manera:

<u>Fuente</u>	<u>Total</u>	<u>Asistencia Financiera</u>	<u>Asistencia Técnica</u>	<u>Gastos de Operaciones</u>
Total	B/. <u>11,650,000</u>	<u>B/.10,000,000</u>	<u>B/.150,000*</u>	<u>B/.1,500,000</u>
A.I.D.	5,150,000	5,000,000	150,000	-
Gobierno	5,000,000	5,000,000	-	-
B.N.P.	1,500,000	-	-	1,500,000

* Fondos para encuesta por B/.50,000 y gastos de Organización del Programa por B/.100,000.

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JUN 10 1981
US AID/PANAMA
C&R SECTION



Banco Nacional de Panamá

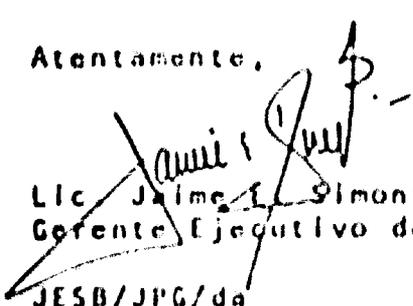
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Es de resaltar la participación en el Programa de otras agencias estatales, como lo son el Ministerio de Trabajo y el de Comercio e Industria, en áreas de responsabilidades claramente específicas en lo que a política de fomento de pequeñas empresas y capacitación de mano de obra se refiere.

Me permito informarle que el B.N.P. y el Gobierno Nacional han dado los pasos necesarios para garantizar la disponibilidad de fondos del Programa, pertinentes al año 1981; esta Institución asignó la suma de B/.207,009 en su presupuesto para afrontar los gastos operativos; el Gobierno Nacional mediante la partida que se distingue con el código 0.27.1.45.8.18.004.3, asignó la suma de B/.500,000 como aporte al componente de Asistencia Financiera, correspondiente al año 1981.

Una vez más le reitero el interés de disponer del aporte de la A.I.D. al capital semilla del Programa, motivo por el cual, hago solicitud formal de las mismas.

Atentamente,


Lic. Jaime I. Simons D.
Gerente Ejecutivo del FODEM

JESB/JPG/da

c.c. Lic. Luis A. Arias - Gerente General del B.N.P.



República de Panamá

Ministerio de Planificación y Política Económica

Panamá, 11 de junio de 1981

Nota N° 118-DM

Ingeniero
Adelmo Ruíz,
Director
Agencia Internacional
para el Desarrollo (AID)
Presente.-

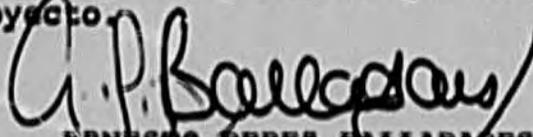
Estimado Ing. Ruíz:

Como es de su conocimiento, el Gobierno Nacional ha dado prioridad a todas las medidas que de alguna manera u otra, tiendan a reducir los niveles de desempleo y subempleo, al igual que aumentar la productividad e ingresos de nuestros trabajadores. Es con gran satisfacción que equipos técnicos de nuestras diversas instituciones han trabajado conjuntamente con su personal profesional en la elaboración del proyecto.

Después de haber analizado la propuesta de proyecto y examinado sus tres componentes principales, solicitamos el respaldo de la AID/Panamá en la presentación y aprobación del proyecto, muy especialmente cuando incluimos actividades innovativas como el Sistema de Análisis e Investigación de Políticas el cual tendrá un impacto positivo en el fortalecimiento institucional, para analizar las políticas que inciden en el empleo y estimular la inversión privada. El Sistema de Información de la Fuerza Laboral, también es otra actividad innovativa que servirá como herramienta para el sector público y privado en la ecuación de la oferta y demanda de mano de obra. El sub-proyecto piloto de crédito supervisado, complementa acertadamente las dos actividades anteriormente mencionadas, proporcionando asistencia técnica y financiera a las empresas que generan empleo.

Por lo anteriormente expuesto deseamos reiterar nuestra solicitud, sabiendo de antemano el respaldo positivo que ustedes han brindado y brindarán al proyecto.

Atentamente,


ERNESTO PEREZ BALLADRES
Ministro



República de Panamá

Panamá, 10 de junio de 1981.

Ministerio de Trabajo y Bienestar Social

DNE-Nota N° 1.98.81

Ingeniero
Adelmo Ruiz
Director de la Agencia para el
Desarrollo Internacional (AID)
E. S. D.

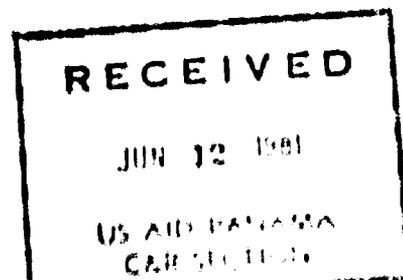
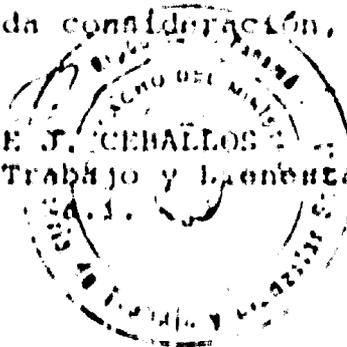
Señor Director:

Considerando los avances logrados en las reestructuraciones técnico-administrativas llevadas a cabo en la Dirección Nacional de Empleo y el Servicio Nacional de Formación Profesional, deseamos reiterarle nuestro interés en el Proyecto de Planificación y Generación de Empleos, que tiene como contraparte varias agencias del Gobierno Nacional.

En este sentido, le renovamos nuestro interés particular por el componente relacionado con el fortalecimiento del sistema estadístico para la planificación del empleo, el cual, estamos seguros, constituirá un valioso apoyo para la gestión de las diversas entidades involucradas con programas de mano de obra y, en especial, para la Dirección Nacional de Empleo del Ministerio de Trabajo y Bienestar Social.

De usted con toda consideración,

JOSE J. CEBALLOS
Ministro de Trabajo y Bienestar Social



ANNEX VI

MISSION EMPLOYMENT STRATEGY

EMPLOYMENT STRATEGY

USAID/PANAMA

June 1981

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I. STRATEGY OVERVIEW

The rationale for proposing programs dealing with Panama's employment problem is based upon an analysis of the scope and dimension of the problem, including its probable long-term nature; the apparent willingness of key elements of the Government and private sector to come to grips with it; and the likelihood that even with limited resources AID can have a catalytic effect in promoting activities which over time, will help ameliorate it. The strategy is to assist the Government of Panama and Panama's private sector to recognize better the dimensions of the employment problem, to help the Government develop programs and policies designed to alleviate, and where possible, eliminate constraints to increased job creation, to increase marketable skills of the unemployed, as well as to directly stimulate job creation by the private sector.

AID projects support fulfillment of this strategy, but in isolation only satisfy part of the strategy's approach. In addition to AID activities, projects of the multilateral banks as well as private sector activities (including OPGs) complete the picture.

AID resources will be used to support policy development and program implementation, which together can produce a synergistic effect on job creation in Panama. Similarly, AID resources will be used directly for job creation, but only in cases where a high multiplier effect is likely through strengthening and better targeting public and private sector efforts and where a strong likelihood of additional funding exists.

Although the FY 1981 Employment Planning and Generation project represents AID's largest and most significant effort directly targeted at Panama's employment problem, it is one of a series of projects whose prime goal is to help Panama increase employment, productivity and income levels of the poor. Other activities sharing this goal include:

525-0225 Entrepreneurial Development, which supports a program of technical assistance to small businesses by the Panamanian Association of Business Executives;

525-0214 Workforce Development, proposed for FY 1982, which will strengthen and better focus Panama's job training programs and placement services with job market availabilities; and

525-0229 Employment Training for Women (OPG) proposed for FY 1981, which will establish a skills training program for women in a poor area of Panama.

In addition, virtually all of this Mission's active and proposed projects in agricultural production, technology, or in rural market town development include job creation as an objective of their credit funds or of new technologies.

Several of the employment generating programs the Mission has chosen to pursue have a distinct urban cast. As stated in the most recent CDSS, the Mission's program emphasis for urban areas will be programs dealing with the employment problem; in rural areas programs dealing with improving productivity--particularly agriculture--will be the focus. We have stressed employment as the major urban focus for our assistance programs for the following reasons, each of which is dealt with in detail in later sections of this paper:

Demography: Panama, presently 57% urban, will become 70% urbanized by the year 2000. Of total population, half (50%) now reside in the metropolitan (Panama City-Colon) corridor; by the year 2000 the area is expected to have 60% of the total population.

Unemployment: Unemployment appears to be more serious in the urban corridor than elsewhere. If the underemployed are added to the current 14-22% urban unemployed, continued urban unemployment concentrations become politically and socially dangerous, with unemployment in the range of 18-30% distinctly possible in the future.

The poor: Poor families whose incomes are insufficient to meet basic needs currently show a 60-40 rural-urban split. With increasing urbanization this split will most likely become equal.

These conclusions, as well as the following analyses, have been discussed and developed with the help of Panamanian professional economists, government policy makers and businessmen who, strikingly, on their own, have reached similar policy conclusions. Representatives of development banks and multilateral agencies concur with these conclusions. Panamanian journalists have given prominent display to analyses and speeches on this subject. This paper reviews the data and assumptions upon which these conclusions are based.

In our investigation and analysis of the employment situation, we conducted a lengthy review of the literature, reviewed the GOP's various programs and plans to stimulate investment and employment, as well as those, e.g., the pricing and labor code policies, which affect the investor in Panama. In addition, we commissioned two major studies: one of small and medium size enterprises which included a review of GOP commercial policies and their impact on investment, and another of the factors which affect the demand for labor.^{1/} One of the least surprising findings from these

^{1/} AID/INDESA, Situación de la Pequeña Empresa en Panamá, Agosto, 1980; AID/MIPPE Survey of 250 Small and Medium Size Business Establishments in San Miguelito, December, 1980; AID/INDESA Study - Factores Que Afectan la Demanda Por Mano de Obra en Panamá, (1979); AID/INDESA Study - Situación de la Pequeña Empresa en Panamá, (1980)

investigations and studies is the lack of coordination and central strategy within the GOP for stimulating investment and employment. While Panama's organizational structure for dealing with investment and employment may not be unlike that found in many developed countries, within an LDC such as Panama, with its shortage of skilled manpower, the current procedures create an extremely inefficient structure for obtaining needed change.

The Government of Panama has not prepared a National Employment Policy or Plan. The 1981-85 National Development Plan remains incomplete, after considerable effort of UN and Panamanian specialists. Reasons for not releasing the Plan reflect dissatisfaction by the new Planning Minister and Vice-Minister with the quality of analyses contained in the drafts. USAID has shared these concerns after reviewing some preliminary Plan documents. Failure to release the Plan does not reflect disagreement with selection of employment as one principal objective of the Plan, however. A draft of the Plan stated this objective to be "incorporation of the active population in the development process to avoid any further increase in the unemployment rate."

Although issuance of the Plan appears indefinitely delayed, Government pronouncements and activities continue to reflect a growing awareness of the dimensions of the employment problem, including acceptance of the key role the private sector must play in employment creation. In preparation of this strategy, we have solicited the views of Government, private sector and international bank representatives. There is no debate among them regarding the importance of resolution of the nation's employment problem. There is, furthermore widespread acceptance of our proposed programs and small business targets, although the GOP would understandably prefer more AID resources be devoted to job creation.

Failure to prepare an Employment Plan, or to complete a new five-year Development Plan, helped ensure that certain issues related to employment policy would not be joined by the GOP. Should, for example, the Government place increasing attention on improving services and investment in areas outside of the Canal corridor in an effort to slow migration into Panama City and surrounding areas? What kinds of investments should be favored? In which sectors? What implications for secondary investment and job creation does the \$2 billion Cerro Colorado copper mine or a new canal have? What is an acceptable unemployment rate? These issues and others are profound and depend on careful research and an examination of economic--and political--costs and benefits for resolution. Many require better data than is presently available. Because of their high political and economic importance, their resolution is best left to Panama, with AID making available some of the tools and intellectual capabilities for their resolution.

Our decision to present this strategy document and the Employment Planning and Generation (EPG) project paper, absent the resolution of these policy issues and absent the framework of a National Development Plan, is premised first on clear evidence that even after the economic rebound of

1979 and 1980, unemployment remains unacceptably high and is likely to continue high, and second, because the Employment Planning and Generation (EPG) project contains within it creation of an employment policy analyses and research system designed to develop policies on these very issues.

Three factors led to selection and development of the EPG project as our first major intervention in this area. First, Panamanian authorities were adamant in their desires for an activity that produced jobs in the short run; second, the EPG project responds to our unemployed, low-skill target group; third, its success is not dependent upon existing policies and fourth, its policy and employment data components commence work in other aspects of the problem, central to a balanced approach. Discussions with the GOP about potential projects indicated that while policy reform was a recognized need, because policy issues are complex, politically sensitive and require time to resolve and detect results, programs which directly generate employment now have priority. Upon this conclusion, this USAID and Panamanian authorities developed a consensus that a three part activity starting policy analysis and reform, improving manpower data collection and utilization, while providing investment credit for job creation was the best approach.

The decision to emphasize small and medium size enterprises in the proposal's credit program was made because such firms tend to create jobs at lower cost than larger, more capital-intensive, firms; they tend to use relatively more labor-intensive technologies more appropriate to skill levels of the low-income unemployed than their larger counterparts; they tend to use more local raw materials and intermediate goods than larger firms; and because experience under other AID programs plus our research revealed an unmet demand for credit by small entrepreneurs. In other words, even without policy reform, prospects for expanded investment and job creation in small and medium enterprises was encouraging.

Second only to maintenance by the Government of Panama of policies and programs supporting job creation is the willingness and ability of the private sector to respond positively. The rate of private sector investment, together with its labor intensity, i.e., the number of jobs created per amount invested, will be key determinants of employment growth. Panama's private sector recognizes its crucial role in this regard. It sees its ability to create jobs directly flowing from private sector expansion and economic growth. In this context, its representatives express a sharing of employment development goals with the Government.

This cooperative attitude was not always as evident as now, nor even now are tensions completely absent. With the advent of the Torrijos 1968 revolution, the traditionally close and influential role of the private sector in government affairs was disrupted, and later, investor confidence was shaken with the imposition of labor codes and price regulations, and by government participation in sugar, cement and banana production. In recent years, however, the Government has worked carefully to improve its image with the result that public and private sector interests recently appear to

have become more in tune. It has managed its own financial affairs with care--recently earning high praise from the IMF. It has continued to support a seemingly continuously expanding international banking sector. It has appointed respected businessmen as Ministers. It has opened lines of credit to medium and small scale industries and continues major infrastructure improvements in support of further industrial expansion. It has modified the labor code. Finally, it has recognized the private sector as the key participant in economic growth and job creation. While these actions do not satisfy everyone, they are indicative of more than mere atmospherics and reflect a Government commitment of support to the private sector as central to economic expansion and job creation.

AID's employment strategy in Panama assumes and requires a continued positive relationship between the GOP and the private sector and will fail without it. The Mission detects no reason that would cause us not to expect a continuing and positive relationship.

The following sections of this paper amplify many of these statements and justify our conclusions. Part II traces Panama's economic performance and changing characteristics from the 1950s to the present, with emphasis given to how the economic structural problems of the late 1970s arose and affect current employment levels. Part III analyzes population, unemployment, and GDP data as well as labor/output ratios. This section concludes that unemployment is basically an urban problem and will increasingly be so in the future unless investment is stimulated and production processes become more labor intensive. Part IV considers the factors--from GOP economic policies to private banking credit decisions--which have been impeding and may continue to constrain more rapid labor intensive growth in GDP. Part V describes Panama's responses to the related investment promotion, job creation problem, noting the absence of both a National Employment Plan or Five-Year Development Plan. Increasing acceptance of the government and the private sector of the latter's role in promoting future economic growth is discussed as are the several recent actions of the government to encourage private sector investment. Part VI briefly summarizes the several conclusions arrived at in the paper.

II. ECONOMIC SITUATION

A. The 1950-1968 Period

Panama began the 1950's with characteristics similar to a dual economy--a high income, export-oriented, urban economy adjoining the Panama Canal contrasted with subsistence-level farming in relatively poor agricultural areas not well-linked to either the Metropolitan Area adjoining the Canal or the banana enclaves near the Costa Rican border. As a result of rapidly expanding world trade between 1955 and 1968, tonnage passing through the Canal grew at an annual average rate of 7.4%. Panama City thrived during this period. With the Remon-Eisenhower Treaty of 1955, most

of the commercial activities of the Canal Company were phased out. Many of the activities were assumed by businesses in Panama City, giving an obvious added boost to its growth. During this same period, the paving of the Inter-American Highway more closely linked the major population centers and expanded the domestic market. Finally, modest protection--usually by import quotas--encouraged the development of import-substitution industries. The result of these varied activities in this 1955-68 period was a sustained urban boom concentrated principally in the Metropolitan Area: manufacturing, utilities, and banking all grew at over 10% per annum. By 1970 economic activity was concentrated heavily in Panama City and Colon. Almost 70% of GDP was generated in these two provinces which had only one half the country's population. Sectorally these two Metropolitan Area provinces accounted for 81% of manufacturing, 94% of construction, 96% of transport, warehousing, and communication, 83% of commerce, and 78% of other services. Value added in agriculture was similarly concentrated. The two western provinces, Bocas del Toro and Chiriqui, with 12% of the population, generated almost two thirds of sector value added, principally due to concentrations of banana production. The Central Provinces, which accounted for almost 30 percent of the population, produced only about one quarter of value added in agriculture.

Panamanian Governments during the 1950s and 1960s intervened only lightly in the economy. Import tariff levels were low, and import quotas, though heavily protective, did not have a significant effect in the aggregate. Most utilities were privately owned. There was only one state-owned economic enterprise (Colon Free Zone), two government-owned banks run on commercial principles and a very small government owned agricultural bank. There was limited government investment in infrastructure and, with the exception of highways, much of the investment that did occur was in the Metropolitan Area, which had the highest population concentration.

There was little spatial or redistributed emphasis in Government policy. The fast-growing Metropolitan Area demanded increasing traditional public services and the Governments endeavored to satisfy this demand. While educational and health systems were extended to rural areas, their rural coverage was inadequate and systems were designed with the Metropolitan Area in mind. The lack of sizeable provincial centers and the wide dispersal of the rural population (38% lived in localities of 500 or less inhabitants) made the provision of services more expensive than in the Metropolitan Area.

B. The 1968-1974 Prerecession Period:

The Beginning of Economic Structural Change

By 1968 the economy was beginning to undergo some subtle but important structural changes as fewer and fewer easy import substitution choices, a small domestic market, and the lack of export orientation presaged a slowly declining manufacturing annual growth rate, from a 12%

high in 1968 to a negative 4% in 1974 just prior to the recession. Other changes were occurring which when combined together would produce a highly unstable economic situation just waiting for one more destabilizer to cast the economy into recession--a role that was ably played by the oil crisis of 1973. An important player during this period was the new Revolutionary Government which took power in 1968. This new regime implied changes, uncertainty, and government participation in the economic development of the country at a level never before experienced by the private sector.

The strategy and the programs developed by the Revolutionary Government were and continue to be based on the following list of beliefs:

- (1) While past economic growth and employment generation had been rapid, it had been unbalanced spatially and sectorally, and consequently was inequitable;
- (2) Too many Panamanians lived in rural poverty, untouched by relevant education and health services and receiving limited attention from the Government;
- (3) Prior stimulus to growth was ending. Little marginal export stimulus could be expected from the Panama Canal, the easy import-substitution phase in industry was ending, new sources of export growth needed to be stimulated; i.e., the economy needed to undergo major structural changes if it were to continue to enjoy the same level of growth as in the past; and
- (4) Major public infrastructure investment in power generation, transport infrastructure and agriculture was needed to attract and expand private investment.

The government believed that the nation's comparative advantage was in international trade and services which could be exploited in the Metropolitan Area--if supported by increased public investment--to produce an economic surplus. If the surplus then were invested in the rest of the country, it would produce sufficient growth to reduce glaring spatial income disparities. Interestingly, this approach is the reverse of the more traditional development strategy which attempts to create a rural/agricultural surplus to be invested in urban/industrial development. More conventionally, the Government expected that the development of the non-Metropolitan Area of Panama would retard expected migration to Panama City, raise rural incomes--especially those of the rural poor--and integrate the economy more closely by decentralizing industry and services. As a result of this belief that Panama has a comparative advantage in such international trade sub-sectors as banking, regional conventions, international commerce and other export oriented industries, considerable sums were spent on a new airport, convention center, and expansion of the Free Zone. In addition, new banking legislation was designed to improve Panama's attraction as an offshore banking center.

In the rural sector, health and education services, infrastructure (especially roads) and a major land reform emphasizing collective farms, were initiated. These investments have had greatest

success in the provision of basic public services in rural areas while simultaneously expanded coverage in urban area. Rural agricultural programs were distinctly less successful. Collective farms, for example, have proved to be a costly failure.

While the increase in government involvement in the provision of social services and in the development of the agricultural sector in the late 1960s might have been only mildly disconcerting to those accustomed to traditionally limited government role in the economy, there is little question that by 1972 the production and pricing policies pursued by the government were leading to private sector disenchantment. During the early 1970s the government increasingly became involved in production activities such as sugar and cement in direct competition with the private sector. In addition, it nationalized the telephone and power utility companies. However, the most controversial enterprises acquired by the state were agroindustries in citrus, sugar and bananas, the inefficient operation of which continues to plague the government.

The government made major policy changes in the employer-employee relationship and in price, tax, export and import-control procedures. The goal was to protect consumers and raise wages. Labor and housing legislation of 1972 and price controls were designed with this goal in mind, but, according to the private sector, raised costs and held down profits. At the same time, the construction and commerce sectors grew rapidly, but overextended themselves financially through easy credit and speculation.

By 1973-1974, the Panamanian economy was beleaguered by serious problems: canal tonnage had leveled out; import substitution had become more difficult; two of the most important sectors, construction and commerce, were overextended; and government policies alienated the private sector, thereby, inhibiting investment that might have replaced the traditional stimulators (canal traffic and import substitution) of the economy.

During a period of steady international economic growth, the country might have muddled through and been able to cope with these problems. Unfortunately, when the world turmoil and economic slow-down created by the oil crisis of 1974 was added to the list of problems, a series of events were unleashed which led to the worst recession Panama had experienced since 1944.

C. The 1974-79 Recession and Recovery Period

During the 1974-77 period private investment plummeted by \$118 million or 59%. In an attempt to step in and fill the gap left by the private sector, the GOP raised its investment by \$77 million or 49%. Unfortunately, public investment had little effect on domestic output and employment because investment was capital intensive, had large import components, and had long gestation periods. Increased public investment, financed mostly by commercial loans, caused the GOP's public debt to soar

from \$800 million in 1974 (44% of GDP) to \$1.5 billion in 1976 (75% of GDP). In late 1976, in an attempt to stimulate private investment, the government temporarily suspended collective bargaining and the provisions of the 1972 Labor Code that had severely constrained private investment decisions: existing contracts were extended for two-years and public sector salaries were frozen. Nevertheless, private investment failed to respond in 1977 as profitability and plant utilization remained low (presumably because of GOP pricing policies), access to credit limited, and investor confidence weak, with canal negotiations clouding future prospects. Private investment, which did not begin to respond until 1978--undoubtedly in response to the successful conclusion of the canal negotiations.

In 1979, improvement continued, reaching a remarkable 7% real growth rate, apparently resulting from pent-up consumer demand. Private consumption continued its recovery with a 16% increase while public-sector consumption went up only 5%. Private investment rose by 20%, while overall investment declined due to a reduction in public investment of 36% as a result of central government belt tightening. On the demand side, there were some mildly encouraging signs that private investment was beginning to recover, though activity was confined to construction and to the Colon Free Zone. Reflecting these trends, bank deposits and bank-credit expansion to the private sector--a good indicator of investment activity in Panama--advanced in real terms for the first time since 1973.

The overall public-sector deficit (for both the Central Government and the autonomous agencies) fell to 11% of GDP from \$365 million in 1978 to \$304 million in 1979. However, the current account deficit of the balance of payments rose for the second straight year to \$314 million, an increase of almost \$100 million. Thus, at the end of the decade Panama's external public debt was \$2.0 billion, with total public debt at \$2.6 billion (93% of GDP).

D. The Future

Preliminary data for 1980 indicate that, at 5%, the country's rate of growth of GDP was significantly less than the 7% registered in 1979 with only the banking, construction and real estate sectors experiencing increases over 1979. For 1981, the economy is expected to grow at about 5%, but could begin to slow down toward the end of the year if oil prices or interest rates continue to rise, or if inventories become too large. The critical external unknown is the availability of foreign credit, which the GOP traditionally uses to finance its investment budget.

The IMF is very optimistic about the GOP's ability to solve its problems, citing as reasons: the tax measures adopted in 1980 which, it is estimated, produced the first substantial savings in the Central Government's current account in several years (\$10 million), and should help bring financial stability in the future; the apparent commitment of the GOP to deal with inefficient government enterprises; the apparent commitment to a more realistic price control policy, as evidenced by the price changes

allowed for some products in early 1980; and a study to be undertaken with IDB to examine the country's industrial policy in order to determine the most appropriate plan of action for stimulating industrial development.

In summary, at the start of the 1980s Panama finds itself with an economy which has undergone significant structural change--an economy lacking traditional canal related and easy import substitution interventions capable of producing the growth needed to support its population. To survive, the country will have to mount an aggressive program in order to attract the investment needed to produce the ever increasing demand for jobs. The events of the 1975-79 period, when private investment fell to record lows, when government investment soared to record heights, and when public debt matched the upward spiral of government expenditures, underscore the critical role private investment must play in the Panamanian economy if sufficient and steady growth is to be achieved in the future. As noted previously the GOP's debt burden is and will continue to place considerable constraint on its ability to finance future investment projects and thereby affect the level of economic growth. If private sector investment does not replace the high public sector investment of the 1975-79 period and reattain its historic position as the leader in new investment, the economy will encounter extremely difficult times which can lead to steady deterioration in per capita incomes and the quality of life for all Panamanians, especially the poor, who suffer from what one might call the "LIFO effect"--last to enjoy the fruits of a growing economy, first to suffer when it declines. While in the early 1980s investor confidence seems to be returning, it is too soon to know if private investment will be sufficiently sustained and sufficiently labor intensive to stimulate the economy in the future.

III. THE NATURE OF THE UNEMPLOYMENT PROBLEM

A. Trends in the Economically Active Population, Employment, Unemployment and Underemployment.

1. Population Growth: Labor Force and Spatial Impacts

The annual natural population growth rate fell from over 3% during the late sixties to an estimated 2.4% in 1979. Preliminary results of the 1980 census indicate that the annual growth rate for the entire decade of the 1970s was 2.5%. Due to this significant reduction in population increase, the Panamanian Census Bureau lowered population projections for the year 2000 from the 3.0 to 3.6 million range to 2.6 to 3.3 million, with the most evidence pointing to 3.0 million.

As a result of the declining birth rate, the labor pool (those 15 and above) and the economically active population (EAP), generally defined as a fairly stable percentage of those in the labor pool, will continue to grow significantly faster than the non-working population (those

under 15 and over 64). In 1970, the labor pool was 53% of the population; by the year 2000 it is likely to be in the 63-67% range. In absolute terms, the economically active population resulting from the increasing labor pool will probably double between 1975 and 2000, from 537,000 to 1.1 million.

The other key aspect of Panama's population growth is its increasing urbanization, particularly in the Panama City-Colon metropolitan corridor. The 1980 census underscored this phenomenon. During the 1970s population increase in the province of Panama was 44%, much greater than in any other provinces. The change was less dramatic in the province of Colon, which was second in population growth. Only Bocas del Toro and Chiriqui experienced changes similar to that of Colon.

Defining "urban" to include agglomerations of urban functions, urban areas are projected to grow three to four times as fast as rural areas during the twenty year 1980-2000 period, with the Panama-Colon corridor expected to lead growth, have some 60% of the population by the end of the century, by which time the nation is projected to be over 70% urbanized, with rural population increasing less than 10%, from 784,000 in 1980 to 860,000 in 2000.

Population Trends 1/

<u>Year</u>	<u>Total Population</u>	<u>Metropolitan Population</u>	<u>Other Urban Pop.</u>	<u>Total Urban Pop.</u>	<u>Total Rural Pop.</u>	<u>Urb. as % of total Pop.</u>	<u>Metropolitan as % of Total Pop.</u>
1950	805,285	284,000	51,300	335,300	469,985	42%	35%
1960	1,075,541	411,300	77,000	488,300	587,241	45%	38%
1970	1,428,082	623,000	116,000	739,000	689,082	52%	44%
1980	1,830,175	889,000	157,000	1,046,000	784,175	57%	49%
1990	2,320,022	1,254,022	221,464	1,475,486	844,536	64%	54%
2000	2,940,977	1,768,922	312,389	2,081,321	859,656	71%	60%

1/ Calculations are based on official government statistics from the Census and Statistics Division of the Controller General and work done by Fox, Robert W., and Jerrold W. Hugguet, Population and Urban Trends in Central America and Panama, Inter-American Development Bank, Washington, D. C. 1977.

2. Nationwide Unemployment Rate

While there is widespread agreement that unemployment in Panama has increased significantly since 1974, there is disagreement on how high recent unemployment rates have been. Official data, based on annual surveys conducted since 1963, show that the national unemployment rate rose from 5.8% in 1974 to 8.7% in 1977, improved slightly to 8.1% in 1978, and then rose to 8.8% in 1979. (See Column 7, Table 1.) Few, if any, observers, however, believe these figures are realistic. Estimates of 15-20% are common, and, in Colon, the current unemployment rate is unofficially estimated at 25-35%, contrasted with IBRD's estimated 17.4% in 1970. A survey of four poor areas in Panama City and Colon, sponsored by AID in late 1979 and early 1980, found unemployment rates of more than 24; among low-income families the figure was almost 40%. ^{2/}

The GOP data seem to understate the recent growth of the economically active population (EAP) and overstate the "discouraged worker" effect--i.e., the withdrawal from the EAP of persons who have given up looking for work because of depressed economic conditions. In other words, the data appear to consider more people as out of the EAP--and therefore, neither employed nor unemployed--than seems warranted, with the result that GOP estimated unemployment is understated. Indeed, in a draft working paper for the 1981-85 National Development Plan, the GOP appeared to recognize that because of the substantial growth in what it calls "hidden" unemployment during 1975-78, "open" unemployment, previously used as the measure of national unemployment, may have understated "total" unemployment. This paper concluded, however, that with a 7% GDP growth rate in 1979, hidden, or discouraged, workers were insignificant and consequently, "open" and "total" unemployment are synonymous. Column 8 of Table 1 shows the "total" employment figure, including the hidden portion, as estimated by the GOP for the 1975-78 period. It is the Mission's conclusion, however, that even these adjustments do not reflect the existing unemployment situation.

The Mission believes the official 1967-74 EAP rates shown in Table 1 closely represent the true percentage of people in the 15-year-old-and-above category, who should be considered as actively seeking work. Table 2 then presents the Mission's estimate of unemployment, based on a constant 60% EAP rate for the 1970-79 period. It yields unemployment rates similar to official data for the 1970-74 period, but rates which are considerably higher for the remainder of the decade. In addition to the EAP adjustments, the Mission has reduced the official 1978 and 1979 employment statistics because they contain at least 17,000 jobs under the Plan de Urgencia created by the GOP in 1978. Since these jobs were not created by the economy, and since the plan was formally abandoned in March 1980, the official employment figures have been deemed artificially high, and thus,

^{2/} Bernbaum, Marcia, A Study of the Employment Characteristics of Residents of Four Low-Income Neighborhoods in Panama City and Colon; MIPPE and USAID, Panama 1980.

TABLE 1

Labor Force Data 1960-1979 (Reported) ^{1/}
(thousands of persons)

Year	Population 15 years Old +	Economically Active	Labor Force Participation Rate (%)	Employ- ment	Unemploy- ment	Unem- ployment Rate (%)	Open p hidden u employe
1960	571.0	330.0	57.8	300.0	30.0	9.1	
1961	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	
1962	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	
1963	620.0	360.0	58.1	339.0	21.0	5.8	
1964	636.0	365.0	57.5	338.0	27.0	7.4	
1965	659.0	379.0	57.5	350.0	29.0	7.7	
1966	680.0	391.0	57.5	371.0	20.0	5.1	
1967	697.0	409.0	58.7	384.0	25.0	6.1	
1968	713.0	435.0	61.0	404.0	31.0	7.1	
1969	737.0	450.0	61.1	420.0	30.0	6.7	
1970	762.7	466.2	61.3	432.9	33.3	7.1	
1971	786.8	471.3	60.7	435.6	35.7	7.6	
1972	811.7	482.2	60.2	449.4	32.8	6.8	
1973	835.8	499.0	59.7	464.1	34.9	7.0	
1974	869.5	517.4	59.5	487.4	30.0	5.8	
1975	896.1	492.8	55.0	461.2	31.6	6.4	7.5
1976	917.9	505.3	55.0	471.6	33.7	6.7	11.5
1977 (R)	950.1	515.2	54.2	470.4	44.8	8.7	11.8
1978 (R)	973.7	543.0	55.8	499.2	43.8	8.1	11.4
1979 (P)	1,002.9	577.8	57.6	527.0	50.7	8.8	

Source: Dirección de Estadística y Censo, Contraloría General de la República; Panama en Cifras, Años 1974 a 1978, y Años 1975 a 1979 and unpublished COP documents.

^{1/} Data for 1960 are from the national census conducted in that year. For the remaining years the data are based on annual labor force surveys beginning in 1963.

n.a. Not available.

(R) Revised by COP.

(P) Preliminary.

have been reduced by 17,000. We purposely employ a lower figure (17,000) for the Plan de Urgencia than in the FY 1982 CDSS because since then we have obtained estimates for this group which range between 17,000 and 25,000, with the former figure more likely to be the correct one. If the higher figure is correct, then our adjusted figures shown in Table 2, of course, would also be higher.

Finally, discussions with various GOP officials involved in the collection and reporting of employment data lead the Mission to question the quality of the data-collection process over the last few years.^{3/} As an example, review of Tables 1 and 2 reveals that the economy purportedly produced 27,000 jobs in 1979. While we cannot refute the figure, and although the large change may be explained by the combination of a relatively large 7% GDP growth rate based upon a relatively depressed economy, it is true that prior to 1979 the economy had created 20,000 or more jobs only three times: in 1966, 1968 and 1974. Except for these three periods, the economy historically has tended to produce 12,000-16,000 new jobs annually. Official data for 1979 point to an agricultural sector (comprising agriculture, hunting, forestry and fishing) employment increase of 10,680, a 7.4% increase over the previous year. In light of the decline in agricultural employment and the negative real growth of the agricultural sector for the past two years, these figures appear specious. If we assume that there was no increase in agricultural employment for 1979 (to us a reasonable assumption given historical information), the total number of new jobs created by the economy would be approximately 17,000--a plausible figure. Adding this adjustment to Table 2 produces an unemployment figure of 17%, which is consistent with the pattern of the two previous years. Until this assumed error is shown to be true, we believe that the pattern will hold and that the next several years will see employment grow in the 12,000-16,000 range--insufficient to employ all the new entries into the work force.

Finally, a comment is warranted on the large difference between the Mission and the GOP estimates of the 1979 unemployment level. The larger unemployment rates for 1975-79 estimated by the Mission lead to a total unemployment figure of 92,400 for 1979, nearly double the official GOP figure of 50,700. A different approach than described above can be used to check the validity of these figures. Table 2 indicates that employment did not regain the 1974 level of 487,000 until some time in 1979; hence, one could say that all those people desiring employment, i.e., the increase in

^{3/} In Appendix 1, Clarence Zuvekas of LAC/DP presents an excellent review of the data collection problems plaguing the employment statistics in Panama. He also develops his own "conjectural" employment estimates and presents those of the IBRD. Both are slightly less than the Mission's estimates. The Mission believes the estimate of EAP is too low in both cases, and that the Plan de Urgencia is not properly accounted for during the 1977-78 period.

TABLE 2

Labor Force Data, 1970-1979 (Mission Estimates)^a
(thousands of persons)

Year	Population 15 Years Old +	Economically Active Population ^b	Labor Force Participation Rate (%) ^b	Employ- ment ^a	Unemploy- ment ^b	Unemployment Rate (%) ^b
1970	762.7	457.6	60	434.3	23.3	5.0
1971	786.8	472.0	60	441.3	30.7	7.0
1972	811.7	487.0	60	455.4	42.4	6.0
1973	835.8	501.5	60	464.1	37.4	7.0
1974	869.5	521.7	60	487.4	34.3	7.0
1975	896.1	537.7	60	461.2	76.5	14.0
1976	917.9	550.7	60	471.6	79.1	14.0
1977	950.5	570.3	60	470.5	99.8	17.0
1978	973.7	584.2	60	482.3 ^b	101.9	17.0
1979	1,002.9	601.7	60	509.3 ^b	92.4	15.4

^a Source: Panama en Cifras, Años 1975-79. Dirección de Estadística y Censo, Contraloría General de la República.

^b A constant 60% labor force participation rate has been used to smooth-out the unexplained and erratic participation rate used in official statistics. In addition the official 1978 and 1979 employment figures have been reduced by the 17,000 workers placed on the public dole under the Plan de Urgencia.

EAP, (80,000), during the period 1975-79 were unable to find work.^{4/} Adding the 34,300 unemployment level of 1974 gives an estimated total unemployment of 114,300 for 1979. Seen in this context, the Mission's estimate of 92,400 appears to be more reasonable than the GOP's official 50,200 figure, which, according to recent newspaper reports, has been unofficially stated by government officials to be 100,000. Based on its analysis, the Mission, therefore, concludes that there are at least 92,000 unemployed, and probably 100,000.

The employment problem is not limited to unemployment, however, because it does not consider those who, although employed, make less than what would be considered a subsistence wage, either because they are only able to find part-time work or because their wages for full-time work are too low. The GOP estimates that 14-19% of the work force was underemployed in 1975 and that this is a critical problem in the agricultural sector. A 1974 study by ILO/PREALC estimated that 30-50% of the economically active population was underemployed. Thus, while it may be difficult for people to agree on the precise individual unemployment and underemployment rates, it is obvious that when they are grouped together they represent a serious problem to Panama.

B. Disaggregating the National Unemployment Figures

To better understand how unemployment impacts upon different groups, i.e., by sex, age, economic sector and geographic area, we rely on understated, perhaps somewhat inaccurate, official data. It is unclear what adjustments would be needed and how their impact would alter the relative importance of various subgroups. With that caveat and the assumption that the official figures are not grossly distorted, unemployment by sex, age, economic sector, and geographic area are discussed below.

1. By Age and Sex

The following discussion is a summary of Tables 3 and 4.

Of the total number of women in the 15-and-above population group, only 35% are economically active. For men, the percentage is 81%. Hence, in 1979, women represented only 31% of the EAP, but accounted for 47% of the unemployed.

For 1976 (the last year for which such data are available):

a) For the entire country, of total unemployed, 21.8% were 15-19 years old and 31.5% were 20-24. Therefore, 53.5% of the open unemployed were young (15-24).

b) For the entire country, of both age groups, 14.4% of 15-19

^{4/} Calculated by subtracting the number of people in the 15-and-above population group in 1974 (869,500) from those in 1979 (1,002,900), and multiplying the difference (133,400) by the labor-participation rate (.6).

Table 3
Unemployment by Sex, 1978

	Total	Male	Female
Total population 15 years old and above	973,730	482,600	491,130
Economically active population	543,040	378,650	164,390
Participation rate (%)	55.8	78.5	33.5
Employed	499,240	355,030	144,210
Unemployed	43,800	23,620	20,180
Unemployment rate (%)	8.1	6.2	12.3

Source: "Dirección de Estadística y Censo, Contraloría General de la República" (preliminary data).

Table 4

Unemployment by Age Group, 1976

Age Group	Nationwide			Metropolitan Area			Rest of the Country		
	Total	Male	Female	Total	Male	Female	Total	Male	Female
A. <u>Number of Unemployed Persons</u>									
15-19	7,350	3,820	3,530	4,440	2,220	2,220	2,910	1,600	1,310
20-24	10,650	6,130	4,530	8,580	4,970	3,610	2,080	1,160	920
25-29	5,620	2,630	2,990	4,550	2,090	2,460	1,070	540	530
30-39	5,610	3,250	2,360	4,340	2,620	1,720	1,270	630	640
40-49	2,730	1,690	1,040	2,210	1,360	850	520	330	190
50-59	970	800	170	650	530	120	320	270	50
60-69	490	450	40	410	370	40	80	80	--
70 +	270	270	--	120	120	--	150	150	--
<u>Total:</u>	<u>33,700</u>	<u>19,040</u>	<u>14,660</u>	<u>25,300</u>	<u>14,280</u>	<u>11,200</u>	<u>8,400</u>	<u>4,760</u>	<u>3,640</u>
B. <u>Unemployment Rates</u>									
15-19	14.4	11.0	21.7	19.4	17.8	21.2	10.4	7.2	22.6
20-24	13.4	11.7	16.6	17.7	16.9	18.9	6.7	5.1	11.3
25-29	7.1	4.9	11.6	9.5	7.2	13.0	3.4	2.2	7.7
30-39	4.5	3.6	6.9	6.1	5.5	7.2	2.4	1.5	6.0
40-49	3.3	2.8	4.7	4.8	4.4	5.4	1.4	1.1	2.8
50-59	1.9	1.9	1.7	2.4	2.5	1.8	1.3	1.3	1.5
60-69	1.8	2.0	1.0	3.6	4.2	1.6	0.5	0.6	--
70 +	3.2	3.5	--	4.8	5.7	--	2.5	2.6	--
<u>Total:</u>	<u>5.7</u>	<u>5.2</u>	<u>10.4</u>	<u>9.0</u>	<u>7.9</u>	<u>11.2</u>	<u>3.7</u>	<u>2.6</u>	<u>8.4</u>

Source: "Dirección de Estadística y Censo, Contraloría General de la República, Situación Social: Estadísticas del Trabajo, Año 1976 (Panamá, March 1979), pp. 17-18.

and 13.4% of 20-24 were unemployed. These are more than double the 6.7% national rate.

c) For the entire country, of both age groups, 21.7% of women 15-19 and 16.6% in 20-24 were unemployed. For men the rates were 11.0%, and 11.7% respectively.

d) In the metropolitan corridor, 19.4% in the age group 15-19 and 17.7% of those 20-24 were unemployed. For the rest of the country, the rates were 10.4% and 6.7%.

2. By Economic Sector

Data for the distribution of unemployment by economic sector does not allow any reliable conclusions because there is such a large number of newly unemployed workers that are not assigned to any sector. More research is needed to determine the sector orientation and skill levels of the unemployed and the characteristics of those unemployed. While little can be said about unemployment by sector, a great deal can be said about employment by sector and sector contribution to GDP.

Table 5 presents employment and Gross Domestic Product (GDP) data by sectors for 1960 and 1979. The changes in the service and agriculture sectors reveal an interesting portrait of a changing economy over the twenty-year period. The service sector's share of GDP rose from 40% in 1960 to 48% in 1979, creating 129,000 new jobs, and thereby raising its share of total employment from 24% in 1960 to 38% in 1979. In contrast, the agriculture sector's share of GDP fell from 24% (1960) to 14% (1979), and its share of employment fell from 51% (1960) of the labor force to 29% (1979).

Between 1960 and 1979, Panama's economy produced 227,000 new jobs. Of this total 57% occurred in services, 19% in commerce, 13% in manufacturing and 10% in construction. If the unexplained large increase in 1979 is ignored, employment in agriculture would have fallen by some 6,000 jobs over the twenty-year period.

The employment/output coefficient by sector from 1960 through 1978, is defined and presented in Table 6. Several conclusions can be drawn. The economy tended to become more capital intensive in the 1970s; and, in the 1970-78 period, finance and related services and services produced a greater percentage increase in employment per percentage increase in sector output than any other sector.

3. By Geographic Area

The average national employment figures shown in Tables 1 and 2 hide significant regional variation. As already noted, there are many areas in Panama City and Colon suffering 24%-40% unemployment. The official laborforce trends in the metropolitan area are shown in Table 7 along with the Mission's estimates adjusted to eliminate the 17,000 hired under the Plan de Urgencia and the .60 EAP rate as discussed earlier. For 1978 and 1979 we estimate that unemployment rates were considerably higher than those officially announced, with unemployment considerably higher in the

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TABLE 5

GDP AND EMPLOYMENT BY SECTOR^{1/}
1960 and 1979

	GDP (\$ Millions) ^{2/}		Employment (Thousands) ^{3/}			
	<u>1960</u>	<u>1979</u>	<u>1960</u>		<u>1979</u>	
Agriculture	95.2 (24)	195.1 (14)	154 (51)		155.6 (29)	
Manufacturing industries	40.9 (10)	186.6 (14)	24 (8)		53.4 (10)	
Construction	22.5 (6)	64.9 (5)	9 (3)		30.8 (6)	
Commerce	47.9 (12)	183.4 (13)	27 (9)		70.9 (14)	
Services	154.1 (40)	640.4 (48)	70 (24)		198.7 (38)	
Canal Area	<u>30.4 (8)</u>	<u>80.8 (6)</u>	<u>16 (5)</u>		<u>17.6 (3)</u>	
Total	<u>391.0</u> 100	<u>1,351.2</u> 100	<u>300</u> 100		<u>527.0</u> 100	

1/ 1960 Prices.

2/ Panamá en Cifras, 1959 a 1963 y 1975 a 1979, Dirección de Estadística y Censo, Contraloría General de la República.

3/ Censo de Población, 1960 - 1980, Contraloría General de la República

Agriculture includes: agriculture, fish, silviculture, and mining activities.

Commerce includes: wholesale and retail trade.

Services include: electricity, gas, water, sewer, transport, storage, communications, banking, insurance, housing, public administration and public and private services.

TABLE 6

PANAMA - EMPLOYMENT/OUTPUT COEFFICIENT ^{1/}BY SECTOR, 1960-70 AND 1970-78

<u>SECTOR</u>	<u>1960-70</u>	<u>1970-78</u>
Agriculture	0.09	-0.35
Manufacturing	0.64	0.50
Construction	1.01	0.50
Electricity, Gas and Water	1.28	0.74
Commerce	0.82	0.41
Transp., Comm., Storage	0.52	0.58
Finance and Related Services	0.69	0.93
Services	0.95	0.87
Canal Area	0.25	-1.77
TOTAL	0.46	0.42

^{1/} The coefficient represents the relationship between the rate of growth in employment and the rate of growth in output (GDP). The lower the ratio, the more capital intensive the economy tends to be. Negative values reflect fall in employment.

Source: OIT/PRELAC, Situación y Perspectivas del Empleo en Panamá, for 1960 and 1970, and INDESA, Factores que Afectan la Demanda por Mano de Obra en Panamá, December 1979, pp. 59-65.

TABLE 7
LABOR FORCE TRENDS FOR THE METROPOLITAN REGION
1974-1979

	1974	1975	1976	1977	1978	1978 (Adjusted)	1979	1979 (Adjusted)
Population 15 years and over	455,800	478,630	501,060	534,260	552,000	552,000	574,317	574,317
Economically Active Pop. Participation Rate	280,300 61.5%	284,100 59.4%	279,760 55.8%	289,680 54.2%	314,020 56.9%	331,200 60.0%	342,522 59.6%	344,590 60.0%
Non-economically Active Pop. Percentage of Pop.	175,500 38.5%	194,530 40.6%	221,300 44.2%	244,580 45.8%	237,980 43.1%	220,800 40.0%	231,795 40.4%	229,727 40.0%
Employed	260,400	259,030	254,920	256,000	281,240	264,240	301,835	284,835
Unemployed	19,900	25,070	24,840	33,680	32,780	66,960	40,687	59,755
Unemployment Rate	7.1%	8.8%	8.9%	11.6%	10.4%	20.2%	11.9%	17.3%

Source: 1974-1979, Controller General, Bureau of Statistics and Census.
 1978-1979 Adjusted - Mission estimates, based on 0.60 EAP rate and reduction of official COP employment figure by 17,000 for 1978 and 1979 to account for those being employed under the Plan de Urgencia.

metropolitan region than elsewhere. According to the latest official available data shown in Table 8, the metropolitan region's 1978 10% unemployment rate was at least twice as great as any other region's.^{5/} However, since unemployment statistics are understated by at least the 17,000 Plan de Urgencia employees in the Metropolitan Area, a closer estimation of metropolitan unemployment in 1978 should include these 17,000. Adding this sum to the official 32,780 unemployment figure in Table 7 raises the official unemployment rate to 16% for the Metropolitan Area, triple that found in any other region. In absolute terms the Metropolitan Area's dominance over other regions is even more striking. From the official figures of Table 8, the Metropolitan Area contains 75% of the country's unemployed. If the 17,000 from the Plan de Urgencia are added, the percentage rises to 82%. And, the somewhat questionable, preliminary official 1979 data indicate that the percentage is about 80%. The difference in unemployment rates and levels is so striking, and the absolute levels in the regions outside the metropolitan area so small, that one could almost conclude that all unemployment is found in the metropolitan area. As we will discuss in a later section, such a conclusion may not be far from the truth since most of the other regions are agricultural in nature and in agricultural areas underemployment tends to be the norm, and the problem to be confronted rather than unemployment.

IV. ANALYSES

A. The Relationship Between Unemployment and Poverty and the Geographic Distribution of Poor Families.

The unemployment data presented in the previous sections indicate quite unmistakably that nationwide unemployment is currently quite high and that it is a major Metropolitan Area phenomenon. However, still to be discussed is the relationship between unemployment and poverty, and the conclusion that high unemployment indeed is a significant problem. This section shows that though there may not be total equivalency between unemployment and poverty in the Panamanian case, it is close enough to warrant the use of the unemployment figures as an indicator of the magnitude of the urban poverty problem and, implicitly, the potential for social unrest.

^{5/} We use the official regional data without any adjustments except for the 17,000 because, while the application of the .6 FAP would raise the absolute level of unemployment in all regions, the relative values would not change, and because our argument can be made without resorting to the other adjustment.

Table 8
Unemployment by Geographic Location, 1978

	Total Population 15 Years Old and Above	Economically Active Population	Employed	Unemployed	Unemployment Rate (%)
Metropolitan region	552,000	314,020	281,240	32,780	10.4
Eastern region	27,200	15,350	14,860	490	3.2
Central region	242,490	131,390	124,730	6,660	5.1
Western region	152,020	82,280	78,410	3,870	4.7
Total:	<u>973,730</u>	<u>543,040</u>	<u>499,240</u>	<u>43,800</u>	<u>8.1</u>

Source: "Dirección de Estadística y Censo, Contraloría General de la República"
 (preliminary data).

Before we can arrive at the above conclusions, we need to consider the geographic distribution of poverty and we need to interpret the finding that 53.5% of the unemployed are in the two young age groups, 15-19 and 20-24, and that underemployment rather than unemployment is the basic problem in rural, agricultural areas.

1. The Geographic Distribution of Poor Families

Using 1975 data, Broehl developed an urban/rural family poverty distribution for Panama which indicates that 60% of all poor families (defined as living below a specified subsistence level) are found in the rural areas.^{6/} As Table 9 indicates, of the remaining 40% which are urban, 31% live in the metropolitan area while the remaining 9% are scattered among the smaller urban areas. Even though there are more poor families in the rural areas than in the urban, the 20% difference is surprisingly small, and given the potentially greater volatility of the urban groups, the number of families in the 40% urban figure is more than large enough to require careful consideration by the authorities. With increasing urbanization, of course, this difference of geographic spread should diminish. For example, if we make the reasonable assumption that the same current relationship between urban poverty (40%) and urbanization (57%) will exist in the year 2,000, we would conclude that as the country becomes more urban (72%), the percent of poor families living below the poverty line, as established by Broehl, will rise to nearly 50% in the urban areas. In other words, as Panama becomes more urbanized, the urban and rural areas will tend to contain about the same number of poor families. For a country program that is an important finding.

The relationship between urban unemployment and poverty, is more difficult to determine because available data may not be strictly comparable. Nevertheless, in Table 9, Broehl estimates that in 1975 there were 127,924 poor families in the country, with 40,068 found in the Metropolitan Area. On the other hand, Table 8 indicates that of the country's total 60,800 unemployed in 1978 (adjusted for the 17,000 from the Plan de Urgencia) 49,280 were found in the Metropolitan Area. Broehl's earlier data obviously include those unemployed as well as underemployed who are not receiving a subsistence living. There surely is a great similarity between 40,068 poor urban families in 1975 and 49,280 urban unemployed in 1978 because it is highly likely that real income fell between 1975 and 1978 and hence that the number in the subsistence category rose. Although the relationship between unemployment and poverty for the metropolitan area may be strong, in the rural sector unemployment is estimated at approximately 28,000 while poverty (unemployment plus underemployment) is estimated at about 88,000 families--not a very tight relationship. One is left to conclude that in the metropolitan area severe underemployment leading to incomes below a specific subsistence level is not as prevalent as in the rural areas and that, therefore, the absolute unemployment figures are

^{6/} Broehl, Allan. Workforce Development Project: Panama 525-0214. Report prepared for USAID/Panama, 13- November-1 December 1978.

TABLE 9
 URBAN/RURAL DISTRIBUTION OF POVERTY
 1975

<u>Geographic Location</u>	<u>Poverty Line ^{1/} (Dollars)</u>	<u>Number of Poor Families</u>	<u>Percent of Families in Geographic Location</u>	<u>Percent of Poor Families</u>
Urban Panama/Colon	175	40,068	29.8	31.3
Other urban areas	125	10,240	32.5	8.8
Rural areas	75	77,616	54.6	60.7
TOTAL	-	127,924	41.5	100.0

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

1/ Monthly family income.

rough proxies for poverty only in the Metropolitan Area. The percentage urban unemployment figures themselves, however, may tend to unduly overstate the severity of the Metropolitan Area poverty problem. For example, the absolute 49,280 unemployment figure for the Metropolitan Area represents 82% of total unemployed whereas the 40,068 poor families in the same area represent, as we have seen, only 31% of all poor families. Nevertheless, our conclusion is that though the percentage of the total unemployment found in the Metropolitan Area (82%) may tend to exaggerate the poverty problem in the area, it does represent a sizeable percentage of the total poor families, 31%, as well as an absolutely large number, 40,680, to justify the use of the unemployment percentages as an indicator of the severity of poverty in the Metropolitan Area of Panama.

2. Impact of Age of Unemployed on Importance of Unemployment Rate

Typically, many of the unemployed in the 15-24 age group are first-time job seekers and are secondary wage earners (i.e., not head of household).^{7/} Because of the phenomenon, there exists the temptation to discount a great percentage of this group from the ranks of the open unemployed on the grounds that these people are not really poor and can depend on someone else in the family for support if work is not found. However, such a conclusion is premature because these unemployed secondary workers still represent a significant social problem.

First, unemployment in this age group is not limited to upper and middle income groups who can readily sustain secondary income contributors during periods of unemployment. Second, even for those who are not hard pressed, financially prolonged unemployment foments frustration and contributes to social and political problems, not to mention the opportunity costs represented by the unused, often well-educated unemployed.

Perhaps the key finding of the low-income neighborhood study in Panama City and Colon, and one which most differentiates target group members from the metropolitan population as a whole, is the high level of unemployment among individuals of working age.^{8/} Unemployment, at 24% for the sample as a whole, rises to 39% for individuals from families with per capita incomes of B/500 or less. For women and young people in these neighborhoods, unemployment rates were 45% and 65%, respectively. These higher unemployment rates follow the general Metropolitan Area pattern for women and young people. Overall unemployment rates, however, are more than three times higher for the lowest income groups in these neighborhoods than for the most recent estimates for the metropolitan areas of Panama.

For unemployed secondary wage earners in families who are not below the "poverty line", unemployment represents a different, although by no means negligible, problem. Frustrations mount as skills, acquired often

^{7/} In urban areas secondary wage earners are more apt to be unemployed rather than underemployed because they can depend on others for support. In contrast, poor urban head of households tend to be underemployed because they cannot afford to be totally unemployed.

^{8/} Bernbaum, Marcia, op. cit.

through heavy family and personal sacrifices, go unused. Significant investments made both by the individual and the Government in costly education and training programs are rendered unproductive and even may deteriorate through non-utilization. The economic costs to the society are very high while individual frustrations contribute to potential political and social disruptions.

3. Impact of Underemployment

As discussed earlier and vividly illustrated by Broehl's work in Table 8, and Table 9, underemployment is more of a problem than unemployment in rural areas.

Underemployment may be defined in a number of ways, including (1) difference between actual days worked and an appropriate "full-employment" norm, and as (2) a measure based on the number of persons in the EAP whose incomes are insufficient to meet minimum basic-needs standards for themselves and their families. The latter mixes employment and income factors and as a result can be criticized for not being a precise definition of unemployment. Notwithstanding the shortcoming, however, it is an important definition because it recognizes that many persons who are fully employed in a labor-time sense have incomes below poverty lines determined by minimum basic-needs standards. This is true in both rural and urban areas, and is especially true at this time in the rural areas where 60% of poor families are located.

Although underemployment is much more common in rural than urban areas, it should not be interpreted to mean that urban underemployment is insignificant. To the contrary, although its character is decidedly different than rural underemployment, urban underemployment is a serious urban problem too. Utilizing the findings of the low-income study in Panama City and Colon, some employment characteristics of these low income urban families can be determined.^{9/} Of most importance is the large number of income earners in wage and salary employment. One of the key findings of this study, and one which has strong implications for employment strategies of AID and the GOP directed toward low-income individuals living in urban areas, is that the majority of those interviewed (70%) fall under the category of the "modern" or "wage and salary sector."^{10/} This finding is further substantiated by Broehl in his work on an employment profile of low-income workers in the metropolitan areas of Panama using 1975 data.^{11/} Over 50% of those workers identified as low-income were wage and salary workers. The income levels are significantly lower for those working in small firms (with five or less employees) and for the self-employed. As expected, the highest employment concentration of low-income urban workers is in the commerce and service sectors. While a great deal more information is required to better understand the employment problems of urban low-income

^{9/} Ibid.

^{10/} Ibid p. 26.

^{11/} Broehl, op. cit.

families, it is significant that they represent such a large proportion of the total number of poor families and that most of them depend on organized wage and salary employment.

B. The Unemployment Outlook for the 1980s and 1990s.

1. The causes of the current problem

There are three major causes of the high unemployment problem currently affecting Panama which threaten to make it a permanent, ever increasing condition for the next 15-20 years. The first, most obvious and dramatic cause, as discussed above, has been the recession of 1975-77, which followed the worldwide economic dislocation resulting from the sharp oil price increases of 1974. Not until 1979 did the economy recoup the 26,000 jobs lost in 1975 as a result of the recession, and then only barely exceeded the employment level it had obtained five years earlier. The two other causes continue to be more subtle: an increase in the number of people in the 15-64 working age group and an economic structure unable to absorb these larger numbers of people, perhaps until the 1990s.

2. The Future Geographic Distribution of the Unemployed

From Table 8 we earlier established that the Metropolitan Area contains at least 75% of the unemployed. And, from the Population Trends chart at the beginning of the paper we estimated that there will be an unmistakable trend to increased concentration of the population within the urban metropolitan area--from 50% in 1980 to 60% in 2000.

If the 50%/75% relationship, which currently exists between the percentages of total population and unemployed in the Metropolitan Area, continues to exist when the Metropolitan Area houses 60% of the population in the year 2,000, then by that year over 90% of the nation's unemployed will be in the metropolitan area.

We already have estimated that approximately 50% of all poor families will live in the Metropolitan Area by the year 2000. If we add to this the increasing concentration of the unemployed from 60% to 90%, social tension can only become exacerbated.

3. The magnitude of the problem

The change in the ability of the economy to employ those seeking work is illustrated in Table 10. The presentation in this Table of the supply and demand for labor is based on average figures and, thus, suffers all the sins of averages. However, it does provide a simple, graphic picture of the relationship between people coming into the job market and the economy's ability to absorb them during the 1960-2000 period. The assumption underlying its results are discussed in the following paragraphs.

If we take the official projected population figures for the 15-64 age group during the 1968-2000 period, make a reasonable assumption about the number of people actively seeking work, and assume that 90% of these will be employed, we can establish the number of jobs the economy must provide if a 10% unemployment ^{12/} rate is to be met.^{13/} This information is found in columns 2, 3 and 4 of Table 10. If we then use historical trend data to estimate the number of jobs the economy will produce under a specific GDP growth rate, we can see the impact of the increasing size of the 15-64 age group upon the current and future unemployment situation. Studies by the Panamanian economic researcher, Guillermo Chapman, and the Mission of the 1964-79 period indicate that for every one-percent change in GDP, employment rose by approximately 0.46% for the 1960-75 period and should rise by 0.42% for the 1975-2000 period.^{14/} If we assume that the economy grows at 7% annually (a level achieved many times up to 1975), employment would rise annually by 3.22% (7% x .46) during 1960-75 and 2.94% (7% x .42) thereafter. In addition to the 7%, 0.46% and 0.42% assumptions, we have assumed that 60% of those in the 15-64 group will actively seek work (the norm prior to 1975), which the Mission and others believe more nearly reflects the actual situation. Column 5, reveals whether the economy can employ at least 90% of the new job entrants.

As a comparison of columns 3 and 4 illustrates, from some time in the early 1970s to a point in the late 1980s, a Panamanian economy growing at 6%-8% could not provide enough jobs to keep the unemployment of the new job seekers at 10%, much less reduce the unemployment pool that resulted from the mid-1970 recession. Only in the 1990s does the economy begin to provide more job opportunities than are sought by the 15-64 age group. Hence, only in the 1990s will the economy begin to resolve the large unemployment problem inherited in the 1970s, which, as we noted earlier, was estimated to be slightly over 100,000 at the end of 1979. The strong implication of these results is that if the economy does not reach a 7% or higher growth rate, unemployment will likely grow more rapidly.

^{12/} While higher than the 5-7% range of the 1960s and the 5% target unemployment rate in the draft 1981-85 National Development Plan, the 10% target is illustrative of how the economy must perform to reach even an intermediate level. Were the 5% target used, the demands upon the economy to generate jobs would be proportionally greater.

^{13/} Due to retirements, an economy does not need to create new jobs for all the 90%. However, since retirements make up such a small percentage of total existing jobs, we have ignored this phenomenon because its inclusion would not affect substantially our argument.

^{14/} Chapman, op. cit.

TABLE 10

HANGING ABILITY OF THE ECONOMY TO ABSORB ITS LABOR POOL

<u>Period</u>	<u>Average Yearly Increase in 15-64 age group over the period</u> ^{1/}	<u>Average Yearly change in EAP (Col. 1 x .6)</u>	<u>Average yearly Number in Group needed to be employed to achieve 10% unemployment (Col. 2 x .9)</u>	<u>Average number of jobs created yearly by economy</u> ^{2/}
1960-1965	18,125	10,875	9,788	10,400
1965-1970	23,323	13,993	12,594	12,000
1970-1975	26,961	16,176	14,558	14,200
1975-1980	30,533	18,320	16,488	15,000
1980-1985	34,303	20,582	18,524	17,400
1985-1990	36,877	22,126	19,913	20,200
1990-1995	36,888	22,133	19,920	23,200
1995-2000	35,755	21,453	19,308	27,000

^{1/} The 15-64 age group was used in place of the more usual 15-and-above group because data collection was easier and because the results would not be significantly different (had the larger age grouping been used, the disparity between those seeking jobs and job availability would have been somewhat greater).

^{2/} Derived by multiplying the 1960 official employment figure of 300,000 by the result obtained from multiplying the employment/output coefficient by the assumed 7% yearly growth rate in GDP, compounded for the five-year period. The increased employment over that period is then obtained and divided by 5 in order to give the yearly average. An employment/output coefficient of 0.46 is used for the 1960-75 period while 0.42 is used for the remaining years in order to reflect the economy's increasing capital intensiveness in the early 1970s. Example: $(0.46 \times 7\% - 1.22\%) (1.0722)^5 \times 300,000 = 52,000$. The employment increase resulting from 0.46 and 7% assumptions and the official 300,000 employment figure for 1960, thus, is 52,000. Dividing by 5 gives the 10,400 average annual figure.

In his study, Chapman carries out a series of sensitivity analyses on the economic growth and labor-intensive variables to determine their impact. Using alternative assumptions about the GDP growth rate, the employment/output coefficient,^{15/} and the participation rate of the EAP, he provides 18 alternative unemployment rate figures, ranging from 3.3% to 25.1% in 1985 and from -6.3% to 29.5% in 1990.^{16/} The results are summarized in Table 11. If we assume a 6% GDP growth rate nationwide, and employment/output coefficient of 0.50 (slightly higher than that actually achieved during 1960-74), and participation rate of 60% (probably close to the figure), the unemployment rate nationwide would still be 18.6% in 1985 and 18% in 1990. Expressed as numbers of unemployed, the rates translate into 138,000 and 153,000 individuals.

The World Bank makes some less pessimistic projections for the Metropolitan Area.^{17/} When adjusted for an obvious understatement in the metropolitan unemployment level in 1980, the IBRD projection for 1990 would approach 10%. The basic differences between the two sets of projections lie with the IBRD's assumption of a 7% GDP growth rate and an employment/output coefficient of 0.6 as contrasted with Chapman's 6% and 0.5 figures.

Although the IBRD unemployment figures may be low because of the optimistic GDP growth rate and unemployment/output figures, and although Chapman's figures may be somewhat high because of a possible underestimation of base-year employment, they both, nevertheless, highlight the importance to Panama of a more labor-intensive development strategy (i.e., an employment/output coefficient of close to 0.60) and/or a GDP growth rate higher than 6%. And, concomitantly, since a higher GDP growth rate is likely to be more difficult to achieve now than prior to 1974, the figures highlight the importance of developing effective investment/employment policies and programs by the GOP as soon as possible.

The above conclusions take on an even more sombre note when we consider how much new investment would be needed over just the next 10 years to maintain employment at 10% if the relationship between investment and job creation in the decade of the 1970s is maintained. Between 1970 and 1979 total investment (private and public) in Panama's economy was

^{15/} I.e., the relationship between the rate of growth of employment and the rate of growth of output (GDP).

^{16/} The negative figure indicates that labor demand would exceed labor supply. Only six cases are shown in Table 11.

^{17/} International Bank for Reconstruction and Development (IBRD). Panama's Development in the 1980's: A Special Economic Report. 2 vols. Report No. 2306-PAN. Washington, D. C. 20 July 1979.

TABLE 11

**IMPACT OF ECONOMIC GROWTH AND
ECONOMIC STRUCTURE ON UNEMPLOYMENT
1979-1990**

	GDP GROWTH RATE	EMPLOYMENT/ OUTPUT^{1/} COEFFICIENT	ANNUAL JOBS CREATED 1979-1985	UNEMPLOYMENT RATE 1985^{2/}	ANNUAL JOBS CREATED 1979-1990	UNEMPLOYMENT RATE 1990
1	4%	0.40	8.3	25.1%	8.7	29.5%
2	4%	0.60	12.8	21.5%	13.6	23.1%
3	6%	0.50	16.3	18.6%	17.6	18.0%
4	6%	0.60	19.8	15.8%	21.8	12.6%
5	8%	0.50	22.3	13.8%	24.7	8.8%
6	8%	0.60	27.3	9.7%	30.9	0.8%

^{1/} The coefficient is rate of growth of employment over rate of growth of GDP.

^{2/} An EAP of 0.6 is assumed.

Source: Factores Que Afectan La Demanda Por Mano de Obra en Panama by Guillermo O. Chapman, Jr., prepared for the Ministry of Planning and USAID/Panama, Panama City, December 1979. In all of the cases above, a 60% labor participation rate is assumed.

approximately \$3.0 billion. With the economy producing 92,727 jobs during this same period, the average cost per job created was \$31,750. From Table 10 we estimate that for the 1980-1989 period it would be necessary to create approximately 234,000 new jobs if we are to keep the unemployment rate at 10%. ^{18/} At \$31,750 per job, the total investment needed during the decade would be \$7 billion or \$700 million per year.

V. CONSTRAINTS TO MORE RAPID ECONOMIC GROWTH AND TO A REDUCTION OF UNDER-EMPLOYMENT AND UNEMPLOYMENT

A. Government Economic Policy Constraints.

Not unlike many LDC and even developed countries, Panama has attempted to regulate or fine tune its economy via administrative actions for the purpose of attaining a higher level of social and economic well-being. As a consequence, a complex and often contradictory array of Government policies and regulations involving price controls, labor legislation, investment, import and export incentives, and the tax system have arisen which have had a self-neutralizing, and sometimes negative impact on a wide range of productive activities in the Panamanian economy.

In general, studies indicate small and medium firms seem to be affected more by Government policies than larger firms that have greater access to information, are aware of alternative courses of action and have the financial and technical resources necessary to satisfy the requirements of the bureaucracy. Poorly administered price controls have contributed to production and investment declines in industrial and commercial activities as well as agriculture. Panama's present labor legislation is seen especially by private entrepreneurs, as an obstacle to investment, particularly labor intensive activities. Present legislation raises the cost of labor and lowers labor productivity by increasing social welfare outlays and by imposing unduly inflexible and costly employee termination procedures on employers without promoting increased worker output. Many observers argue that Government import tariffs and quota policies encourage the importation of various semi-finished and finished products thereby discriminating against relatively labor intensive Panamanian firms that can produce the products using local resources.

^{18/} From the 1980-85 and 1985-90 periods found in Table 10: $(34,303 \times 5 + 36,877 \times 5) \times 0.6 \times 0.9 = 192,186$ people needing jobs during the 10 year period if 90% of them are to be employed. Since unemployment was estimated at 15.4% in 1979, or 32,000 people over a 10% unemployment level, it will be necessary to find jobs for these 32,000 from the 1970 decade if the unemployment rate for the 1990s is to be 10%. Thus total jobs needed are 224,186.

Although the government has developed several investment incentive programs, they seem to benefit more the larger firms which understand and are capable of complying with numerous bureaucratic requirements and paper work. Many small firms that would otherwise qualify and benefit from many of the programs do not do so because of difficulties and costs involved in preparing the voluminous and complex documents required by the authorities. Other analysts have also questioned the value of the GOP's investment incentives such as corporate income and property tax write-offs and reduced import and export tariffs. They note little evidence to tie such GOP investment incentives with past investment increases.

One of the principal hindrances to industrial and commercial expansion, in the view of many observers, is labor policy. This was the second most important constraint cited in a survey of 101 small and medium-size industrial establishments conducted by the Ministry of Commerce and Industries in 1974. ^{19/20/} Specific policies hindering industrial and commercial expansion--and long-term employment growth as well--include inflexible worker-dismissal restrictions, higher unit wage costs for second and third shifts, and fiscal policies which, in effect, constitute taxes on the use of labor.

Price controls affect a wide range of transactions in the Panamanian economy. Agricultural price restrictions tend to discourage production increases. For business firms, controlled input prices contribute to materials shortages (see the previous footnote), while controls on sales prices affect profitability adversely. Business operators complain that price increases are approved only after long delays and are barely sufficient to keep them in business. It is not clear how important an obstacle these controls constitute, since firms can often evade them and can exaggerate their importance; but evasion takes time and money and has negative effects on productivity.

Export promotion in general--of all types of goods and services--needs to have a clearer orientation. More attention needs to be given to such facets of export promotion as credit, insurance, market identification and penetration, and a streamlining of the tramites faced by actual and potential exporters. Active private sector participation is essential to the success of an export development program.

^{19/} Raw material costs were the most frequently listed constraints, and problems with raw materials supplies ranked third.

^{20/} Mosquera, Julio A., project supervisor, et al. "Investigación sobre las necesidades de asistencia técnica para la pequeña industria de Panamá," Panamá: Ministerio de Comercio de Industrias, January 1975.

Panama's industrial wage structure, relatively high because of the influence of the canal, constitutes an obstacle that should be examined independently of labor policy. Of particular concern for the 1980s is a provision of the canal treaties requiring that former Canal Zone employees transferred to Panamanian entities retain their wage and salary levels. This could exercise a strong upward pull on the entire wage and salary structure 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 pay particular attention to improvements in managerial and administrative efficiency. While the labor force is sometimes characterized as being well-educated, there are indications that the skills being taught do not match Panama's current needs.

B. Loss of Private Sector Confidence as a Result of Direct Government Involvements in the Economy

The Revolutionary Government's rise to power after 1968 sharply reversed previous governments' traditional non-involvement in the economy. In what must have seemed like a sudden swift bolt of lightning to many private businessmen, the new government undertook a greatly expanded public investment program. And, in 1972-74 it entered into directly productive activities. Activities which have not all been successful and which have been in direct competition with the private sector (e.g., sugar, bananas, cement). While it is impossible to ascribe the tremendous fall in private investment during the late 1970s to the labor and consumer policies and general government involvement, it is certain that these policies did impede recovery. And although private investment has reattained its 1974 levels there is still a great deal of dissatisfaction with pricing and labor policies, and a residue of suspicion and wariness among some businessmen that the government may once again enter into their territory. A year and a half ago the Mission would not have qualified the above phrase with "among some businessmen"; it would have read "in the business community" implying that most if not all businessmen held the negative viewpoint. However, as the Mission has come to understand the situation and to know some of the businessmen, it is clear that many of them can live comfortably with the current regulations--or avoid them altogether.

C. Impact of External Factors

GOP economic policies are not the only disincentive to Panamanian firms. The financial difficulties confronting many firms have been tied to Panama's rapidly changing economic circumstances over the past twenty years. During the period of strong economic growth in the 1960s, for example, many firms were able to survive and operate at a profit even though they paid little attention to their management practices. Recent conditions of stagflation (rising costs and declining sales) plus government price controls and labor legislation have forced many enterprises unable to adjust to these demands out of business. Other

firms have been forced to reduce their production levels drastically and are producing well below capacity. In spite of recent economic improvements, many small and medium size firms have been unable to secure working capital to take advantage of their excess productive capacity in response to growing demand. The larger firms with relatively fewer capital access problems have been able to exploit the situation much more effectively. This is partially evident in the data presented in Table 12 which shows a trend in the mid and late 1970s towards larger firms.

For small and medium size firms, in general, the difficulty in gaining access to credit and technical and managerial assistance has limited their ability to maintain current production levels, let alone increase production. Recent studies confirm that small and medium size firms find it extremely difficult to secure their credit needs, particularly working capital, through the private banking sector or Government institutions.^{21/} The private banks view small and medium size firms as credit risks. They have inadequate credit guarantees, their profits margins are too narrow to survive economic downturns and the administrative costs to the banks of handling small loans is too high. While government credit programs can be structured to de-emphasize the inherent risk of working with small and medium size firms, the bureaucratic inefficiencies inherent in such programs make them virtually inaccessible to the client group.

Based on a survey conducted by the Ministry of Commerce and Industry in 1974 whose findings were corroborated by a number of recent studies ^{22/} commissioned by AID, it is important that many small and medium size firms lack the technical and management assistance necessary to expand production, improve productivity and expand their labor force. The business surveys identified technical assistance needs in areas of production, marketing and management/administration. A representative sampling of such needs covers virtually the entire spectrum of management concerns and includes such considerations as maintenance, quality and production control, production technologies, materials handling procedures; credit and debt collection, product promotion, marketing alternatives, product design and packaging, worker incentive systems, management-labor relations, cost control, budgeting and accounting.

^{21/} Chapman, op. cit.

^{22/} Mosquera, op. cit.; Chapman, op. cit.

Table 12

INDUSTRIAL-MANUFACTURING WHOLESALE RETAIL AND SERVICES
DISTRICTS OF PANAMA AND COLON

1974 and 1979
(Percentages)

<u>Firms:</u>	<u>IND/MANUF.</u>		<u>COMMERCE</u>				<u>SERVICES</u>	
	<u>1974</u>	<u>1979</u>	<u>WHOLESALE</u> <u>1974</u>	<u>1979</u>	<u>RETAIL</u> <u>1974</u>	<u>1979</u>	<u>1974</u>	<u>1979</u>
Small <u>1/</u> (1-19)	29	25	47	47	66	59	62	55
Medium <u>2/</u> (20-49)	24	25	30	25	22	21	21	23
Large <u>3/</u> (50-more)	41	50	23	28	12	20	67	22
Small and medium (1-49)	53	50	77	72	88	80	83	88
<u>Employees By Firm:</u>								
Small (1-19)	2	2	5	5	7	6	7	5
Medium (20-49)	4	5	14	12	8	8	7	7
Large (50-more)	94	93	81	83	85	86	96	88
Small and medium	6	7	19	17	15	14	14	12
<u>Sales by Firm:</u>								
Small (1-19)	2	1	10	11	6	6	8	5
Medium (20-49)	4	5	18	31	11	8	7	
Large (50-more)	94	94	72	59	83	86	85	90
Small and medium (1-49)	6	6	28	42	17	14	15	10

-
- 1/ Small firms have 1-19 employees
2/ Medium firms have 20-49 employees
3/ Large firms have 50 or more employees

Source: "Situación de la Pequeña Empresa en Panamá,
INDESA, Panamá, agosto de 1980.

VI. GOP RESPONSE TO THE INVESTMENT/EMPLOYMENT PROBLEM

As Panama's post-1973 economic crisis continued into the late 1970s and unemployment and underemployment continued to rise, solving the employment problem became one of the government's principal concerns. The GOP's most direct response to the problem was the initiation in November 1977 of the Emergency Employment Program (EEP), under which 25,000 public sector jobs were created at a salary of \$100 per month. Over 17,000 previously unemployed persons were reported to be working under the EEP in February 1980 when it was terminated. However beneficial the EEP may have been from a short-run perspective, its long-run consequences were less favorable. First it imposed a considerable strain on public finances, which the GOP was struggling to bring under control. Second, much of the employment created was in marginally productive activities, with little thought given to providing people with lasting improvements in their income generating capacity. Most programs were of a "make work" nature with little emphasis on training, employment related discipline, or maximizing productivity.

For the most part the GOP has approached employment generation in a piecemeal way. It has fiscal incentives similar to those in many countries that are intended to promote investment. These incentives, which date from the Industrial Incentive Act of 1971 allow for tax holidays, duty free imports of machinery, raw materials and semi-finished products under certain conditions, and protection from foreign competition. Legislation to encourage foreign investment in light assembly industries in Panama provides for duty free import of raw materials, semi-finished components and assembly equipment and machinery; in addition, the assembled finished products are exempted from income taxes, capital gains taxes on exports. Between 1975 and 1979 over 15,000 new jobs were created using incentives under the Industrial Incentive Law at an average cost of approximately \$10,000 per job. The World Bank however, has concluded that these incentives have been ineffective in creating employment, that virtually all these jobs would have been created without them.

The GOP has also tried to stimulate private sector investment through various public channels. The Ministry of Commerce and Industry (MICI) promotes with some success business development in the Central and Western regions through direct lending (partially financed with an AID loan). COFINA, the national investment corporation, finances industries, including agroindustries, with both AID and World Bank funds. The National Bank of Panama (BNP) has received its fourth Inter-American Development Bank Industrial Development Loan, however, for the most part these funds are directed at sub-loans in excess of \$100,000.

Financing available from these institutions has been primarily investment capital for machines, equipment, buildings and facilities and have generated a relatively few expensive jobs. While COFINA has financed large tourism, transportation, and national resource exploration

activities, the BNP has made most of their loans to large and some medium firms in industry and manufacturing. MICI has made several loans to small businesses but has had inadequate funds to meet demand.

The GOP has established several state enterprises producing sugar, cement, citrus products, bananas, and other agricultural and agro-industrial products. While these enterprises have created a number of permanent direct and indirect jobs the cost per job has been high (\$20,000 - \$35,000). In addition, most of the state enterprises have lost money contributing to the public sector deficit. The Government subsidized "asentamientos" established under the agrarian reform program have had little success in raising agricultural productivity and incomes or generating employment. According to the World Bank, production techniques on the "asentamientos" are overly capital intensive as seems to be true also of some state enterprises in agriculture and other economic sectors.

The GOP's largest urban development effort to date is the City of Colon revitalization project. The project, co-financed by the World Bank and a group of private banks lead by the Industrial Bank of Japan, Ltd., expects to create 8,000 new jobs through an expansion of the Colon Free Zone. Housing urban renewal, and infrastructure projects will provide other jobs, through a more temporary nature, in the construction industry. The Colon Free Zone sub-project will include expansion of the existing duty free commercial area and the first phase of an industrial estate that is designed to attract labor intensive manufacturing industries.

Several future projects are now under GOP consideration, including a large mixed (public/private) copper-mining project in the eastern region of the country. The project is expected to cost over \$2 billion and create 7,000 new permanent jobs. Also preliminary discussions have been held with Japan and the U.S. on a possible new sea level canal. The canal would cost as much as \$15 billion, and while it would create thousands of jobs during construction, it would require only a few hundred people to operate. A large number of indirect jobs in related service and supply activities would be produced, however. Although these projects promise to generate new jobs, the expected investment per job created is very high.

In an effort to improve the overall business climate, the GOP has initiated a dialogue with the business community to review the impact of various government policies and programs on private sector investment. Discussions on such sensitive issues as price regulations and labor legislation are underway. Although actual policy changes to date have been modest, the GOP has exercised some wage restraint and has loosened some of the many price controls that hinder both industrial and agricultural production. The climate of uncertainty and even hostility in government-private sector relations that existed a few years ago appears to have changed. Private investment accounted for all of the 38% increase in the volume of construction activity in the Panama City area last year,

thus reviving the sector with the largest unemployment rate. Another sign of growing private-sector confidence is the 26% increase in domestic bank lending in 1979, following four years of virtually no growth.

The GOP is aware that achieving a higher rate of economic growth and employment generation will require diversifying the economy, since no single sector will be able to provide a solution to the recent problem of sluggish growth and higher unemployment. Discussions with authorities and a review of the working papers for the GOP's 1981-1985 National Development Plan indicate that generation of employment will receive highest priority in the 1980s.

The GOP's economic development strategy calls for stimulating private investment in all sectors, promoting the economic integration of rural and urban areas, developing the country's resources, particularly the canal area and reducing the country's economic vulnerability to external forces and events.

In the agricultural sector the GOP will focus on improving agricultural productivity, establishing a stable domestic food supply, increasing exports and developing agro-processing industries. To achieve these objectives the GOP will review, modify and replace present agricultural policies where necessary, expand credit and technical assistance and insure its greater access to small farmers, promote the use of productivity-increasing technology, and increase production for export markets. In the non-agricultural sectors the GOP will focus on stimulating economic diversification and export promotion. Specific attention will be given to developing canal area resources to their fullest potential. Programs and policies promoting exports are planned. Attention will also be given to the development and use of production technologies that will use Panama's natural resources and labor force to the greatest extent possible.

Most importantly, the GOP intends to expand its dialogue with the private sector on policy and program issues. Special attention will be focused on designing appropriate programs and policies to meet the credit, technical assistance and product/market information assistance needs to small and medium-size firms and other labor intensive enterprises.

VII. CONCLUSIONS

Throughout the paper we have presented and explained the many facets and characteristics, as well as the magnitude, of the unemployment problem in Panama. It is a problem that will not be wished away: a problem whose resolution will require a more rationalized and consolidated approach by the GOP and the private sector if Panama is to maintain and hopefully increase its standard of living and if it is to avoid social unrest.

A summary of the general conclusions reached in the paper are listed below:

1. Changing demographic conditions indicate that the country, which is now 57% urban, will become 70% urbanized by the year 2000. Currently, 50% of the population lives in the metropolitan corridor. By the year 2000 the percentage will rise to 60%.
2. Unemployment in the urban areas, especially in the metropolitan corridor, is more serious than in the rural areas. And, when the urban underemployed are added to the 14-22% urban unemployment rate, the situation has the potential to become politically and socially unsettling.
3. Unless the economy begins to grow at close to 8% with an almost 50% increase in the labor/output ratio, Panama will find itself with an unemployment rate in the vicinity of 18-30% by the year 2000.
4. One of AID's primary target groups, the poor families whose incomes are insufficient to meet basic needs standards, currently shows a 60-40 split between rural and urban areas. With increased urbanization, the split will tend to be equalized so that as many poor families will be found in urban as in rural areas.
5. While the quality of the data is subject to question and while some of the estimations are informed conjectures, the implication is clear: unemployment is a problem and may grow to be critical if investment is not stimulated and output made more labor intensive.
6. With the number of poor families increasing in the urban areas to approximate those in the rural areas and with high unemployment likely to increase in the urban areas, the urban areas requires special consideration in any program strategy.

APPENDIX

NOTES ON LABOR FORCE STATISTICS IN PANAMA 1/

In this report we pointed out that labor force statistics in Panama are seriously deficient. This is especially evident if one begins to examine trends in the economically active population (EAP). Looking first at the total EAP, two things are particularly striking: (1) the sharp decline in the growth rate of the EAP, from 3.5% a year during 1960-70 to 1.9% annually during 1970-78, despite an increase in the rate of growth of the population 15 years old and above from 2.9% to 3.1%; 2/ and (2) the somewhat erratic behavior of annual changes in the EAP when compared with macroeconomic trends in the same years (see Table 1 in Part I of this report).

Of particular concern is the sharp reported decline in the EAP of 4.8% in 1975, when the GDP grew by only 0.6%. 3/ If one assumes that the EAP would have grown by close to 3% under reasonably healthy economic conditions, the reported decline of 4.8% implies a "discouraged worker effect"--withdrawals from the EAP by those having given up looking for

1/ Clarence Zuvekas, LAC/DP, "A Strategy for Addressing Panama's Employment Problem", August 1980, Panama.

2/ Preliminary results from the 1980 census indicate that the population growth rate during the past decade was 2.5% a year, substantially below the 3.1% figure used in the projections made by the Direccion de Estadistica y Censo. However, the recent slowing of the overall population growth rate does not in itself call for a revision of the officially reported statistics on the EAP, since all the entrants into the EAP in the period with which we are concerned were born prior to the slowing of the population growth rate.

3/ In the previous year (1974), the first year of sluggish GDP growth (2.6%) following the 1960-73 boom, the reported EAP was 3.7% higher than in 1973.

work because of depressed economic conditions -- in the neighborhood of 8%. An effect of this magnitude is improbable, and one's initial skepticism is heightened by looking at the data for the following year. Panama's GDP in 1976 actually declined slightly (by 0.3%), yet the EAP is reported to have increased by 2.5%. The reported increase in the EAP of 5.4% in 1978 may seem peculiar in view of that year's sluggish GDP growth rate of 3.7%, but it can be explained by (1) the initiation in late 1977 of the government's Emergency Employment Program (EEP), which attracted persons into the EAP who would not otherwise have sought work, and (2) revisions made in 1977 in the treatment of certain categories of persons, which transferred them from the non-EAP to the EAP (see below).

Other puzzling figures are the rapid increases in the EAP reported for 1967 (4.6%) and 1968 (6.4%), which had the effect of raising the participation rate from 57.5% to 61.0%. This may have been caused by an aberration in the treatment of certain types of workers, a suspicion that is reinforced by the sluggish growth in the reported EAP in 1971 (1.1%) and 1972 (2.3%) -- a correction, perhaps? -- despite continued rapid GDP growth in those years.^{3/} If so, the actual growth of the EAP during the 1960s would have been slightly less than reported, and that for the 1970s slightly higher, thus narrowing the gap between the reported EAP growth rates for the two decades. We were unable, however, to determine whether this hypothesis of an artificial bloating of the EAP during 1967-68 has any validity.

^{3/} The 1971 and 1972 EAP figures were later revised upward slightly, but the total EAP growth from 1970 to 1973 remained the same.

Turning to the disaggregated EAP data, we find a number of year-to-year changes, or changes occurring over short periods of time, that are difficult to explain. One of the most important of these is the sharp drop in reported participation rates for persons in the 15-19 age group beginning in the early 1970s, before the onset of the economic crisis. For all persons in this age group, the participation rate declined from 48.3% in 1970 to 38.7% in 1972, falling further to 30.0% by 1976. This decline was evident both in the Metropolitan area and in the rest of the country, and it affected men and women to roughly the same extent. Part of the reason for this decline, as Deutermann (n.d.: 16-17) points out, was a sharp increase in school enrolment rates for the 15-19 age group, from 26.9% in 1966 to 66.9% in 1976.^{4/} However, it is not clear how many of those attending school also wished to work and should have been counted in the EAP (both at the beginning of this period and at the end). Finally, we may point out that the possible "bloating" of the total EAP statistics in 1967 and 1968 is apparent in the figures for the 15-19 EAP, which is reported to have increased by a total of 11.5% between 1966 and 1968. If this reflects data problems rather than a true increase, the subsequent reported decline in the 15-19 EAP would be exaggerated.

The reliability of the labor force data is affected by a number of methodological problems, including the following:

^{4/} Deutermann's study provides a detailed discussion of labor force trends between 1966 and 1976. This document should be consulted by all those who wish to become better acquainted with the data.

- From 1963 to 1973 the annual survey was spread out over the entire 12 months of the year. In other words, not all households were surveyed at the same time. Given the seasonal nature of labor force and employment patterns, (the peak demand for agricultural labor, for example, is said to occur around March), and probable inconsistencies from year to year in the timing of the survey work by geographic area, the data obtained are distorted.

- Since 1974, labor force data have been collected during the same month for all households in the sample. The survey months have been as follows:

1974: March, October
1975: March, July, November
1976: March, August
1977: March, October
1978: August
1979: August

For 1974-77, when two or three surveys were conducted during the year, the data reported in the annual series are those collected in the last survey undertaken in any given year -- i.e. in August, October, or November. The (single) surveys for 1978 and 1979 were conducted in August. Thus there remains some seasonal noncomparability in the data.

- There are a number of inconsistencies in the allocation of specific groups of workers to the EAP or the non-EAP. Some of these result from changes in the nature of the question regarding active search for work by those without jobs. Through 1971 respondents were asked if they had actively sought work during the previous two months. But from 1972 to 1974 the reference period was changed to the previous week only. As a result, some persons not actively seeking work during

that week were erroneously excluded from the EAP -- for example, those waiting to learn the results of job applications they had made earlier. Beginning in 1975, the reference period was lengthened to three months.

- Beginning in March 1977, or perhaps earlier, occasional workers (e.g. carpenters who voluntarily chose to work intermittently) were considered to be both in the EAP and employed, even though they were not working or seeking work during the survey period. Previously they had been considered out of the EAP if not actively seeking work.^{5/}

In addition to these problems, there may be sampling errors, faulty expansions of the samples, and other types of problems which we did not investigate. Whatever the nature of these problems, there is widespread agreement among informed observers that the official statistics exaggerate the decline in the EAP and thus exclude from the unemployment figures persons who should be considered as unemployed.

Several efforts have been made to adjust the labor force statistics for the 1970s to provide a more realistic estimate of unemployment. Deutermann (n.d.:10-11) assumes average participation rates for 1966-72 to be the "natural" rates, applicable to subsequent years, and on this basis obtains the following adjusted unemployment rates, disaggregated by geographic location and sex, for 1977:^{6/}

^{5/} The March 1977 date was provided by officials of the Dirección de Estadística y Censo. The 1976 data, however, also appear to include such workers among the employed.

^{6/} The "natural" participation rates are 60.1% nationwide, 62.5% in the Metropolitan area, and 51.4% in the rest of the country.

	Actual	Adjusted
Nationwide	8.7	17.6
Men	7.1	17.1
Women	13.9	18.4
Metropolitan area	11.6	23.3
Men	10.4	24.8
Women	13.9	27.1
Rest of the country	4.9	10.2
Men	3.7	11.3
Women	10.2	7.2

The effect of these adjustments is to double the national unemployment rate from 8.7% to 17.6%; the number of unemployed workers rises from 44,800 to 100,500.^{7/} The effect of the adjustment is much greater for men than for women.

Adjustments made by the World Bank (IBRD 1979: Vol. I, p. 51), for the Metropolitan area only, yield a lower unemployment rate for 1977 (16.0%) than Deutermann's figure (23.3%), but one that still is significantly higher than the officially reported rate of 11.6%. The assumption was made that the participation rate for the EAP declined during 1975-77 at a slower rate than indicated in the official statistics:

Year	Participation Rate		Unemployment Rate	
	Official	Adjusted	Official	Adjusted
1975	60.1	61.0	8.7	9.6
1976	58.4	60.5	9.0	12.8
1977	54.2	59.5	11.6	16.0

The World Bank has also made projections to the year 2000 of labor force developments in the Metropolitan area, based on "traditional" participation rates and a growth of real value added of 7% a year in the

^{7/} The absolute numbers of unemployed increase by a greater percentage than the unemployment rate because the adjusted EAP is greater.

1980s and 6% a year in the 1990s (IBRD 1979: Vol. I, pp. 55-56). The projections (in thousands of persons) are as follows:

	<u>1980</u>	<u>Annual Growth Rate, 1980-90</u>	<u>1990</u>	<u>Annual Growth Rate, 1990-2000</u>	<u>2000</u>
EAP	323.3	3.6%	462.3	3.4%	651.3
Employment	284.9	4.3%	438.1	3.7%	629.3
Unemployment	38.9	-	24.2	-	22.0
Unemployment rate	12%	-	5%	-	3%

The unemployment rate, according to these projections, would fall from 12% in 1980 (an optimistically low figure, given the IBRD's own estimate that the unemployment rate in the Metropolitan area in 1979 was 16%) to 5% in 1990 and 3% in the year 2000. Approximately 72% of the employment growth during this period is expected to be in the tertiary sectors.^{8/}

Another set of projections, this time for the entire economy, was made in a recent study prepared for the Ministerio de Planificación y Política Económica (MIPPE) and USAID/Panama by Chapman (1979:89-103). These projections are based on the assumption that the employed population in 1979 was 504,100. This unpublished estimate, made by MIPPE, is consistent with the data for earlier years obtained in the surveys conducted by the Dirección de Estadística y Censo. Chapman then makes three alternative GDP growth rate assumptions (4.0%, 6.0%, and 8.0%), three alternative assumptions about the employment-output coefficient^{9/}

^{8/} See IBRD (1979: Vol. I, p. 56) for details.

^{9/} The relationship between the rate of growth of employment and the rate of growth of output (GDP).

(0.40, 0.50, and 0.60), and two alternative assumptions about the participation rate of the EAP.

The results of these projections, summarized in Table A-1, show unemployment rates ranging from 3.3% to 25.1% in 1985 and from -6.3% to 29.5% in 1990. If we assume a GDP growth rate of 6% and an employment-output coefficient of 0.50,^{10/} the unemployment rate in 1985 would be 12.9% with a participation rate of 56% but 18.6% with a participation rate of 60%, which is probably closer to reality, especially if female participation rates continue their long-term rise. By 1990 the respective unemployment rates would be 12.1% and 18.0%, almost unchanged from 1985.

To the extent that the estimated base-year employment figure is too low, which is possible, all of the above figures would have to be adjusted downward. Nevertheless, Chapman's figures highlight the importance of achieving an employment-output coefficient of approximately 0.60, and/or a GDP growth rate higher than 6%. The World Bank projections reported above, it may be noted, assume coefficients of 0.61 for 1980-1990 and 0.62 for 1990-2000. Achievement of such targets, of course, would be difficult.

Returning now to the 1970-78 period, we present our own estimates of labor force trends during these years. Accepting the official figures for 1970 as a base, we assume that the actual EAP in the next 8 years, including discouraged workers, increased at an annual rate of 2.7%. This compares with officially reported rates of increase of 1.9% during this period and 3.5% between 1960 and 1970. There are several

^{10/} This is close to the actual coefficients of 0.46 for 1960-70 and 0.48 for 1970-74.

Table A-1

Alternative Projections of the Unemployment Rate, 1985 and 1990

GDP Growth Rate (%)	Employment/ Output Coefficient	Unemployment Rate, 1985		Unemployment Rate, 1990	
		56% Parti- cipation Rate	60% Parti- cipation Rate	56% Parti- cipation Rate	60% Parti- cipation Rate
4.0	0.40	19.8	25.1	24.4	29.5
4.0	0.50	17.8	23.2	21.0	26.3
4.0	0.60	15.9	21.5	17.6	23.1
6.0	0.40	15.9	21.5	17.6	23.1
6.0	0.50	12.9	18.6	12.1	18.0
6.0	0.60	9.8	15.8	6.3	12.6
8.0	0.40	11.9	17.7	10.2	16.2
8.0	0.50	7.7	13.8	0.2	8.8
8.0	0.60	3.3	9.7	-6.3 ^a	0.8

Source: Chapman (1979:95-96).

^aI.e. the demand for labor exceeds the supply.

reasons for assuming that the EAP grew more slowly in the 1970s than in the 1960s, though not as slow as indicated by the official figures. First, as noted earlier, there was a sharp increase in school enrolment rates for the 15-19 age group. Second, we are taking into account the withdrawal of "marginal" members of the EAP who tend to become economically active when the economy is booming and inactive during periods of recession. These persons may be distinguished from the "discouraged workers" who more properly can be considered unemployed. Finally, we are compensating for a possibly overestimated rate of growth of the EAP in 1967 and 1968. These factors, we believe, more than offset (1) the effects of a faster growth rate of the population 15 years old and above (3.1%, compared with 2.9% during 1960-70) and (2) a long-term "natural" increase in the EAP participation rates for women.

Our adjusted EAP figures are shown in Table A-2, and in Table 3 of the main report. For 1977, it may be noted, the nationwide unemployment rate of 16.3% is higher than that implied by the World Bank estimates and slightly lower than Deutermann's estimate of 17.6%. It should be emphasized that our figures are based on a rather crude methodology, and should be considered only as conjectures.

Table A-2

Conjectural Trends in the Economically Active Population, 1970-1978
(thousands of persons)

Year	(1) Reported EAP	(2) Conjec- tural EAP	(3) Discouraged Worker Effect ^a (2) - (1)	(4) Open Unem- plovment	(5) Total Unem- plovment (3) + (4)	(6) Open Unem- plovment Rate (%) ^b (4) ÷ (2)	(7) Total Unem- plovment Rate (%) ^b (5) ÷ (2)
1970	466.2	466.2	0.0	33.3	33.3	7.1	7.1
1971	471.3	478.8	7.5	35.7	43.2	7.5	9.0
1972	482.2	491.7	9.5	32.8	42.3	6.7	8.6
1973	499.0	505.0	6.0	34.9	40.9	6.9	8.1
1974	517.4	518.6	1.2	30.0	31.2	5.8	6.0
1975	492.8	532.6	39.8	31.6	71.4	5.9	13.4
1976	505.3	547.0	41.7	33.7	75.4	6.2	13.8
1977	515.2	561.8	46.6	44.8	91.4	8.0	16.3
1978	543.0	576.9	36.9	43.8	80.7	7.6	14.0

Source: Columns (1) and (4) -- Dirección de Estadística y Censo; Columns (2)-(3), (5)-(7) -- USAID/Panama estimates.

^aActually, this column should be considered to account for both discouraged workers and an underestimate in the official figures of open unemployment.

^bBased on the conjectural EAP.

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ANNEX VII

PID DAEC CABLE AND MISSION RESPONSE

TRAINING IN ORDER TO ADEQUATELY PROMOTE PROGRAM. SPECIAL PROMOTIONAL CAMPAIGN, INCLUDING FILMS AND HANDOUT MATERIALS MAY HAVE TO BE UNDERTAKEN TO EDUCATE BANKERS AND POTENTIAL BORROWERS.

Annex VII

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7. INITIAL ENVIRONMENTAL EXAMINATION. AN IEE WILL BE REQUIRED PRIOR TO PROJECT AUTHORIZATION.

See Annex III

8. IN ORDER TO ASSIST MISSION IN PREPARING SS AND PP, AID/W WILL ATTEMPT TO PROVIDE TDY ASSISTANCE AS REQUESTED BY MISSION. SUGGEST ZIVEKAS (LAC/DP) AND BITTNER (LAC/DR) TO ASSIST WITH STRATEGY STATEMENT AND EARLY PROJECT DESIGN, TO BE FOLLOWED AT LATER DATE BY VELASQUEZ TO ASSIST WITH PCCP. PLEASE ADVISE REQUIREMENTS AND TIMING. CHRISTOPHER

BT #9059

NNNN 2/2

(DING) AND COULD LEAD TO SERIOUS CONFLICT OF INTEREST
S. THEREFORE, RECOMMEND THAT BNP NOT BE ELIGIBLE
FOR UNDER PCGP AND THAT MAXIMUM EFFORT BE MADE TO
PCGP TO COMMERCIAL BANKING SECTOR.

Annex VII

3 of 4

(2) DEMAND FOR GUARANTEE MECHANISM. ULTIMATELY,
INTEREST AND COMMITMENT OF COMMERCIAL BANKS WILL DETERMINE
SUCCESS OF THIS PROJECT ELEMENT. MISSION SHOULD EXAMINE
COMMERCIAL BANK DEMAND FOR GUARANTEE PROGRAM. AS MINIMUM,
THIS SHOULD ENTAIL INTERVIEW WITH COMMERCIAL BANKERS AT
CENTRAL AND BRANCH OFFICES.

N/A

C. SUPERVISED CREDIT--TERMS AND LENDING CRITERIA. SINCE
THERE DOES NOT APPEAR TO BE ADEQUATE JUSTIFICATION, MISSION
SHOULD RE-EXAMINE ADVISABILITY OF MAXIMUM 15 YEAR REPAY-
MENT TERMS PROPOSED IN PID. WE RECOMMEND THAT MISSION
CONSIDER SHORTEST TERMS FEASIBLE -- PERHAPS A MINIMUM OF 3
YEARS AND MAXIMUM OF 7 YEARS. WITH REGARD SUB-LOAN
CRITERIA OUTLINED IN PID, MISSION MAY WISE TO CONSIDER
ADDING FACTORS WHICH COULD HELP TO MAXIMIZE EMPLOYMENT
IMPACT. FOR EXAMPLE, ARE THERE WAYS TO INCLUDE INDIRECT
EMPLOYMENT BENEFITS IN CRITERIA? MISSION MAY WISH TO
EXCLUDE INDUSTRY AND SERVICE SECTOR ACTIVITIES WHICH HAVE
LOW MULTIPLIER EFFECTS.

See
Sections II.B.2.C.
and III. A

4. ECONOMIC ANALYSIS. IN ADDITION TO ANALYSIS PROPOSED IN
PID, ECONOMIC ANALYSIS SECTION OF PP SHOULD (A) DISCUSS

METHODOLOGY BNP WILL USE TO CALCULATE ECONOMIC FEASIBILITY
OF SUB-LOANS, AND (B) PRESENT ILLUSTRATIVE SUB-LOAN
RETURNS IN TERMS OF ECONOMIC RATES OF RETURN (INDIVIDUALLY)
AND, GIVEN EXPECTED OVERALL USES OF PROJECT FUNDS, IN TERMS
OF COLLECTIVE IMPACT OF SUB-LOANS ON TARGET GROUP DURING
LIFE OF PROJECT AND BEYOND PROJECT. ALSO, IN RESEARCH
COMPONENT OF PROJECT -- PARTICULARLY EVALUATION OF EFFECTS
OF INCENTIVE PACKAGES -- MISSION SHOULD ENSURE THAT OVER-
ALL COSTS AND BENEFITS OF INCENTIVES AND SUBSIDIES ARE
EXAMINED. AS PART OF PROJECT, MISSION AND GOP SHOULD BE
ABLE TO RELATE SOCIETY-WIDE BENEFITS OF INCENTIVE PACKAGES
TO SOCIETY-WIDE COSTS. WILL BENEFITS OUTWEIGH COSTS? ARE
SUBSIDIES WORTH THE COSTS?

See
Section III.B/

5. PROJECT COORDINATION. DURING REVIEW SOME CONCERN AROSE
OVER BNP INTEREST IN AND COMMITMENT TO WORKING WITH OTHER
RELEVANT INSTITUTIONS -- PARTICULARLY THOSE ON POLICY AND
RESEARCH SIDE WHICH HAVE DIFFERENT MANDATE THAN BNP, A
FINANCING INSTITUTION. IN ORDER TO ENSURE MAXIMUM INTER-
AGENCY COORDINATION AND COLLABORATION, SUGGEST THAT MISSION
SIGN ONE PROJECT AGREEMENT WITH GOP, RATHER THAN ONE WITH
BNP AND ONE WITH OTHER GOP AGENCIES AS PROPOSED IN PID.

See
Section IV A., IV. B

6. INSTITUTIONAL ANALYSIS. ALTHOUGH ASSESSMENT OF BNP'S
CAPACITY TO IMPLEMENT THE PROGRAM SHOULD BE UNDERTAKEN,
BNP'S COMMITMENT TO A DEVELOPMENT PROGRAM FOCUSED ON SMALL
BUSINESSES SHOULD BE EXAMINED IN TERMS OF FINANCIAL AND
HUMAN RESOURCES BNP PLANS TO ASSIGN TO PROGRAM. CONSIDER-
ATION SHOULD ALSO BE GIVEN TO NEED FOR BRANCH OFFICE

See
Section III. D -

...TIVITIES TO PROMOTE AND LARGER-SCALE GOV AND OTHER DONOR PROGRAMS. SOME ATTENTION SHOULD ALSO BE GIVEN TO PANAMA'S NEED FOR INCREASED DOMESTIC AND FOREIGN PRIVATE INVESTMENT IN ORDER TO FINANCE INCREASED PRODUCTIVE EMPLOYMENT OPPORTUNITIES. IN DESIGNING STRATEGY, MISSION NEEDS TO CLARIFY WHETHER MAJOR thrust OF ITS ACTIVITIES IS TO DEAL WITH (A) OVERALL EMPLOYMENT PROBLEM, INCLUDING MACRO-ECONOMIC AND POLICY ISSUES, OR (B) SPECIAL EMPLOYMENT NEEDS OF THE VERY POOREST. WHILE STRATEGY WILL UNDOUBTEDLY INCLUDE BOTH OBJECTIVES, MISSION SHOULD GIVE SOME IDEA RE RELATIVE EMPHASIS -- PARTICULARLY WITH REGARD TO EXPECTED CHANGES IN POLICY. CONSIDERING OPPORTUNITIES WHICH EXIST IN PANAMA, WILL MAJOR EMPHASIS BE ON POLICIES RELATED TO THE SMALL-SCALE ENTERPRISE SECTOR OR TO BROADER POLICY-LEVEL ISSUES? TO ENCOURAGE MISSION TO LOOK TOWARD ACTIVITIES WHICH WILL HAVE MAXIMUM IMPACT ON EMPLOYMENT, AND THEREFORE SUGGEST AS DISCUSS ALTERNATIVE WAYS IN WHICH EMPLOYMENT CAN BE GENERATED, INCLUDING THE POTENTIAL IMPACT OF SMALL-SCALE ENTERPRISE PROGRAMS. THIS WILL ALSO REQUIRE DETAILED LOOK AT FROM POLICY ISSUES AND OPPORTUNITIES FOR AID TO ASSOCIATE ITS ASSISTANCE WITH THE KIND OF CHANGES WHICH ARE LIKELY TO BRING ABOUT GREATEST IMPACT. MISSION SHOULD ALSO LOOK AT BOTH RURAL AND URBAN EMPLOYMENT SITUATIONS, INCLUDING COMPLEMENTARITY OF AND TRADE-OFFS BETWEEN EMPLOYMENT GENERATION ACTIVITIES IN RURAL AND URBAN AREAS. IN PARTICULAR, IN DEVELOPING STRATEGY STATEMENT, MISSION SHOULD CONSIDER COST PER JOB DIFFERENCES BETWEEN RURAL AND URBAN SECTORS AND POSSIBLE IMPACT OF MIGRATION OF INCREASED URBAN EMPLOYMENT OPPORTUNITIES. ALSO, IN LINE WITH RECOMMENDATION TO RE-EXAMINE RURAL-URBAN MIX OF MISSION

See
Strategy Statement
Annex VI

EMPLOYMENT STRATEGY. SUGGEST THAT MISSION CONSIDER IN-creasing level of PROPOSED EMPLOYMENT PLANNING AND GENERATION PROJECT TO UP TO DOLS 14 MILLION BY ADDING SOME ADDN FUNDS.

3. CREDIT MECHANISMS. DURING PID REVIEW, A NUMBER OF QUESTIONS WERE RAISED CONCERNING ADVISABILITY OF TESTING THREE CREDIT MECHANISMS IN INITIAL EMPLOYMENT PLANNING AND GENERATION PROJECT.

N/A

--A. DISCOUNT FACILITY. IN LIGHT OF ABOVE AND POSSIBLE LEGAL PROBLEMS, IT WAS DECIDED THAT DISCOUNT LINE SHOULD NOT BE FINANCED FROM AID FUNDS. IF DISCOUNT FACILITY REQUIRED AS COMPLEMENT TO PCCP, IT SHOULD BE FINANCED FROM GOV RESOURCES.

Not a Project
Activity

--B. PCCP.

---(1) ELIGIBILITY OF INP. QUESTIONS AROSE ABOUT ELIGIBILITY OF INP, PARTICULARLY AS LANDER UNDER THE PCCP -- IT DOES NOT APPEAR CONSISTENT WITH PURPOSE OF PCCP TO INDUCE

Not a Project
Activity

220 J-0221
file

Annex VII
1 of 4

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DATE INITIALS

SUBJECT: DAEC REVIEW OF EMPLOYMENT PLANNING AND GENERATION
PID (525-0221)

1. SUMMARY. THE DAEC REVIEWED AND APPROVED THE SUBJECT
PID ON JUNE 27, 1980. HOWEVER, BECAUSE OF QUESTIONS CON-
CERNING THE MISSION'S PROPOSED EMPLOYMENT STRATEGY -- FOR
EXAMPLE, THE RELATIVE EMPHASIS ON OVERALL EMPLOYMENT VERSUS
SPECIFIC NEEDS OF AID'S TRADITIONAL TARGET GROUP, RELATION-
SHIP OF STRATEGY TO MACRO-ECONOMIC SITUATION, DEGREE TO
WHICH AID RESOURCES CAN OR SHOULD BE TIED TO POLICY CHANGES,
AND TIMING OF AID-FINANCED ACTIVITIES OVER NEXT SEVERAL
YEARS -- THE MISSION IS REQUESTED TO SUBMIT FOR AID/
REVIEW AN EMPLOYMENT STRATEGY STATEMENT PRIOR TO PROJECT
PAPER. PROPOSED CONTENT OF STRATEGY STATEMENT (SS) AND
OTHER GUIDANCE FOR PREPARING PROJECT PAPER FOLLOW. SS
SHOULD BE RELATIVELY BRIEF. WE WOULD HOPE THAT IT WILL BE
READY FOR SUBMISSION BY SEPTEMBER AND FOLLOWED BY PP IN
LATE FY 80 OR EARLY FY 81.

See
Strategy Statement
Annex VI

2. STRATEGY STATEMENT. GIVEN SERIOUSNESS OF UNEMPLOYMENT
IN PANAMA, WE ARE PLEASED TO SEE MISSION MAKING EMPLOYMENT
GENERATION A KEY PART OF ITS OVERALL PROGRAM STRATEGY.
HOWEVER, AS STATED AT CDGS REVIEW AND AGAIN AT DAEC REVIEW
OF SUBJECT PID, MISSION NEEDS TO DEVELOP A COMPREHENSIVE
EMPLOYMENT STRATEGY WHICH RATIONALIZES AID ACTIVITIES OVER
NEXT SEVERAL YEARS, AND DESCRIBES HOW EMPLOYMENT EMPHASIS
FITS WITH BROADER NEED TO REINVIGORATE PANAMANIAN ECONOMY
AND ATTRACT PRIVATE INVESTMENT. THEREFORE, PRIOR TO PP
SUBMISSION, MISSION SHOULD SUBMIT A STRATEGY STATEMENT (SS)
TO AID/
FOR REVIEW. THIS SS SHOULD BE RELATIVELY BRIEF,
AND NOT CONSTRUED AS A FINAL, DEFINITIVE STATEMENT OR
DETAILED SECTOR ASSESSMENT. RATHER, WE SEE IT AS PRELIM-
INARY STATEMENT OF MISSION STRATEGY. IT SHOULD INCLUDE
THREE MAJOR SECTIONS: (A) SUMMARY OF MAJOR EMPLOYMENT
PROBLEMS IN PANAMA; (B) DESCRIPTION OF MAJOR CAUSES OF AND
CONSTRAINTS TO SOLVING PROBLEMS, INCLUDING DISCUSSION OF
GOP POLICIES AND MEDIUM-TERM MACRO-ECONOMIC OUTLOOK; AND
(C) GOP AND AID STRATEGIES FOR DEALING WITH CONSTRAINTS AND
INCREASING EMPLOYMENT OPPORTUNITIES. STRATEGY SECTION
SHOULD DESCRIBE WHAT AID IS PLANNING TO DO; THE LIKELY
IMPACT OF AID-FINANCED ACTIVITIES; AND RELATIONSHIP OF AID

See
Strategy Statement
Annex VI
and
Section II.A

ANNEX VIII

Tables

Table 1
 Labor Force Data, 1970-1978 (Conjectural) ^a
 (thousands of persons)

Year	Total Population	Population 15 years Old +	Economically Active Population	Labor Force Participation Rate (%)	Employment	Unemployment	Unemployment Rate (%)
1970	1,434.4	760.5	466.2	61.3	432.9	33.3	7.1
1971	1,478.3	791.1	478.8	60.5	435.6	43.2	9.0
1972	1,523.5	816.7	491.7	60.2	449.4	42.3	8.6
1973	1,570.1	835.8	505.0	60.4	464.1	40.9	8.1
1974	1,618.1	869.5	518.6	59.6	487.4	31.2	6.0
1975	1,667.7	896.1	532.6	59.4	461.2	71.4	13.4
1976	1,718.7	917.9	547.0	59.6	471.6	75.4	13.8
1977	1,771.3	950.0	561.8	59.1	470.4	91.4	16.3
1978	1,825.5	973.7	576.9	59.2	496.2	80.7	14.0

Source: "Dirección de Estadística y Censo, Contraloría General de la República", for total population and population 15 years old and above; other data are adjusted figures based on the methodology described in the Appendix. It should be emphasized that these are crude adjustments, more appropriately considered as "conjectures" than "revised estimates" or "corrected figures".

^a Adjusted figures, in accordance with the procedures described in the Appendix. The conjectural unemployment figures include a "discouraged worker" effect; many persons now considered as discouraged workers are more appropriately classified as unemployed.

Table 2
Unemployment by Geographic Location, 1978

	Total Population 15 Years Old and Above	Economically Active Population	Employed	Unemployed	Unemployment Rate (%)
Metropolitan region	552,000	314,020	281,240	32,780	10.4
Eastern region	27,200	15,350	14,860	490	3.2
Central region	242,490	131,390	124,730	6,660	5.1
Western region	152,020	82,280	78,410	3,870	4.7
Total:	<u>973,730</u>	<u>543,040</u>	<u>499,240</u>	<u>43,800</u>	<u>8.1</u>

Source: "Dirección de Estadística y Censo, Contraloría General de la República"
(preliminary data).

Table 3

Labor Force Trends for the Metropolitan Region
1974 - 1978

	1974	1975	1976	1977	1978	1978 (Adjusted)
Population 15 years and over	455,800	478,630	501,060	534,260	552,000	552,000
Economically - Active Population	280,300	284,100	279,760	289,380	314,020	331,200
Participation Rate	61.5 %	59.4 %	55.8 %	54.2 %	56.9 %	60.0 %
Non-economically - Active Population	175,500	194,530	221,300	244,580	237,980	220,800
Percentage of Population	38.5 %	40.6 %	44.2 %	45.8 %	43.1 %	40.0 %
Employed	260,400	259,030	254,920	256,000	281,240	258,240
Unemployed	19,900	25,070	24,840	33,680	32,780	72,960
Unemployment Rate	7.1 %	8.8 %	8.9 %	11.6 %	10.4 %	22.4 % ^{1/}

Source: 1974-1978,
Controller General, Bureau of Statistics and Census.

1978,
Adjusted - Mission estimates.

^{1/} The 1978 figures reflect original Mission estimates that the 23,000 persons hired under the Plan de Urgencia led to an over-statement of employment (i.e., 281,400 - 23,000 = 258,400). In the FY 1983 CDSS the Plan de Urgencia figure is reduced to 17,000 lowering the official employed and unemployed figures to 264,240 and 66,960 thereby producing an updated adjusted unemployment figure for 1978 of 20.2%. For 1979 the adjusted unemployment rate is 17.3%.

Table 4

GDP AND EMPLOYMENT BY SECTOR

1960 and 1979

	<u>GDP (\$Millions)</u>		<u>Employment-(Thousands)</u>	
	(a) <u>1960</u>	<u>1979</u>	(b) <u>1960</u>	<u>1979</u>
Agriculture	95.2 (24)	195.1 (14)	154 (51)	155.6 (29)
Manufacturing industries	40.9 (10)	186.6 (14)	24 (8)	53.4 (10)
Construction	22.5 (6)	64.9 (5)	9 (3)	30.8 (6)
Commerce	47.9 (12)	183.4 (13)	27 (9)	70.9 (14)
Services	154.1 (40)	640.4 (48)	70 (24)	198.7 (38)
Canal Area	<u>30.4</u> (8)	<u>80.8</u> (6)	<u>16</u> (5)	<u>17.6</u> (3)
Total:	<u>391.0</u> 100.0	<u>1,351.2</u> 100.0	<u>300</u> 100.0	<u>527.0</u> 100.0

(a) Panama en Cifras 1964

(b) Censo de Población 1960

Agriculture includes: Agricultural, fish, silviculture and mining.

Manufacturing Industries: In 1960 the figure included electricity, gas, water and sanitary services.

Commerce: Includes wholesale and retail sale trade

Services: Includes personal social and communal services, Public and Private, electricity, gas, water, banks, insurance, transport, communication, and storage and housing.

TABLE 5
IMPACT OF ECONOMIC GROWTH AND ECONOMIC STRUCTURE
ON UNEMPLOYMENT, 1979-1990

Case	GDP Growth Rate	Employment Output ^{1/} Coefficient	1979 - 1985				1979 - 1990			
			EAP ^{2/}	Employed ^{3/}	Unemploy	Unemploy Rate	EAP ^{2/}	Employed ^{3/}	Unemploy	Unemploy Rate
			(000)	(000)	(000)		(000)	(000)	(000)	
(1)	4.0%	0.40	740	554	186	25.1%	851	600	251	29.5%
(2)	4.0%	0.60	740	581	159	21.5%	851	654	197	23.1%
(3)	6.0%	0.50	740	602	138	18.6%	851	698	153	18.0%
(4)	6.0%	0.60	740	623	117	15.8%	851	744	107	12.6%
(5)	8.0%	0.50	740	638	102	13.8%	951	776	75	8.8%
(6)	8.0%	0.60	740	668	72	9.7%	851	844	7	0.8%

^{1/} The coefficient is the rate of growth in employment over the rate of growth in GDP.

^{2/} EAP - Economically Active Population

^{3/} In all cases a 60% labor force participation rate is assumed.

Source: Factores que Afectan la Demanda por Mano de Obra en Panamá
 by Guillermo Chapman Jr., INDESA, prepared for the
 Ministry of Planning and USAID/Panama, Panama City, Dec. 1979.

Table 6
GEOGRAPHICAL DISTRIBUTION OF GDP, 1970
 (Percent)

	<u>GDP</u>	<u>Agriculture</u>	<u>Industry</u>
Metropolitan Provinces (Panama, Colon)	69.7	9.9	81.0
Central Region	11.2	26.7	9.2
Chiriquí Province	12.9	38.1	8.5
Rest of Country	<u>6.2</u>	<u>25.3</u>	<u>1.3</u>
	100.0	100.0	100.0

Source: From Panama's Development in the 1980's: A Special Economic Report, No. 2306-PAN, Volume I, July 20, 1979, p.4.

TABLE 7
INDUSTRIAL-MANUFACTURING WHOLESALE RETAIL AND SERVICES
DISTRICTS OF PANAMA AND COLON
 1974 and 1979
 Absolute numbers and (percentages)

	IND/MANUF.		WHOLESALE		COMMERCE		SERVICES	
	1974	1979	1974	1979	1974	1979	1974	1979
Firms								
Small 1/ (1-19)	32 (29)	34 (25)	55 (47)	54 (47)	88 (66)	71 (59)	69 (62)	50 (55)
Medium 2/ (20-49)	26 (24)	35 (25)	35 (30)	29 (25)	29 (22)	26 (21)	24 (21)	20 (23)
Large 3/ (50-more)	52 (47)	68 (50)	26 (23)	31 (28)	17 (12)	24 (20)	19 (17)	19 (22)
Small and medium (1-49)	58 (53)	69 (50)	90 (77)	83 (72)	117 (88)	97 (80)	93 (83)	70 (88)
Employees by Firm								
Small (1-19)	344 (2)	324 (2)	455 (5)	452 (5)	699 (7)	639 (6)	618 (7)	411 (5)
Medium (20-49)	889 (4)	1,103 (5)	1,194 (14)	1,060 (12)	811 (8)	846 (8)	700 (7)	610 (7)
Large (50-more)	20,242 (94)	19,563 (93)	6,919 (81)	7,309 (83)	9,177 (85)	8,570 (85)	8,099 (96)	8,087 (88)
Small and medium	1,233 (6)	1,427 (7)	1,649 (19)	1,512 (17)	1,510 (15)	1,485 (14)	1,318 (14)	1,021 (12)
Sales by Firm (B/.000)								
Small (1-19)	13,511 (2)	9,794 (1)	65,790 (10)	95,452 (11)	23,940 (6)	31,327 (7)	8,585 (8)	6,762 (5)
Medium (20-49)	29,365 (4)	46,347 (5)	116,433 (18)	272,733 (31)	41,938 (11)	45,753 (8)	6,735 (7)	6,483 (5)
Large (50-more)	618,354 (94)	820,603 (94)	472,780 (72)	520,370 (59)	323,344 (83)	479,304 (86)	86,049 (85)	109,897 (90)
Small and Medium (1-49)	42,876 (6)	56,141 (6)	182,223 (28)	368,185 (42)	65,878 (17)	77,080 (14)	15,320 (15)	13,245 (10)

1/ Small firms have 1-19 employees

2/ Medium firms have 20-49 employees

3/ Large firms have 50 or more employees

Source: Situación de la Pequeña Empresa en Panamá, INDESA, Panamá, agosto de 1980.

Table 8

PANAMA: EMPLOYMENT/OUTPUT COEFFICIENT
FOR MANUFACTURING SECTOR - 1973, 1974, 1975

<u>FIRM SIZE</u>	<u>1973</u>	<u>1974</u>	<u>1975</u>
SMALL <u>1/</u>	0.4	0.3	0.2
MEDIUM <u>2/</u>	0.2	0.2	0.2
LARGE <u>3/</u>	0.1	0.08	0.07

1/ Small firms have 1-19 employees.

2/ Medium firms have 20-49 employees.

3/ Large firms have 50 and more employees

Source: "Políticas de Empleo para las Pequeñas y Medianas Empresas del Sector de la Industria Manufacturera. Organización Internacional del Trabajo." Panamá-Octubre, 1978, p.84.

Table 9

THE IMPORTANCE OF SMALL 1/ AND MEDIUM 2/
SIZE FIRMS IN PANAMA'S MANUFACTURING SECTOR

<u>ECONOMIC ACTIVITY:</u>	Small and Medium Size Firms					
	<u>FIRMS</u>		<u>EMPLOYEES</u>		<u>SALES (B/.000)</u>	
	<u>No.</u>	<u>% 3/</u>	<u>No.</u>	<u>% 3/</u>	<u>B/.</u>	<u>% 3/</u>
Food Products	160	82	2807	35	86,400	30
Beverages, Tobacco	7	32	155	7	3,400	5
Textiles	--	--	--	--	--	--
Clothing	46	63	876	24	8,300	3
Leather, Leather Products	5	38	44	20	300	13
Footwear	7	44	151	26	1,110	13
Wood, Wood Products	20	80	407	46	2,900	37
Furniture (non-metal)	33	79	489	42	3,800	28
Paper, Paper Products	10	63	327	39	11,300	35
Newsprint	37	82	629	32	7,200	38
Industrial Chemicals	5	100	152	100	5,400	100
Other Chemical Products	25	86	540	58	10,400	38
Rubber Products	5	100	62	100	1,400	100
Plastic Products	8	80	196	45	4,000	36
Glass, Glass Products	7	100	122	100	1,600	100
Mineral (non-metal) Products	29	71	680	30	9,500	25
Basic Metal Products	--	--	--	--	--	--
Metal Products (non-mach.)	35	78	956	57	14,300	46
Machinery (non-elec.)	8	100	93	100	700	100
Electric, Machinery, Equip.	10	100	177	100	3,700	100
Transport Equipment	6	100	182	100	1,500	100
Prof. and Scientific Equip.	6	100	63	100	1,200	100
Other Manufacturing Products	13	81	166	17	1,600	3
<u>Total:</u>	<u>487</u>	<u>76</u>	<u>9,270</u>	<u>34</u>	<u>180,010</u>	<u>15</u>

1/ Small firms have 1-19 employees;
medium firms 20-49 employees.

2/ Small and medium size firms includes
firms with 1-49 employees.

3/ Represents the percent that small and medium size firms
make up of all firms, employees, and sales in the manu-
facturing sector for the various products (economic activities).

Source: "Políticas de Empleo para las Pequeñas y Medianas Empresas
del Sector de la Industria Manufacturera, Organización
Internacional del Trabajo," Panamá, Octubre 1978.

TABLE 10

BNP Supervised Credit Program: Distribution of Loans by Type A, B, C ^{1/}

<u>Type of Loan</u>	<u>Percent of Loan Fund</u>	<u>Loan Amount (\$)</u>	<u>Average Loan Size (\$)</u>	<u>No. of Loans</u>
A	40.0	4,000,000.00	60,000.00	67
B	35.0	3,500,000.00	30,000.00	117
C	25.0	2,500,000.00	18,000.00	139
TOTAL:	100.00	\$10,000,000.00	\$30,960.00	323

^{1/} Type A Loans: Industrial, construction, manufacturing

Type B Loans: Commercial

Type C Loans: Service

TABLE 11

BCP Supervised Credit Program: Number of Jobs Generated - Direct and Indirect by Loan Type A, B, C ^{1/}

<u>Type of Loan</u>	<u>No. of Loans</u>	<u>Average Loan Size (\$)</u>	<u>Maximum Cost Per Job (\$)</u>	<u>Direct Jobs</u>	<u>Indirect Jobs</u> ^{1/}	<u>Total Cost</u>
A	67	60,000.00	10,000.00	402	322	724
B	117	30,000.00	5,000.00	702	562	1264
C	139	18,000.00	5,000.00	500	400	900
TOTAL	323	\$30,960.00		1604	1284	2888

Average cost per Direct Job Generated - \$6,234

^{1/} Type A Loans: Industrial, Construction, Manufacturing

Type B Loans: Commercial

Type C Loans: Service

^{2/} Indirect to Direct Job Ratio: .8

TABLE 12

Annex VIII

BNP Supervised Credit Program: Loan Amounts and by Year - Number of Loans and Jobs Generated by Loan Type A, B, C

Type of Loan	YEAR ONE					YEAR TWO					YEAR THREE					YEAR FOUR				
	Loan Amt. (\$)	No. Loans	J O B S			Loan Amt.	No. Loans	J O B S			Loan Amt. (\$)	No. Loans	J O B S			Loan Amt. (\$)	No. Loans	J O B S		
			Dir.	Indir.	Total			Dir.	Indir.	Total			Dir.	Indir.	Total			Dir.	Indir.	Total
A	400,000	7	40	32	72	800,000	13	80	64	144	1,400,000	23	140	112	252	1,400,000	23	140	112	252
B	350,000	12	70	56	126	700,000	23	140	112	252	1,225,000	41	245	196	441	1,225,000	41	245	196	441
C	250,000	14	50	40	90	500,000	28	100	80	180	875,000	49	175	140	315	875,000	49	175	140	315
TOTAL:	1,000,000	33	160	128	288	2,000,000	64	320	256	576	3,500,000	113	560	448	1008	3,500,000	113	560	448	1008

1/ Type A Loans: Industrial, Construction, Manufacturing

Type B Loans: Commercial

Type C Loans: Service

TABLE 13

BNP Supervised Credit Program

<u>Type of Loan</u>	Case Load by Year by Loan Type A, B, C ^{1/}				<u>Total</u>
	<u>One</u>	<u>Two</u>	<u>Year</u> <u>Three</u>	<u>Four</u>	
A	7	13	23	23	66
B	12	23	41	41	117
C	14	28	49	49	140
TOTAL:	33	64	113	113	323

^{1/} Type A Loans: Industrial, Construction, Manufacturing

Type B Loans: Commercial

Type C Loans: Service

TABLE 14

BNP Supervised Credit Program Summary: Staff and Operating Costs

ITEM	<u>YEAR I</u>	<u>YEAR II</u>	<u>YEAR III</u>	<u>YEAR IV</u>	<u>TOTAL</u>
<u>Staff Positions</u>					
			(Man-Years)		
Administrative-Technical	9.0	15.0	18.5	18.5	61.0
Secretarial and Clerk	3.0	4.0	6.0	6.0	19.0
Support Staff	2.0	3.0	4.0	4.0	13.0
Total VNP Staff	<u>14.0</u>	<u>22.0</u>	<u>28.5</u>	<u>28.5</u>	<u>93.0</u>
<u>Operating Costs</u>					
			(Dollars)		
Administrative-Technical	\$85,000	\$130,000	\$147,500	\$147,500	\$510,000
Secretarial-Clerk	12,000	16,000	24,000	24,000	76,000
Support Staff	5,000	7,500	10,000	10,000	32,500
Sub-Total: Salaries	<u>\$102,000</u>	<u>\$153,500</u>	<u>\$181,500</u>	<u>\$181,500</u>	<u>\$618,500</u>
Social Benefits (45%)	45,900	69,075	81,675	81,675	278,375
Overhead (30%)	30,600	46,050	54,450	54,450	185,550
Travel and Per Diem	11,000	16,000	22,000	22,000	71,000
Material and Services	36,000	36,000	36,000	36,000	144,000
Contingency (5%)	11,275	16,031	18,781	18,781	64,858
Total Estimated Operating Cost	<u>\$236,775</u>	<u>\$336,656</u>	<u>\$394,406</u>	<u>\$394,406</u>	<u>\$1,362,243</u>

TABLE 15

BNP Supervised Credit Program Staff and Operating CostsYear I

<u>Personnel</u>	<u>Man-Years</u>	<u>Unit Cost</u>	<u>Total</u>
Exec. Director	1.0	18,000	18,000
Legal Services	0.5	10,000	5,000
Planning & Research	0.5	9,000	4,500
Promotion	1.0	8,000	8,000
Loan Officer	1.0	8,000	8,000
Loan Officer Assistant	1.0	6,500	6,500
Tech/Mgmt Officer	1.0	9,000	9,000
Tech. Assistance Inspector	1.0	10,000	10,000
Mgmt. Assistance Inspector	1.0	10,000	10,000
Tech. Assistance Staff	0.5	6,000	3,000
Mgmt. Assistance Staff	0.5	6,000	3,000
Secretarial	3.0	4,000	12,000
Support Staff	2.0	2,500	<u>5,000</u>
SUB-TOTAL	14.0		\$102,000
 <u>OVERHEAD</u>			
Vacations, 13th. month, etc. Estimated at 45% of P.S. 1/			45,900
BNP Operating Overhead, estimated at 30% of PS			30,600
 <u>TRAVEL</u>			
Local travel, TA inspections, promotion and others - \$200/week 25 weeks			5,000
Per Diem, at \$20/day - 300 days			6,000
 <u>MATERIALS & SUPPLIES</u>			
Reports, graphics, printing, etc at \$3,000/month - 12 months			36,000
 <u>CONTINGENCY</u>			
Estimated at 5% of budget			11,275
TOTAL ESTIMATED OPERATING COST - YEAR 1			<u>\$236,775</u>

1/ Chapman, Guillermo, Factores que afectan la Mano de Obra en Panamá, INDESA, Diciembre 1979., P. 113.-

BNP Supervised Credit Program Staff and Operating Costs

<u>Personnel</u>	YEAR II		
	<u>Man Years</u>	<u>Unit Cost</u>	<u>Total</u>
Exec. Director	1.0	\$18,000	\$18,000
Legal Services	0.5	10,000	5,000
Planning Research	1.0	9,000	9,000
Promotion	1.0	8,000	8,000
Loan Officer	2.0	8,000	16,000
Loan Officer Assistant	2.0	6,500	13,000
Tech. Management Officer	2.0	9,000	18,000
Tech. Assistance Inspector	1.5	10,000	15,000
Mgmt. Assistance Inspector	1.0	10,000	10,000
Tech. Assistance Staff	1.5	6,000	9,000
Mgmt. Assistance Staff	1.5	6,000	9,000
Secretarial	4.0	4,000	16,000
Support Staff	<u>3.0</u>	2,500	<u>7,500</u>
Sub-Total Personnel Services (P.S.)22.0			\$153,500
<u>OVERHEAD</u>			
Vacation etc. 45% of P.S.			69,075
BNP-Operating - 30% of P.S.			46,050
<u>TRAVEL</u>			
Local Travel - \$200/week - 40 weeks			8,000
Per Diem - \$20/Day - 400 days			8,000
<u>MATERIALS AND SUPPLIES</u>			
Reports, Graphics, printing, etc. at \$3000/month-12 months			36,000
<u>CONTINGENCY</u>			
Estimated at 5% of budget			16,031
TOTAL ESTIMATED OPERATING COSTS - YEAR II			\$336,656

BNP Supervised Credit Program Staff and Operating Costs

YEAR III

<u>Personnel</u>	<u>Man-Years</u>	<u>Unit Cost</u>	<u>Total</u>
Exec. Director	1.0	\$ 18,000	\$ 18,000
Legal Services	0.5	10,000	5,000
Planning & Research	1.0	9,000	9,000
Promotion	1.0	8,000	8,000
Loan Officer	3.0	8,000	24,000
Loan Officer Assistant	3.0	6,500	19,500
Tech./Mgmt. Officer	2.0	9,000	18,000
Tech. Assistance Inspector	2.0	10,000	15,000
Mgmt. Assistance Inspector	1.0	10,000	10,000
Tech. Assistance Staff	2.0	6,000	9,000
Mgmt. Assistance Staff	2.0	6,000	12,000
Secretarial	6.0	4,000	24,000
Support Staff	<u>4.0</u>	2,500	<u>10,000</u>
Sub-Total Services	28.5		\$181,500
<u>OVERHEAD</u>			
Vacation etc. 45% of P.S.			81,675
BNP - Operating - 30% of P.S.			54,450
<u>TRAVEL</u>			
Local Travel - \$200/week - 50 Weeks			10,000
Per Diem - \$20/day-600 days			12,000
<u>MATERIALS & SUPPLIES</u>			
Reports, graphics, printing, etc. at \$3000/month - 12 months			36,000
<u>CONTIGENCY</u>			
Estimated at 5% of budget			18,871
TOTAL ESTIMATED OPERATING COSTS - YEAR III			<u>\$394,406</u>

TABLE 18

BNP Supervised Credit Program Staff and Operating Costs

YEAR IV

<u>Personnel</u>	<u>Man-Years</u>	<u>Unit Cost</u>	<u>Total</u>
Exec. Director	1.0	\$ 18,000	\$18,000
Legal Services	0.5	10,000	5,000
Planning & Research	1.0	9,000	9,000
Promotion	1.0	8,000	8,000
Loan Officer	3.0	8,000	24,000
Loan Officer Assistant	3.0	6,500	19,500
Tech/Mgmt. Officer	2.0	9,000	8,000
Tech. Assistance Inspector	2.0	10,000	15,000
Mgmt. Assistance Inspector	1.0	10,000	10,000
Tech. Assistance Staff	2.0	6,000	9,000
Mgmt. Assistance Staff	2.0	6,000	12,000
Secretarial	6.0	4,000	24,000
Support Staff	<u>4.0</u>	2,500	<u>10,000</u>
SUB TOTAL PERSONNEL SERVICES (P.S.)	28.5		\$181,500
<u>OVERHEAD</u>			
Vacation etc. 45% of Personnel Services (P.S.)			81,675
BNP - Operating - 30% of P.S.			54,450
<u>TRAVEL</u>			
Local Travel - \$200/week - 50 weeks			10,000
Per Diem - \$20/day-600 days			12,000
<u>MATERIALS & SUPPLIES</u>			
Reports, graphics, printing, etc. at \$3000/month - 12 months.			36,000
<u>CONTINGENCY</u>			
Estimated at 5% of budget			<u>18,781</u>
TOTAL ESTIMATED OPERATING COSTS - YEAR IV			\$394,406

TABLE 19
GENERAL CHARACTERISTICS (All figures in %)

Annex VIII

CHARACTERISTICS	From Below Poverty Line Family	From Above Poverty Line Family	Econ. Active	Unem- ployed	Sala- ried	Em- ploy- er	Self- Em- ploy	Family Worker	15- 24	25- 49	50- 60	TOTAL
Sex												
Male			29	47	64	67	72	27	48	43	59	47
Female			71	53	36	33	28	73	52	51	41	53
Age												
15-24	54	41	62	61	27	17	11	36				46
25-49	36	43	26	33	57	33	57	63				40
50-60	10	15	13	5	16	50	22	-				14
Education												
Primary or less			28	27	30	67	64	64	9	40	65	31
Incomplete Se- condary			61	63	43	17	34	36	76	36	25	52
Complete Secon- dary or more			11	10	27	17	3	-	15	23	10	17
Marital Status												
Single			59	58	34	33	34	55	83	21	20	48
Married or in union			41	42	66	67	66	45	17	78	80	51
Born in Panama/Colon												
Yes			56	70	49	17	58	36	70	46	37	55
No			44	30	51	83	42	64	30	54	63	45
For Migrants, Time in Panama/Colon												
0-2 years			4	13	2	--	--	29	6	5	-	
3-5 years			23	30	8	--	13	--	34	8	9	
6-10 years			17	17	11	--	27	--	22	13	7	
11-20 years			30	9	38	40	33	57	31	36	27	
21 + years			27	30	41	60	27	14	8	38	58	
Monthly Salary (If Married)												
0-100	55	12							32	17	26	23
101-200	30	31							53	21	23	31
201-400	16	41							13	44	39	35
400 or more	--	15							2	16	13	12

Source: USAID/Panama, A study of the Employment and Related Characteristics of Residents of Four Low-Income Neighborhoods in Panama City and Colon, April 1980.-

ANNEX IX

MICI DOCUMENTS

REPUBLICA DE PANAMA



VICEPRESIDENCIA

12 de marzo de 1981

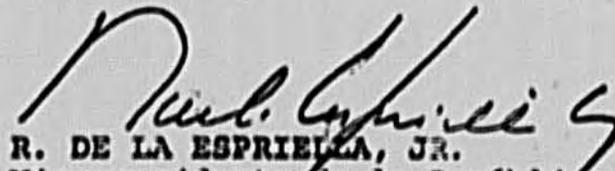
Ing. Arturo Melo
Ministro de Comercio e Industrias
E. S. D.

Señor Ministro:

Es de interés para el Ejecutivo contar con un programa que promueva actividades de inversión tendientes a la generación de empleos. Para ello, hemos designado a su Ministerio para que establezca una unidad Técnico/Administrativa que maneje el programa que estamos negociando con la Agencia Internacional para el Desarrollo (AID).

Los fondos necesarios para el financiamiento de la unidad serán adecuados por el Gobierno Central, por lo que le solicitamos se sirva proceder de inmediato al establecimiento de la unidad Técnica/Administrativa y nos informe al respecto.

Atentamente,


R. DE LA ESPRIELLA, JR.
Vicepresidente de la República

/bmc

7 de Abril de 1961.

DA-13- 073-01

Su Excelencia
Msc. Ricardo De La Espriella
Vicepresidente de la República
Ciudad

Estimado señor Vicepresidente:

De acuerdo a sus instrucciones y después de haber unificado criterios entre la Agencia Internacional del Desarrollo (A.I.D.), el Banco Nacional y el Ministerio de Comercio e Industrias, nos es grato remitirle para su consideración, el documento final solicitado por usted, referente a la creación de una Unidad Administrativa Gubernamental para la Coordinación del Desarrollo de Políticas de Fomento a la Pequeña Empresa, en donde se establecen las instituciones que la conformarán, estructura y presupuesto, a fin de que el Gobierno Central pueda adecuar los fondos necesarios.

En espera de que el presente documento le sea de utilidad, aprovechamos la oportunidad para presentarle con los saludos de nuestra más alta consideración y estima.

RODRIGO SPIEGEL R.
Ministro de Comercio e Industrias a.i.

ODE/isp

CONTRATO DE MANEJO Y GENERACION DE EMPLEO
UNIDAD TECNICA ADMINISTRATIVA

Componente de Planificación de Empleo: Sistema de Análisis e Investigación de Políticas (SAIP)

A. Sistema de Análisis e Investigación de Políticas (SAIP)

Uno de los planes del Gobierno de Panamá (GP) para generar empleo es el de establecer un Sistema de Análisis e Investigación de Políticas para realizar estudios, evaluar políticas y programas, con el fin de promover la inversión del sector privado en actividades de generación de empleo. Estas actividades fomentarán y fortalecerán el clima de inversión y empleo. Se dará especial énfasis a la pequeña y mediana empresa dada su naturaleza de ser intensiva en mano de obra y su potencial para generar empleo a un bajo costo entre la mano de obra no calificada y semi-calificada.

El Ministerio de Comercio e Industrias (MCI) ha trabajado en una relación muy estrecha con la Agencia para el Desarrollo Internacional (AID) en el desarrollo del SAIP. Este sistema le ayudará al GP en establecer la capacidad analítica e institucional para realizar los estudios necesarios que reflejan la política y programas que conllevan a un alivio del problema del empleo en Panamá.

El SAIP tendrá tres niveles de actividades interdependientes:

1. Una Comisión para el Desarrollo de Empleo (CDE) compuesta por ministros (o sus representantes) y miembros del sector privado,
2. Una Unidad Técnica Administrativa (UTA) compuesta por profesionales altamente calificados,
3. Un conjunto de consultores (ver adjunto el diagrama organizacional).

- 2 -

La Comisión para el Desarrollo de Empleo (CDE) incluirá como miembros, por ejemplo a:

Ministro de Comercio e Industrias (o sus representantes), quien la presidirá.

Ministro de Planificación y Política Económica (o sus representantes)

Ministro de Trabajo y Bienestar Social (o sus representantes)

Ministro de Hacienda y Tesoro (o sus representantes)

el Gerente General del Banco Nacional.

el Presidente de la Comisión Bancaria

y representantes del sector privado, tales como, la Unión Nacional de pequeñas industrias, el Sindicato de Industriales de Panamá.

La Comisión se reunirá cada tres (3) meses, o tan frecuentemente como sea necesario para:

1. identificar políticas, programas y áreas problemáticas que requieran atención.
2. establecer un calendario de trabajo para la UTA.
3. revisar y analizar las recomendaciones a los niveles apropiados para tomar decisiones en los aspectos ejecutivos y legislativo del gobierno.

La Unidad Técnica Administrativa (UTA) funcionará como la secretaria técnica del CDE y estará compuesto por dos profesionales, un abogado y un economista, además de una secretaria. La UTA será responsable y responderá a las solicitudes del CDE con

Table 4
Unemployment by Age Group, 1976

Age Group	Nationwide			Metropolitan Area			Rest of the Country		
	Total	Male	Female	Total	Male	Female	Total	Male	Female
A. Number of Unemployed Persons									
15-19	7,350	3,820	3,530	4,440	2,220	2,220	2,910	1,600	1,310
20-24	10,660	6,130	4,530	8,580	4,970	3,610	2,080	1,160	920
25-29	5,620	2,630	2,990	4,550	2,090	2,460	1,070	540	530
30-39	5,610	3,250	2,360	4,340	2,620	1,720	1,270	630	640
40-49	2,730	1,690	1,040	2,210	1,360	850	520	330	190
50-59	970	600	170	650	530	120	320	270	50
60-69	490	450	40	410	370	40	80	80	--
70 +	270	270	--	120	120	--	150	150	--
Total:	<u>33,700</u>	<u>19,040</u>	<u>14,660</u>	<u>25,300</u>	<u>14,280</u>	<u>11,200</u>	<u>8,400</u>	<u>4,760</u>	<u>3,640</u>
B. Unemployment Rates									
15-19	14.4	11.0	21.7	19.4	17.8	21.2	10.4	7.2	22.6
20-24	13.4	11.7	16.6	17.7	16.9	18.9	6.7	5.1	11.3
25-29	7.1	4.9	11.6	9.5	7.2	13.0	3.4	2.2	7.7
30-39	4.5	3.6	6.9	6.1	5.5	7.2	2.4	1.5	6.0
40-49	3.3	2.8	4.7	4.8	4.4	5.4	1.4	1.1	2.8
50-59	1.9	1.9	1.7	2.4	2.5	1.8	1.3	1.3	1.5
60-69	1.8	2.0	1.0	3.6	4.2	1.6	0.5	0.6	--
70 +	3.2	3.5	--	4.8	5.7	--	2.5	2.6	--
Total:	<u>6.7</u>	<u>5.2</u>	<u>10.4</u>	<u>9.0</u>	<u>7.9</u>	<u>11.2</u>	<u>3.7</u>	<u>2.6</u>	<u>8.4</u>

14b

Source: *Dirección de Estadística y Censo, Contraloría General de la República, Situación Social: Estadísticas del Trabajo, Año 1976 (Panamá, March 1979), pp. 17-18.

-3-

información, estudios, análisis y recomendaciones de políticas, programas y otros asuntos que afecten la inversión del sector privado en la generación de empleo.

La UTA contratará a los consultores, locales o internacionales según sea la necesidad, para llevar a cabo los estudios y evaluaciones. En la contratación de los consultores, la UTA será responsable de desarrollar los términos de referencia, supervisar y evaluar el trabajo de los consultores.

También asistirá a los consultores en la búsqueda y obtención de información, realizando los contactos con los funcionarios del sector público y privado.

La UTA será responsable por revisar los estudios y análisis entregado por los consultores, al igual que resumirlos y ponerlos en una forma adecuada para recomendar acciones.

Los Consultores y firmas de consultores, locales e internacionales, serán contratados para realizar estudios y análisis específicos, según sean determinados por UTA.

B. SAIP-Estudios y Análisis

Inicialmente el SAIP, se concentrará en aquellos puntos claves de políticas del gobierno como son; la regulación de precios, legislación laboral, incentivos fiscales y programas de crédito, para poder determinar su impacto en la viabilidad financiera de las empresas, y saber como influyen en las decisiones que afectan la inversión, tipo de tecnología para producir, y otros factores que influyen en los niveles de empleo. El objetivo de estos análisis es poder desarrollar políticas y recomendaciones que estimulen la inversión del sector privado con el propósito de generar empleo.

Además de los estudios seleccionados con las políticas se efectuarán estudios tales como:

- a) Análisis de los sectores e industrias que tienen el mayor potencial para generar empleo,
- b) La forma de ver como los productos importados pueden ser

.. 4 -

producidos localmente por métodos y empresas que sean intensiva en mano de obra,

c) El potencial para desarrollar nuevos productos y mercados (locales e internacionales) que resulten en un aumento del empleo,

d) El potencial de poder modificar la tecnología de producción de diversos productos con el fin de utilizar mayor mano de obra y menos capital (maquinaria y equipo),

e) Las condiciones técnicas y económicas que restringen las actuales y futuras empresas en la utilización de una tecnología intensiva en mano de obra,

f) El potencial del gobierno para que mercadee y compre las ofertas de las pequeñas empresas aumentando la viabilidad de la pequeña empresa, preservando y expandiendo mas oportunidades de empleo,

g) El potencial de promover acuerdos bilaterales y multinacionales, para expandir las oportunidades de mercado para los productos panameños, particularmente, los que son intensivos en mano de obra.

C. SAIP-Procedimientos y Financiamientos

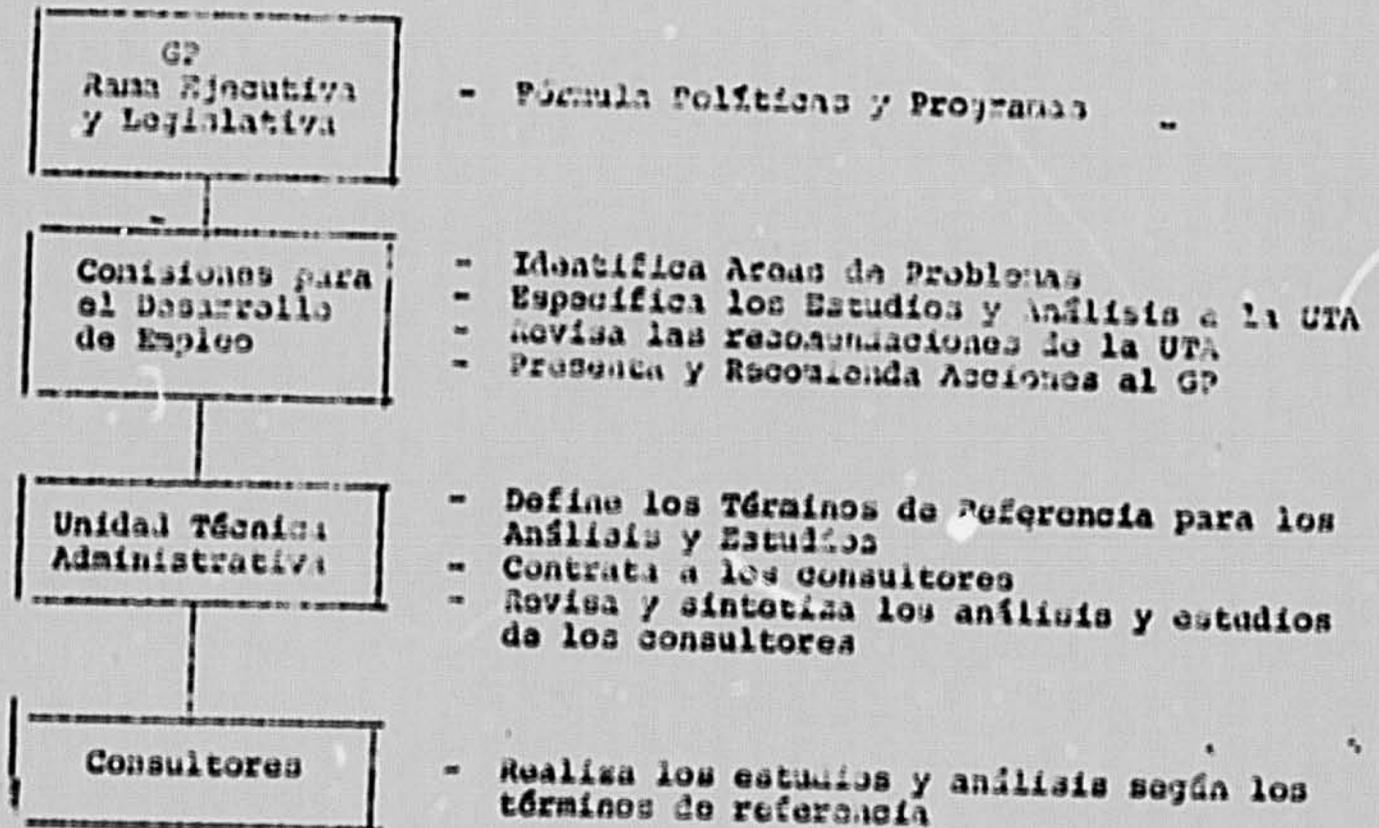
En cada instancia, que un estudio sea comisionado y terminado por el consultor (es) se desarrollará por la UTA un resumen y recomendación para ser presentado a la CDE. La CDE considerará y evaluará la conclusión de cada estudio, y tomará la acción que considere pertinente y apropiada. Si por ejemplo, se estima conveniente que se cambie una ley o se implemente una nueva, la comisión presentará su recomendación al ejecutivo y a la comisión de legislación del gobierno.

La AID en Panamá proveerá B/. 625,000 en un periodo de tres (3) años como donación para financiar estudios, análisis y evaluaciones realizadas por consultores. El GP pondrá como contrapartida fondos por la suma de B/. 70,000 anuales para cubrir el personal, oficina, equipo, muebles y costos de transportes para la UTA y la CDE. Cuando se agoten los fondos de donación de la AID, el GP continuará financiando estudios y análisis con fondos de otras fuentes. Un plan financiero de la UTA se anexa.

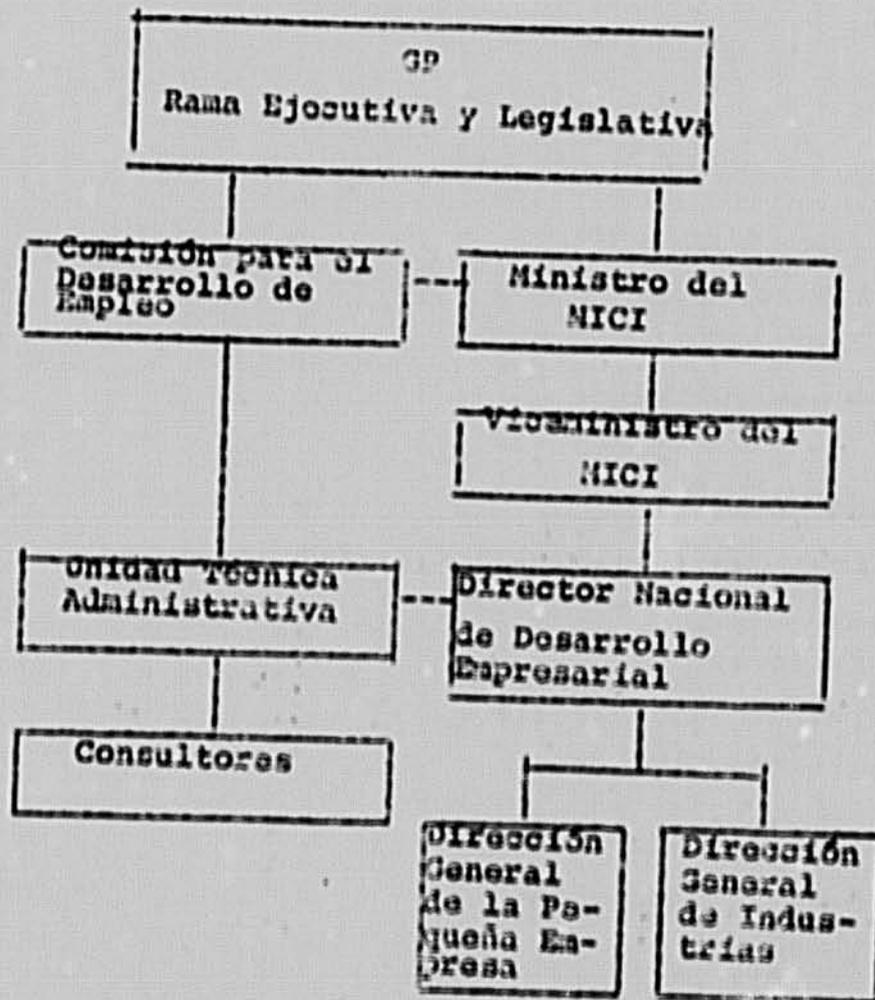
-3-

El establecimiento de la Unidad Técnica Administrativa y la Comisión para el Desarrollo de Empleo son condiciones previas al desembolso del préstamo y del componente de donación del proyecto. La UTA tendrá un plan detallado de los estudios y operaciones que serán aprobados por la CDE y revisados por AID como condiciones previas a cualquier desembolso de los fondos para los estudios contratados. El JP acuerda revisar las especificaciones de los estudios y cualquiera que cueste más de B/.25,000 se revisará conjuntamente con la AID antes de iniciar los procedimientos de contratación.

ESQUEMA DEL SAIP: ORGANIZACION Y FUNCIONES



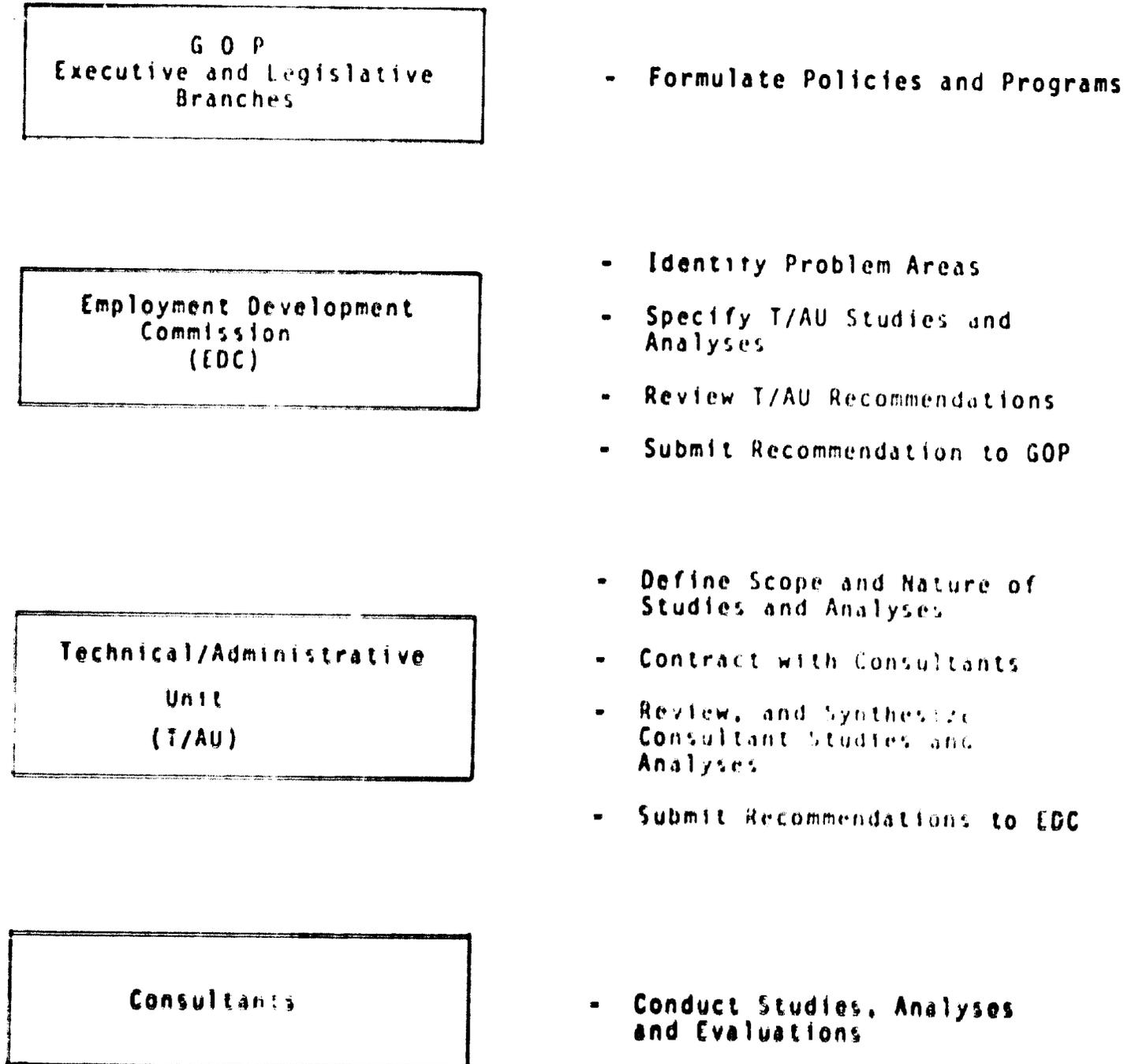
RELACION DEL SAIP Y EL MICI



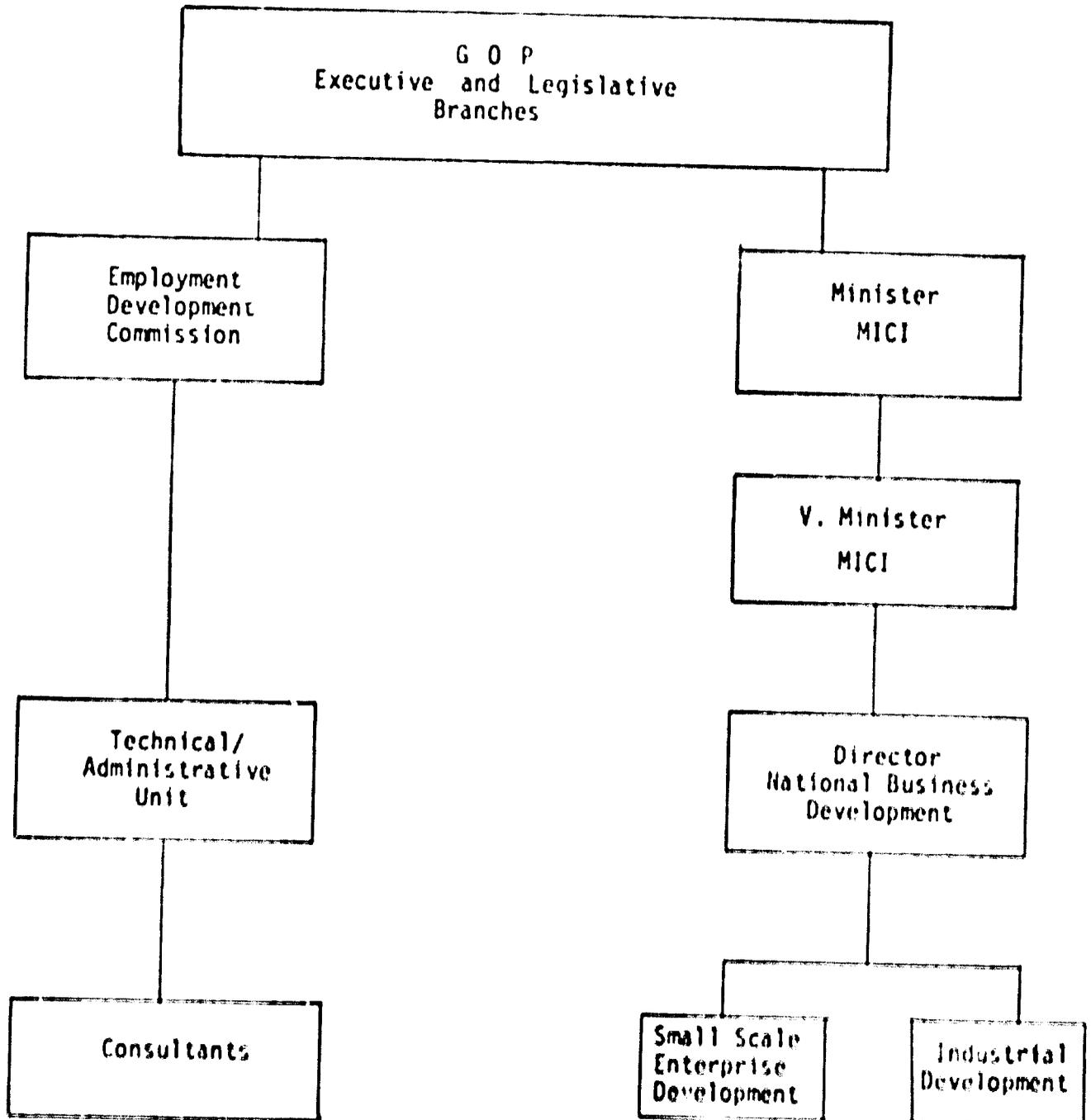
MINISTERIO ECONOMÍA Y FINANZAS
 COMISIÓN DE OPERACIONES
 (Asesinado - 6 meses)

Regional	<u>11,100</u>	<u>1,100</u>
1 Director Técnico (Economista Bilingüe) 000 mensual		1,100
1 Asistente (Bilingüe) 300		1,300
1 Secretario (Bilingüe) 550		1,300
<u>Oficina</u>		<u>5,450</u>
Alquiler 300		3,000
Utilidades 250		1,500
Teléfono 100		1,200
Mantenimiento 60		350
<u>Equipo de Oficina</u>		<u>1,400</u>
Escritorios- (Donado por material existente)		
Sillas " " " "		
Archivadoras " " "		
Máquina de escribir (1)		1,200
Calculadoras 100 c/u		200
<u>Utilidad de Oficinas 100 x mes</u>		<u>1,600</u>
<u>Impresión y Reproducción</u>		<u>3,000</u>
Impresión- 200		1,200
Reproducción 100		1,800
<u>Viajes y Representaciones</u>		<u>2,950</u>
Local- 12 viajes (2 personas/1 mes c/a)		750
Internacional- 16 viajes (2 personas/16 días c/a)		600
Pasajes 600 x 2		1,600
<u>Transporte</u>		<u>7,000</u>
1 automóvil		3,000
Gasolina y mantenimiento		1,500
Mantenimiento y Reparación (10%)		500
TOTAL		<u><u>34,510</u></u>

Chart I

PARS : Organization and Functions

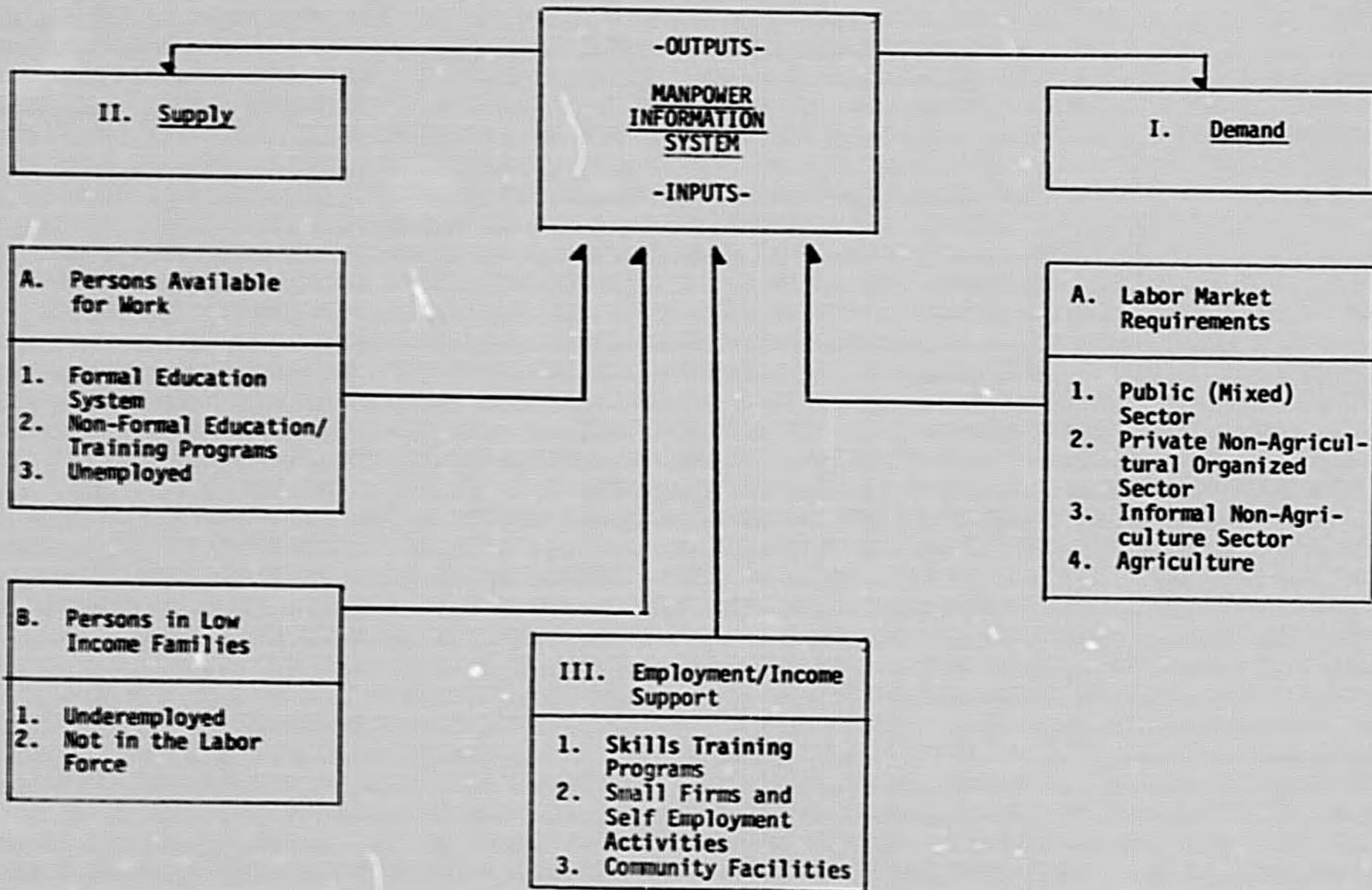
PARS Relationship to MICI and GOP



ANNEX X

MITRAB DOCUMENTS

CHART 1 INFORMATION FLOW CHART FOR THE MANPOWER INFORMATION SYSTEM



MANPOWER INFORMATION SYSTEM

Annex X

2 of 4

FINANCIAL PLAN
(US \$)

GDP Contribution

OUTPUT	TOTAL COST	QUARTERLY EXPENDITURE PLAN							
		FIRST YEAR				SECOND YEAR			
		I	II	III	IV	I	II	III	IV
<u>A. Formulation of the System</u>	<u>61,000</u>	<u>1,000</u>	<u>9,000</u>	<u>14,000</u>	<u>10,500</u>	<u>12,300</u>	<u>12,300</u>	<u>1,000</u>	
<u>1. Technical Design of the System</u>	<u>22,000</u>	<u>1,000</u>	<u>8,000</u>	<u>12,000</u>	<u>1,000</u>				
A. Counterpart Support for Technical Assistance (6 person months; office space)	6,000	1,000	2,000	2,000	1,000				
B. Seminar for participating agencies (25 panamanian participants)	5,000		1,000	5,000					
C. Participant training (3 persons, 4 months)	10,000		5,000	5,000					
<u>2. Analysis of Data Components</u>	<u>39,000</u>		<u>1,000</u>	<u>2,000</u>	<u>9,500</u>	<u>13,200</u>	<u>12,300</u>	<u>1,000</u>	
A. Counterpart Support for Technical Assistance (24 person months; office space; clerical/ secretarial services)	24,000			1,000	6,000	8,000	8,000	1,000	
B. Specialized seminars (15 panamanian participants)	3,000				500	1,200	1,300		
C. Local Support (Computer time, data processing, office space)	12,000		1,000	1,000	3,000	4,000	3,000		
<u>B. Implementation of the System</u>	<u>37,000</u>						<u>6,000</u>	<u>9,000</u>	<u>22,000</u>
<u>1. Technical Design for Data Input and Manipulation</u>	<u>13,000</u>						<u>6,000</u>	<u>7,000</u>	
A. Counterpart Support for Technical Assistance (6 person months; office space)	6,000						3,000	3,000	
B. Local Support Costs (Computer time, Data Processing, office space)	7,000						3,000	4,000	

MANPOWER INFORMATION SYSTEM

Annex X

3 of 4

FINANCIAL PLAN
(US \$)

GOP Contribution

OUTPUT	TOTAL COST	QUARTERLY EXPENDITURE PLAN								
		FIRST YEAR				SECOND YEAR				
		I	II	III	IV	I	II	III		
<u>2. Transmittal of Preliminary Information to Data Users</u>	<u>15,000</u>									15
a. Seminar for Data Users (40 panamanian maximum participants.)	8,000									8
b. Publication of Preliminary Information (analysis of information, clerical services)	7,000									7
<u>3. Development of Manpower Forecasting model</u>	<u>9,000</u>							2,000		9,000
a. Counterpart Support for Technical Assistance (6 person months; office space)	6,000							2,000		6,000
b. Local Support Costs (Computer time, processing data, office space)	<u>3,000</u>									3,000
<u>C. Project Total</u>	<u>98,000</u>	4,000	9,000	14,000	10,500	13,200	18,300	10,000		22,000

MANPOWER INFORMATION SYSTEM

Annex X

4 of 4

FINANCIAL PLAN
(US \$)

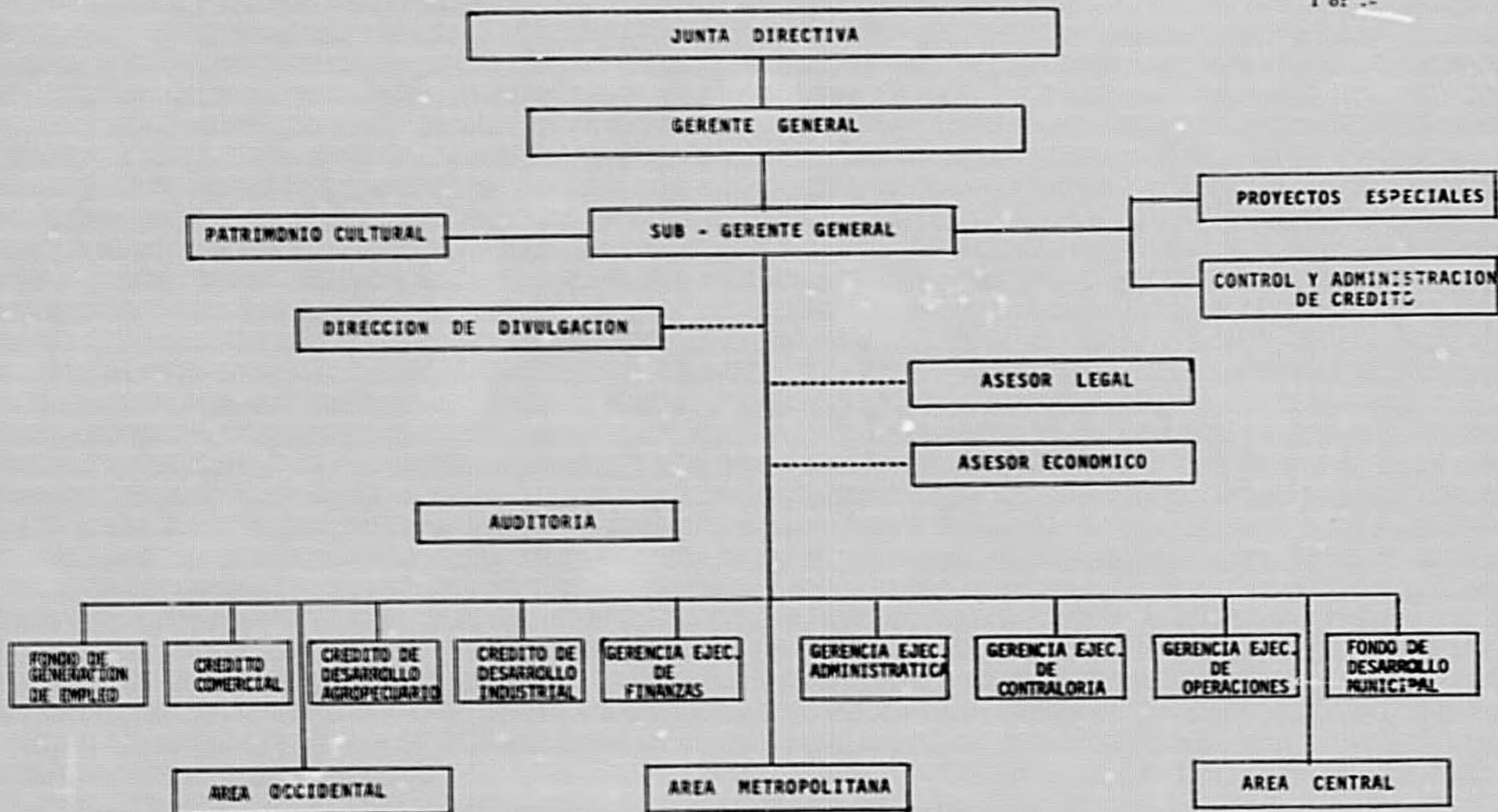
AID Contribution

OUTPUT	TOTAL COST	QUARTERLY EXPENDITURE PLAN							
		FIRST YEAR				SECOND YEAR			
		I	II	III	IV	I	II	III	IV
<u>A. Formulation of the System</u>	<u>142,000</u>	<u>36,000</u>	<u>8,000</u>	<u>13,000</u>	<u>23,000</u>	<u>33,000</u>	<u>29,000</u>	<u>—</u>	<u>—</u>
1. <u>Technical Design of the System</u>	<u>45,000</u>	<u>28,000</u>	<u>6,000</u>	<u>11,000</u>					
a. Technical Assistance; 2 person months	12,000		6,000	6,000					
b. Seminar for Participating Agencies	5,000			5,000					
c. Participant Training	23,000	23,000							
d. Technical Materials	5,000	5,000							
2. <u>Analysis of Data Components</u>	<u>97,000</u>	<u>8,000</u>	<u>2,000</u>	<u>2,000</u>	<u>23,000</u>	<u>33,000</u>	<u>29,000</u>		
a. Technical Assistance; 6 person months	48,000				12,000	18,000	18,000		
b. Specialized Seminars using above technical assistance.	4,000				1,000	2,000	1,000		
c. Commodity support (office machines, computer programs)	20,000	8,000			4,000	4,000	4,000		
d. Local support costs (computer and data processing time) local consultants)			2,000	2,000	6,000	9,000	6,000		
<u>B. Implementation of the System</u>	<u>58,000</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>15,000</u>	<u>16,000</u>	<u>27,000</u>
1. <u>Technical Design for Data Input and Manipulation</u>	<u>31,000</u>						<u>15,000</u>	<u>16,000</u>	
a. Technical Assistance; 2 person months	12,000						6,000	6,000	
b. Commodity Support (Computer Programs)	4,000						2,000	2,000	
c. Local Support Costs (Computer and Data processing; local consultants)	15,000						7,000	8,000	
2. <u>Transmittal on Preliminary Information to Data Users</u>	<u>10,000</u>								<u>10,000</u>
a. Seminar for Data Users	5,000								5,000
b. Publication of Preliminary Information	5,000								5,000
<u>C. Project Total</u>	<u>200,000</u>	<u>36,000</u>	<u>8,000</u>	<u>13,000</u>	<u>23,000</u>	<u>33,000</u>	<u>44,000</u>	<u>16,000</u>	<u>27,000</u>

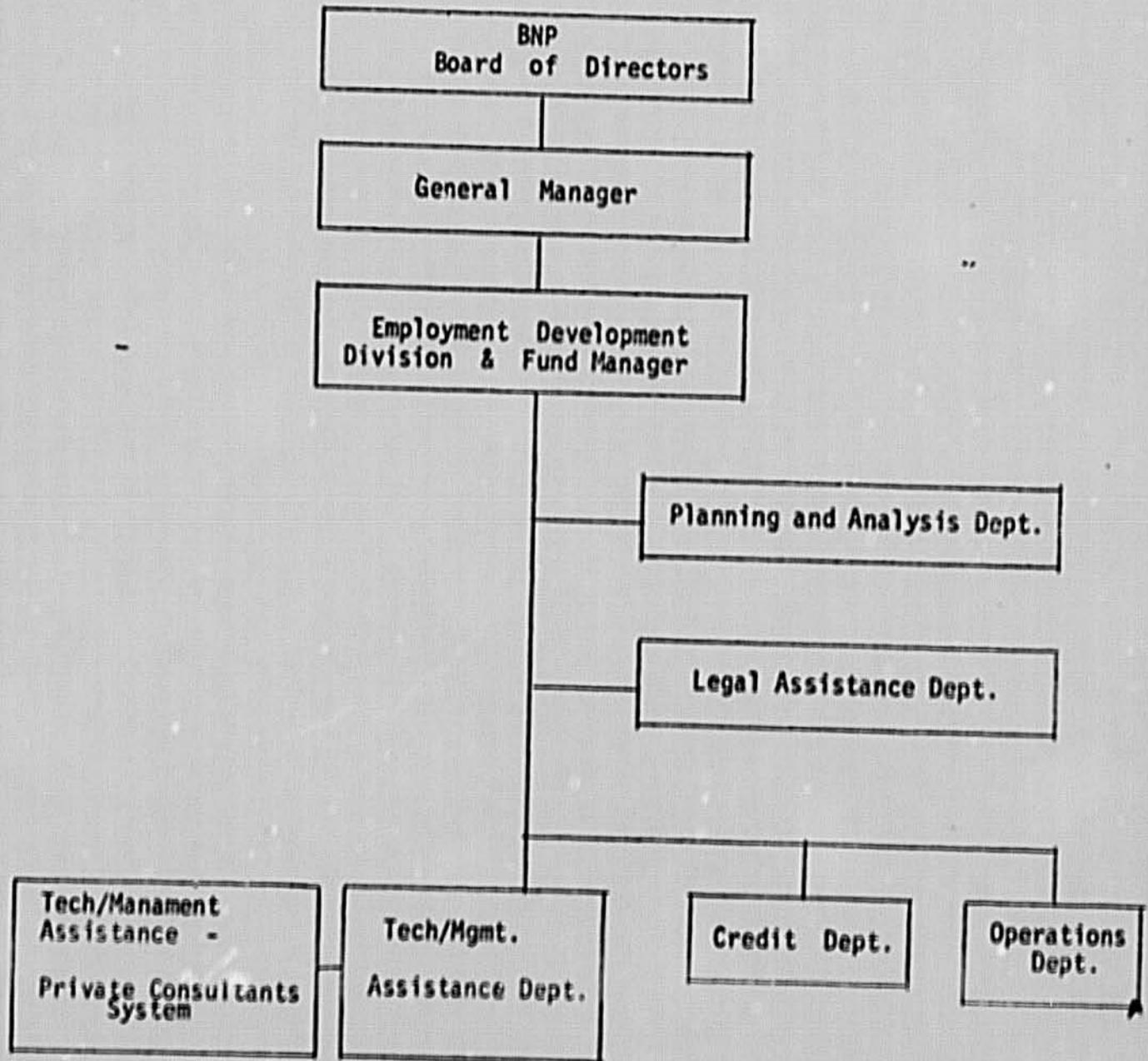
ANNEX XI

BNP DOCUMENTS

Chart 1



BNP's EMPLOYMENT DEVELOPMENT DIVISION AND FUND



BNP BRANCH BANKS BY PROVINCE

<u>Provinces</u>	<u>Numbers</u>
Bocas del Toro	2
Coclé	4
Colón	2
Chiriquí	9
Darién	1
Herrera	2
Los Santos	4
Panamá	19
Veraguas	<u>2</u>
Total:	<u>45</u>

BNP PROFESSIONAL STAFF

<u>Profession</u>	<u>Number</u>
Business Administration	24
Accountants	29
Economist	43
Public Administration	24
Agronomist	24
Lawyer	26
Architects	3
Civil Engineer	2
Industrial Engineer	2
Mathematician & Chemist	5
Philosophy	6
Social Workers	3
Sociologist	1
International Relation	1
Executive Secretary	<u>2</u>
Total:	<u><u>195</u></u>

BNP SUPERVISED CREDIT PROGRAM**Loan Portfolio and Jobs Generated: Relationships and Assumptions**

- (1) Size of Loan Fund: \$10,000,000.00
- (2) Distribution of Loan Fund by Year:
- | | | | |
|-----------|---|-----|------------------|
| 1st. Year | - | 10% | (\$1,000,000.00) |
| 2nd. Year | - | 20% | (\$2,000,000.00) |
| 3rd. Year | - | 35% | (\$3,500,000.00) |
| 4th. Year | - | 35% | (\$3,500,000.00) |
- (3) Type of Loans:
- | | | |
|--------|---|---------------------------------------|
| Type A | - | Industrial/Construction/Manufacturing |
| Type B | - | Commercial |
| Type C | - | Service |
- (4) Distribution of Loan Fund by Loan Type:
- | | | |
|--------|---|-----|
| Type A | - | 40% |
| Type B | - | 35% |
| Type C | - | 25% |
- (5) Average Loan Size by Loan Type:
- | | | |
|--------|---|-------------|
| Type A | - | \$60,000.00 |
| Type B | - | \$10,000.00 |
| Type C | - | \$18,000.00 |
- (6) Maximum Cost Per Direct Job Generated by Loan Type:
- | | | |
|--------|---|-------------|
| Type A | - | \$10,000.00 |
| Type B | - | \$ 5,000.00 |
| Type C | - | \$ 5,000.00 |
- (7) Indirect to Direct Job Ratio: .8

BNP

COMPARATIVE STATEMENT OF CONDITION

ASSETS

	<u>79</u>	<u>80</u>
LIQUID ASSETS:		
Cash	158,260,568	201,073,335
Due from Banks:	69,450,525	43,354,115
- Demand Deposits - Local	21,703,926	21,734,689
Demand Deposits - Foreign	10,858,565	24,924,556
Time Deposits - Local	18,593,525	58,323,962
Time Deposits - Foreign	34,627,856	42,013,496
Interbranch Accounts	3,026,171	10,722,517
Productive Assets - Loans	379,652,363	408,048,440
Investments	41,847,550	62,348,367
International Monetary Fund	15,812,923	17,583,405
Other Assets	<u>28,168,135</u>	<u>52,496,122</u>
Fixed Assets	13,762,788	17,374,910
Other Assets	14,405,347	35,121,212
TOTAL ASSETS	<u><u>623,741,539</u></u>	<u><u>741,549,669</u></u>

Source: Banco Nacional de Panamá

BNP
COMPARATIVE STATEMENT OF CONDITION

Annex XI
 7 of 14

LIABILITIES

	<u>79</u>	<u>80</u>
LIQUID LIABILITIES		
Deposits	<u>439,002,909</u>	<u>545,423,508</u>
Demand Deposits - Local	226,436,457	259,150,061
Demand Deposits - Foreign	11,509,607	13,979,094
Savings & Time Deposits	188,061,729	259,280,127
Accounts Payable	12,995,116	13,014,226
Long Term Liabilities	<u>124,113,397</u>	<u>116,722,830</u>
International Monetary Fund	69,256,369	56,843,465
Interamerican Development Bank	5,212,951	7,729,310
World Bank	6,930,418	9,777,112
USAID	1,643,659	3,140,213
Other Liabilities	41,070,000	39,232,730
Other Liabilities	<u>22,931,148</u>	<u>35,154,794</u>
Uncashed Checks	5,604,822	4,687,567
Unearned Income	6,582,835	18,498,541
Reserves	10,743,486	11,968,691
TOTAL LIABILITIES	<u>586,047,454</u>	<u>697,301,137</u>
Capital and Reserves	<u>37,694,085</u>	<u>44,248,532</u>
Capital	28,000,000	34,000,000
Capital Reserve	9,694,085	10,248,532
TOTAL LIABILITIES AND CAPITAL	<u>623,741,539</u>	<u>741,549,669</u>

Source: Banco Nacional de Panamá

BNP/SCP Sub-Loan Interest

Rate Formula

	BNP's Cost of Capital (1)	Develop. Instit. Interest Rates (2)	Commercial Bank Interest Rates (3)	Economic Activity Average
<u>ECONOMIC ACTIVITY:</u>				
Ind. Manuf./Const. (A)	(Ave. Int. Rate = A ₁) +	(Ave. Int. Rate = A ₂) +	(Ave. Int. Rate = A ₃)	(A ₁ + A ₂ + A ₃)/3
Commercial (B)	(Ave. Int. Rate = B ₁) +	(Ave. Int. Rate = B ₂) +	(Ave. Int. Rate = B ₃)	(B ₁ + B ₂ + B ₃)/3
Services (C)	(Ave. Int. Rate = C ₁) +	(Ave. Int. Rate = C ₂) +	(Ave. Int. Rate = C ₃)	(C ₁ + C ₂ + C ₃)/3

$$\underline{\text{Sub - Loan Interest Rate}} = \left[\frac{(A_1 + A_2 + A_3)/3 + (B_1 + B_2 + B_3)/3 + (C_1 + C_2 + C_3)/3}{3} \right]$$

BNP/SCP Sub-Loan InterestRate FormulaExample

	<u>BNP's Cost of Capital</u>	<u>Development Instit. Interest Rates</u>	<u>Commercial Bank Interest Rates</u>	<u>Economic Activity Average</u>
<u>ECONOMIC ACTIVITY</u>				
Ind./Manuf./Const.	10%	12%	20%	14.0%
Commercial	10%	20%	22%	17.3%
Services	10%	20%	22%	17.3%

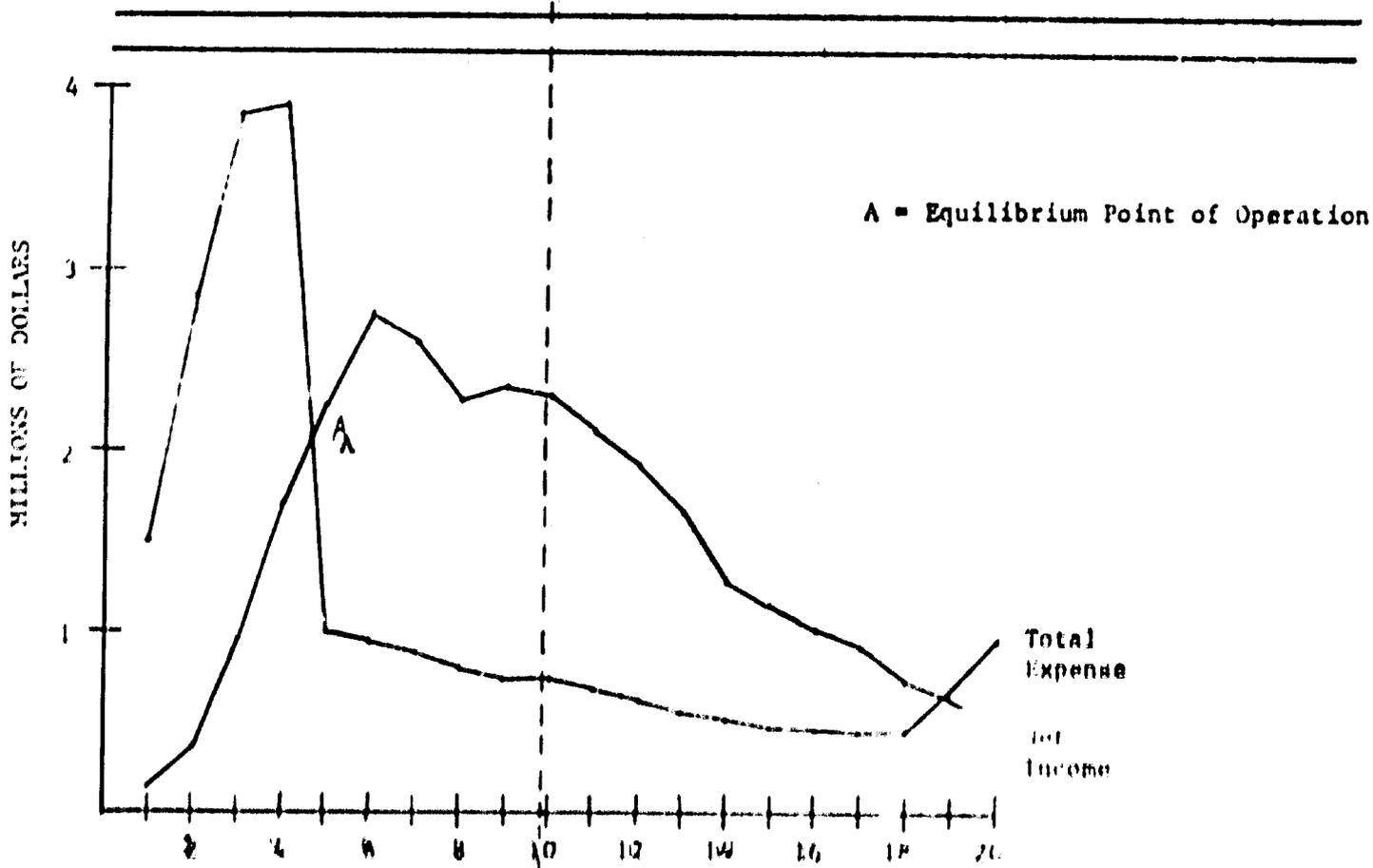
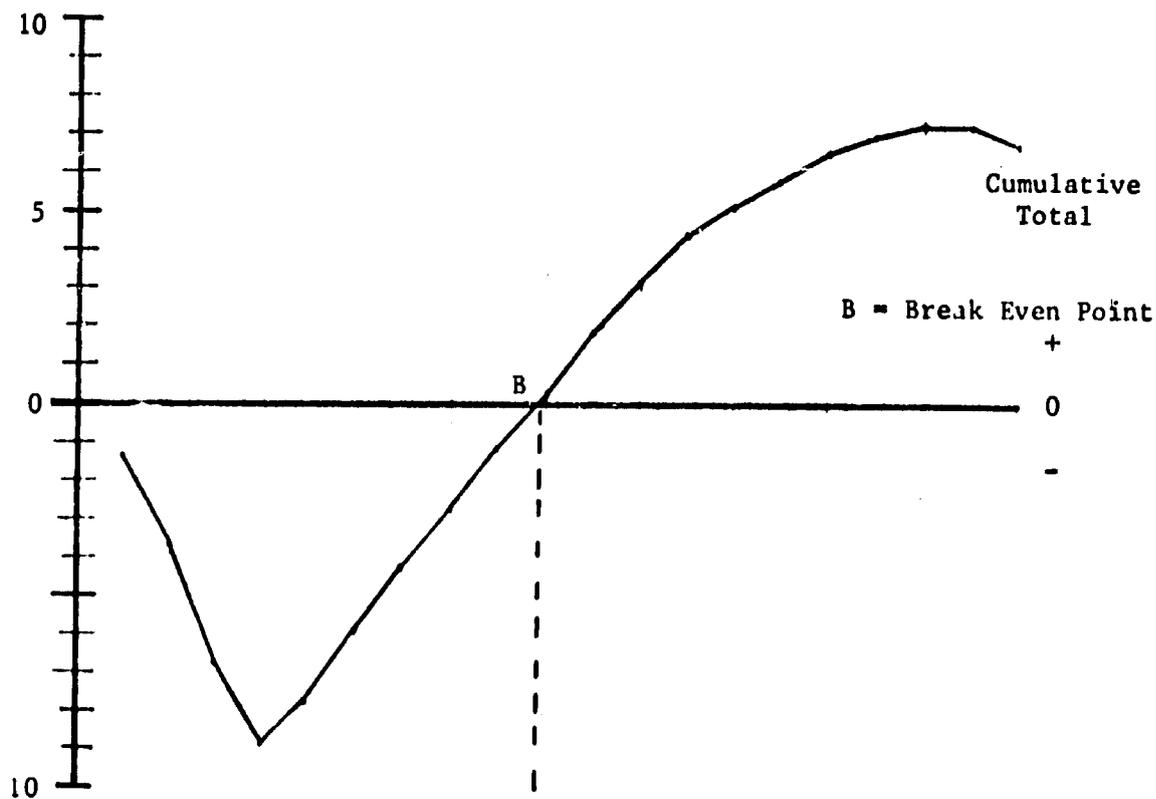
$$\text{Sub-Loan Interest Rate} = \left[\frac{(14.0\%) + (17.3\%) + (17.3\%)}{3} \right] = 16.2\%$$

NOTE: The 16.2% sub-loan interest rate includes 3% for technical/management assistance (TMA).

CASH FLOW BREAK EVEN POINT

Annex XI

Chart 3
10 of 14



BNP SUPERVISED CREDIT PROGRAM: FINANCIAL RESOURCE FLOW

(\$000' s)

	(1)	(2)	(3)	(4)	(5)
1. CURRENT ACCOUNT:					
1-1 Total Gross Income	<u>130.0</u>	<u>390.0</u>	<u>1,016.5</u>	<u>1,852.7</u>	<u>2,438.5</u>
1-1-1 Initial Gross Income	130.0	390.0	1,016.5	1,852.7	2,379.4
1-1-2 Re-flows Gross Income	--	--	--	--	59.1
1-2 Total Default	9.8	29.3	76.2	139.0	182.9
1-3 Net Income	120.3	360.8	940.3	1,713.7	2,255.6
1-4 Operating Expense	236.8	336.7	394.4	394.4	394.4
1-5 Surplus or Deficit	(116.6)	24.1	545.9	1,319.3	1,861.2
1-6 Total Interest	<u>60.0</u>	<u>214.3</u>	<u>466.3</u>	<u>515.2</u>	<u>622.2</u>
1-6-1 AID Loan	10.0	30.0	65.0	100.0	100.0
1-6-2 BNP Loan	50.0	146.9	312.1	301.4	430.5
1-6-3 Short Term Refinancing	--	37.4	89.2	113.8	91.7
1-7 Gross Savings	<u>(176.6)</u>	<u>(190.2)</u>	<u>79.6</u>	<u>804.1</u>	<u>1,239.0</u>
2. CAPITAL ACCOUNT:					
2-1 Total Principle Payment	<u>31.4</u>	<u>126.3</u>	<u>295.3</u>	<u>349.5</u>	<u>528.2</u>
2-1-1 AID Loan	--	--	--	--	--
2-1-2 BNP Loan	31.4	97.2	216.8	226.6	383.2
2-1-3 Short Term Refinancing	--	29.1	78.5	122.9	145.0
2-2 Required Additional Loan	208.0	316.6	--	--	--
3. RESOURCE FLOW (Equity)	(208.0)	(316.6)	(215.7)	454.6	710.8

INTERNAL RATE OF RETURN = 9.8%

BNP SUPERVISED CREDIT PROGRAM: FINANCIAL RESOURCE FLOW

(\$000' 8)

(Cont...)

(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
<u>2,965.4</u>	<u>2,809.0</u>	<u>2,469.4</u>	<u>2,566.4</u>	<u>2,488.2</u>	<u>2,214.4</u>	<u>2,084.3</u>	<u>1,752.0</u>
2,813.9	2,423.9	1,799.9	1,600.9	1,252.6	813.9	633.0	316.5
151.5	385.1	669.5	965.5	1,235.6	1,400.5	1,451.3	1,435.5
222.4	210.7	185.2	192.5	186.6	1,110.7	164.2	87.6
2,743.0	2,598.3	2,284.2	2,373.9	2,301.6	2,103.7	1,980.1	1,664.4
394.4	394.4	394.4	394.4	394.4	394.4	394.4	394.4
2,348.5	2,203.9	1,889.8	1,979.5	1,907.2	1,709.3	1,585.7	1,270.0
<u>558.1</u>	<u>485.0</u>	<u>414.3</u>	<u>352.9</u>	<u>363.3</u>	<u>285.0</u>	<u>212.3</u>	<u>149.3</u>
100.0	100.0	100.0	100.0	100.0	150.0	137.0	123.4
392.5	350.2	303.8	252.9	263.3	135.0	75.3	25.9
65.6	34.8	10.5	--	--	--	--	--
<u>1,790.4</u>	<u>1,718.9</u>	<u>1,475.5</u>	<u>1,626.6</u>	<u>1,543.9</u>	<u>1,424.3</u>	<u>1,375.4</u>	<u>1,120.7</u>
<u>592.3</u>	<u>598.8</u>	<u>468.3</u>	<u>560.7</u>	<u>617.0</u>	<u>1,033.3</u>	<u>943.4</u>	<u>721.3</u>
--	--	--	--	--	436.0	449.1	462.4
421.3	463.5	409.8	560.7	617.0	597.3	494.3	258.9
171.0	135.3	58.5	--	--	--	--	--
--	--	--	--	--	--	--	--
1,198.2	1,120.1	1,007.2	1,065.9	926.9	391.0	430.0	399.4

BNP SUPERVISED CREDIT PROGRAM: FINANCIAL RESOURCE FLOW

(\$000' s)

(Cont..)

(14)	(15)	(16)	(17)	(18)	(19)	(20)
<u>1,361.1</u>	<u>1,220.8</u>	<u>1,127.0</u>	<u>977.5</u>	<u>813.6</u>	<u>666.6</u>	<u>501.1</u>
--	--	--	--	--	--	--
1,361.1	1,220.8	1,127.0	977.5	813.6	666.6	501.1
68.1	61.0	56.4	48.9	40.7	33.3	25.1
1,293.0	1,159.8	1,070.7	928.6	772.9	633.3	476.0
394.4	394.4	394.4	394.4	394.4	394.4	394.4
898.5	765.4	676.3	534.2	378.5	238.9	81.6
<u>109.5</u>	<u>95.2</u>	<u>81.0</u>	<u>65.2</u>	<u>49.8</u>	<u>45.4</u>	<u>70.4</u>
<u>109.5</u>	<u>95.2</u>	<u>81.0</u>	<u>65.2</u>	<u>49.8</u>	<u>33.4</u>	<u>16.8</u>
--	--	--	--	--	--	--
--	--	--	--	--	12.0	53.6
<u>789.1</u>	<u>670.2</u>	<u>595.3</u>	<u>469.0</u>	<u>328.7</u>	<u>193.5</u>	<u>11.2</u>
<u>308.5</u>	<u>328.5</u>	<u>350.7</u>	<u>373.9</u>	<u>395.5</u>	<u>434.1</u>	<u>497.5</u>
<u>308.5</u>	<u>328.5</u>	<u>350.7</u>	<u>373.9</u>	<u>395.5</u>	<u>424.8</u>	<u>452.9</u>
--	--	--	--	--	--	--
--	--	--	--	--	9.3	44.6
--	--	--	--	66.8	240.6	476.3
480.5	341.7	244.6	95.1	(65.8)	(240.6)	(486.3)

ASSUMPTIONS FOR BNP/SCP FINANCIAL RESOURCE FLOW ANALYSIS

- 1) The AID loan to the GOP is for 20 years at terms of 2 percent the first 10 years and 3 percent the last 10 years.
- 2) Evaluation of the BNP/SCP impact is based upon the 20 year AID repayment period.
- 3) The GOP/BNP will contribute \$5.0 million in counterpart funds, the estimated financial cost of which is equal to the average rate of interest that the Bank would have to pay on the average balance of all financial resources. The average rate paid by the BNP during the fiscal year ending December 31, 1979 (established by IDB) was 6.6%. For the purpose of this analysis a 10% average rate for the cost of capital was assumed.
- 4) During the first two years of the supervised credit program the BNP will have to obtain short term financing at preferential market rates with a five year repayment period. The preferential market rate for the four year life of project (LOP) will be 18% (Libor + .25).
- 5) Since the 3% charged for TMA represents both income and expense to the program of equal amounts, the charge is not included as part of the finance resource flow analysis.
- 6) Sub-loans terms vary according to their classification:

<u>Type</u>	<u>Repayment Period</u> (Years)	<u>Grace Period</u>	<u>Interest</u>
Ind./Manuf./Const.	10	3	17
Commercial	7	1 1/2	17
Service	4	1 1/2	17

(For calculating the re-loans 2 years was used as grace period for commercial and service loans).
- 7) Operating expenses are assumed constant through 20 year repayment period.
- 8) All sub-loan principal and interest payments will be reinvested under original program terms. After 20 years the BNP supervised credit program will have outstanding principal and interest payments totaling \$975,200 and liabilities totaling \$1,089,500.
- 9) BNP estimates its normal default rate at 5% (average); for the purposes of this analysis a 7.5% default rate first ten years and thereafter is assumed.