

**TECHNICAL-COOPERATION LOAN FOR A
PROGRAM TO SUPPORT THE TOURISM SECTOR**

(PN-0120)

EXECUTIVE SUMMARY

BORROWER: Republic of Panama

EXECUTING AGENCY: Panamanian Tourism Institute (IPAT)

AMOUNT AND SOURCE: IDB (ordinary capital): US\$2,500,000
Local counterpart contribution: US\$1,084,000
Total: US\$3,584,000

**FINANCIAL
TERMS AND
CONDITIONS:** Amortization period: 25 years
Disbursement period: 3 years
Interest rate: Variable
Inspection and supervision: 1%
Credit fee: 0.75%
Currency: U.S. dollars,
Single Currency
Facility

OBJECTIVES: The overall objective of this program is to provide the Republic of Panama, through IPAT, a strategy for stimulating private sector participation in the tourism industry. The specific objectives are to implement a strategy for the development of a tourism industry that is economically, environmentally, culturally and socially sustainable; restructure IPAT to facilitate and regulate tourism activities; and, in the long term, increase sector revenues and diversify the economy and regional employment.

DESCRIPTION: The program consists of three components: (1) strategic market study, (2) institutional restructuring of IPAT, and (3) environmental planning and monitoring, community participation and economic analysis.

**PROJECT'S PLACE
IN THE BANK'S
STRATEGY:** A fundamental factor in this strategy of the Bank's is the restructuring of IPAT, since it seeks to assist the private sector in developing a modern, efficient and environmentally sustainable tourism industry. The Bank, by means of its technical and financial support of the country's social and economic reform process, will give special attention to institutional restructuring and incentives to the private sector.

**ENVIRONMENTAL AND
SOCIAL REVIEW:**

The Environmental Committee's findings include: (i) the cumulative effects of the carrying capacity study; (ii) the strategic approach to the policy-making, regulatory and administrative framework; (iii) the separation of gender-based data, including female participation in the community study; and (iv) the selection criteria used for community participation; this reimbursable technical-cooperation funding project does not support any investment that would directly affect the environment. However, the social and environmental dimension (participation by the community and women) is the topic of one of the studies being proposed in order to ensure the sustainability of the tourism strategy and the specific projects emanating therefrom.

BENEFITS:

The proposed operation would have the following benefits: (a) a strategic marketing plan geared to market segments likely to succeed; (b) institutional restructuring of IPAT, with the mission of facilitating foreign and national investments, and effectively coordinating with public and private institutions as well as nongovernmental organizations; and (c) socially and environmentally sustainable tourism projects, while establishing a basic framework and clear ground rules for private sector and community participation.

RISKS:

The following risks have been identified: (a) institutional restructuring and policy and regulatory changes can be undermined by resistance to change or the rejection of tourism by society or other institutions. This risk can be reduced by an effective system of communication, information and participation by the public and business sectors and communities; and b) proposed studies in this program might have no follow-up as a result of internal resistance.

**SPECIAL
CONTRACTUAL
CONDITIONS:**

The following specific conditions will be included in the contract:

a. Condition precedent to first disbursement

- Establishment of a Program Coordinating Unit (paragraph 3.3)

b. Other conditions

- Retroactive financing (paragraph 3.7)
- Obligations of the program coordinator (paragraph 3.4).

The technical-cooperation loan agreement will contain the other standard Bank terms for this type of operation, as well as covenants pertaining to inspections, maintenance, procurement of goods and contracting of consultants.

**POVERTY-TARGETING
AND SOCIAL
CLASSIFICATION:**

Notwithstanding the fact that the program is focusing its activities on geographical areas with a large proportion of low-income inhabitants, the program is not poverty-targeted.

**EXCEPTIONS TO
BANK POLICY:**

None.

PROCUREMENT:

The Bank's current procedures will apply to the contracting of consulting firms, individual consultants, technical services over US\$200,000, and the procurement of goods over US\$250,000.

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Basic Socio-Economic Data
Statistics and Quantitative Analysis Unit
Integration and Regional Programs Department

Executive Summary

Social Statistics

| | | |
|--|-----------|--------|
| Land Area (Km ²) | 1997 | 77,082 |
| Population (Thousands) | 1997 | 2,722 |
| Population Under 15 (Percent) | 1996 | 33.0 |
| Population 60 and Over (Percent) | 1996 | 7.6 |
| Population (Average Annual Growth Rate) | 1988-1997 | 1.7 |
| Rural (Percent) | 1997 | 44.2 |
| Density (Population per Km ²) | 1997 | 35.3 |
| Vital Statistics | | |
| Total Fertility (Rate per Woman) | 1996 | 2.6 |
| Crude Birth (Rate per 1,000 Population) | 1996 | 22.0 |
| Infant Mortality (Rate per 1,000 Live Births) | 1996 | 22.0 |
| Crude Death (Rate per 1,000 Population) | 1996 | 5.0 |
| Life Expectancy at Birth (Years) | 1996 | 74.0 |
| Poverty and Inequality | | |
| Gini Coefficient | 1989 | 0.57 |
| IDB Poverty Incidence (Percent) | 1989 | 36 |
| Poverty Gap (Percent) | 1989 | 18 |
| Labor Force (Thousands) | | |
| Participation Rate (Percent) | 1995 | 1,058 |
| Unemployment Rate (Percent) | 1995 | 60.4 |
| Real Minimum Wage (Index 1990 = 100) | 1997 | 15.8 |
| | 1990 | 100.0 |
| Education | | |
| Gross Enrollment Ratio - Primary | 1995 | 105.7 |
| Gross Enrollment Ratio - Secondary | 1995 | 67.7 |
| Gross Enrollment Ratio - Tertiary | | ... |
| Pupil/Teacher Ratio - Primary | 1995 | 23.0 |
| Pupil/Teacher Ratio - Secondary | 1995 | 19.0 |
| Average Years of Schooling (Population > 25 Years) | 1995 | 6.7 |
| Illiteracy (Percent) | 1995 | 9.2 |

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Basic Socio-Economic Data
Statistics and Quantitative Analysis Unit
Inter-American Development Bank

Executive Summary

Economic Statistics

| | | |
|--|-----------|-------|
| Exchange Rate (Balboas/US\$) | 7-1998 | 1.0 |
| GDP per Capita (Average Annual Growth Rate) | 1988-1997 | 1.0 |
| GDP (Average Annual Growth Rate) | 1988-1997 | 2.9 |
| Agriculture | 1988-1997 | 1.1 |
| Agriculture Terms of Trade | 1986-1995 | 3.6 |
| Industry | 1988-1997 | 3.2 |
| Services | 1988-1997 | 3.0 |
| Gross Domestic Investment (% of GDP) | 1997 | 25.1 |
| Gross Domestic Saving (% of GDP) | 1997 | 24.2 |
| Consumer Prices (Twelve Month Variation) | 6-1998 | 0.0 |
| NF Public Sector Overall Balance (% of GDP) | 1997 | -0.6 |
| Domestic Credit (% of GDP) | 1997 | 70.8 |
| Private Sector | 1997 | 80.4 |
| Public Sector | 1997 | -9.6 |
| Balance of Payments (Millions of US\$) | | |
| Current Account Balance | 1997 | -250 |
| Trade Balance | 1997 | -563 |
| Capital and Financial Account Balance | 1997 | 531 |
| Change in Reserves (- Increase) | 1997 | -281 |
| Current Account Balance (% of GDP) | 1997 | -2.9 |
| Capital and Financial Account Balance (% of GDP) | 1997 | 6.1 |
| Total External Debt (Millions of US\$) | 1997 | 5,083 |
| Long-Term Debt | 1996 | 5,211 |
| Short-Term Debt | 1996 | 1,600 |
| Total Debt Service | 1997 | 1,745 |
| Interest Payments | 1996 | 94 |
| Debt to GDP Ratio (Percent) | 1997 | 58.4 |
| Debt Service Ratio (Percent) | 1997 | 20.3 |

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Basic Socio-Economic Data

1. Poverty and Inequality

In Percent

| | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 |
|-----------------------|------|------|------|------|------|------|------|------|------|------|
| Gini Coefficient | ... | 0.57 | ... | ... | ... | ... | ... | ... | ... | ... |
| Urban | ... | 0.52 | ... | ... | ... | ... | ... | ... | ... | ... |
| Rural | ... | 0.53 | ... | ... | ... | ... | ... | ... | ... | ... |
| IDB Poverty Incidence | ... | 36 | ... | ... | ... | ... | ... | ... | ... | ... |
| Urban | ... | 22 | ... | ... | ... | ... | ... | ... | ... | ... |
| Rural | ... | 45 | ... | ... | ... | ... | ... | ... | ... | ... |
| Poverty Gap | ... | 18 | ... | ... | ... | ... | ... | ... | ... | ... |
| Urban | ... | 9 | ... | ... | ... | ... | ... | ... | ... | ... |
| Rural | ... | 22 | ... | ... | ... | ... | ... | ... | ... | ... |

2. Health and Nutrition

Mortality by Cause - In Percent

| | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 |
|-------------------------------------|------|------|------|------|------|------|------|------|------|------|
| Communicable and Perinatal Diseases | 15.2 | 14.0 | ... | ... | ... | ... | ... | ... | ... | ... |
| Non-Communicable Diseases | 41.5 | 41.8 | ... | ... | ... | ... | ... | ... | ... | ... |
| External and Other Causes | 11.8 | 14.4 | ... | ... | ... | ... | ... | ... | ... | ... |
| Ill Defined Causes | 8.7 | 7.7 | ... | ... | ... | ... | ... | ... | ... | ... |

Percent of Central Government Expenditure

| | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 |
|---------------------------|------|------|------|------|------|------|------|------|------|------|
| Expenditure on Health | 20.9 | 19.7 | 22.2 | 25.0 | 18.8 | 19.9 | ... | ... | ... | ... |
| Hospitals | 20.9 | 19.7 | 22.2 | 24.7 | 18.8 | 19.9 | ... | ... | ... | ... |
| Clinics and Practitioners | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... |
| Other | 0.0 | ... | ... | 0.4 | ... | ... | ... | ... | ... | ... |

Immunization as Percent of Age Group

Nutrition/Per Capita in Units

| | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 |
|-------------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|------|------|
| Other Indicators | | | | | | | | | | |
| Children (<1 Yr) Immunized DPT3 | 75.0 | 70.0 | 86.4 | 81.7 | 76.7 | 82.6 | 83.4 | 85.8 | 91.7 | ... |
| Children (<1 Yr) Immunized Measles | 75.0 | 73.0 | 99.5 | 79.7 | 76.5 | 82.7 | 84.0 | 84.0 | 90.2 | ... |
| Access to Safe water (% Population) | 83.0 | ... | ... | ... | ... | ... | ... | 83.0 | ... | ... |
| Doctors per 1000 Inhabitants | ... | 1.2 | 1.1 | 1.2 | 1.2 | 1.2 | 1.2 | 1.2 | 1.2 | ... |
| Hospital Beds per 1000 Inhabitants | ... | 3.2 | 3.1 | 3.0 | 3.0 | 2.9 | 2.7 | 2.7 | 2.7 | ... |
| Daily Caloric Intake | 2284.0 | 2297.0 | 2447.0 | 2300.0 | 2426.0 | 2440.0 | 2520.0 | 2490.0 | ... | ... |
| Daily Protein Intake (grams) | 59.0 | 61.0 | 63.0 | 62.0 | 66.0 | 64.0 | 66.0 | 67.0 | ... | ... |

3. Education

In Percent

| | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 |
|-------------------------|-------|-------|-------|-------|-------|-------|-------|-------|------|------|
| Net Enrollment Ratios | | | | | | | | | | |
| Primary | 90.1 | 91.5 | 91.4 | ... | ... | ... | ... | ... | ... | ... |
| Gross Enrollment Ratios | | | | | | | | | | |
| Primary | 106.4 | 107.0 | 106.2 | 104.9 | 104.6 | 104.6 | 105.7 | 105.7 | ... | ... |
| Secondary | 61.0 | 60.6 | 62.5 | 63.1 | 63.9 | 65.4 | 65.8 | 67.7 | ... | ... |
| Tertiary | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... |
| Primary Survival Rate | 79.0 | 79.0 | ... | ... | ... | ... | ... | ... | ... | ... |

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Basic Socio-Economic Data

3. Education (cont.)

Ratios

| | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 |
|----------------------|------|------|------|------|------|------|------|------|------|------|
| Pupil/Teacher Ratios | | | | | | | | | | |
| Primary | 23.0 | 23.0 | 23.0 | 23.0 | 23.0 | 23.0 | 23.0 | 23.0 | ... | ... |
| Secondary | 19.0 | 19.0 | 20.0 | 20.0 | 19.0 | 19.0 | 18.0 | 19.0 | ... | ... |

Percent of Central Government Expenditure

| | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 |
|-------------------------------|------|------|------|------|------|------|------|------|------|------|
| Expenditure on Education | 20.2 | 20.4 | 18.5 | 18.5 | 17.7 | 20.2 | ... | ... | ... | ... |
| Pre-Primary through Secondary | 13.2 | 13.7 | 12.2 | 11.8 | 9.7 | 10.9 | ... | ... | ... | ... |
| Tertiary | 4.8 | 5.0 | 4.3 | 4.3 | 4.5 | 4.8 | ... | ... | ... | ... |
| Other | 2.1 | 1.7 | 1.9 | 2.4 | 3.4 | 4.5 | ... | ... | ... | ... |

4. Labor Market

In Percent Index 1990=100

| | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 |
|-------------------------|-------|-------|-------|------|------|------|------|------|------|------|
| Labor Force by Sector | | | | | | | | | | |
| Agriculture | 29.8 | 29.1 | ... | 2.7 | 25.0 | 23.1 | 19.9 | 20.8 | ... | ... |
| Industry | 14.3 | 14.7 | ... | 14.4 | 17.0 | 17.6 | 18.4 | 18.0 | ... | ... |
| Services | 55.9 | 56.2 | ... | 58.2 | 58.0 | 59.3 | 61.6 | 61.2 | ... | ... |
| Participation Rate | 59.9 | 60.0 | 60.4 | 60.3 | 60.3 | 60.2 | 60.3 | 60.4 | ... | ... |
| Male | 81.1 | 81.1 | 81.3 | 81.0 | 80.5 | 80.0 | 79.8 | 79.5 | ... | ... |
| Female | 38.2 | 38.5 | 39.1 | 39.4 | 39.7 | 40.1 | 40.5 | 41.0 | ... | ... |
| Unemployment Rate | 21.1 | 20.4 | 20.0 | 19.3 | 17.5 | 15.6 | 16.0 | 16.6 | 16.7 | 15.8 |
| Real Minimum Wage Index | 100.3 | 101.3 | 100.0 | ... | ... | ... | ... | ... | ... | ... |

5. Exchange Rates

Balboas/US\$, End of Period Index 1990=100

| | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 |
|----------------------|------|------|-------|-------|-------|-------|-------|-------|-------|-------|
| Exchange Rate | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 |
| Real Effective Index | 90.6 | 94.6 | 100.0 | 102.7 | 105.1 | 108.2 | 112.3 | 115.8 | 116.2 | 116.2 |

6. Prices

Average Annual Growth Rates in Percent

| | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 |
|-----------------------|------|------|------|------|------|------|------|------|------|------|
| Consumer Price Index | 0.4 | 0.1 | 0.8 | 1.3 | 1.8 | 0.5 | 1.3 | 0.9 | 1.3 | 1.2 |
| Wholesale Price Index | -6.8 | 2.4 | 4.0 | 0.5 | 1.8 | -0.2 | 2.0 | 3.1 | 2.1 | ... |

7. International Liquidity

Millions of US\$

| | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 |
|-------------------------------|------|------|------|------|------|------|------|------|------|------|
| Reserves | 72 | 119 | 344 | 499 | 504 | 597 | 704 | 781 | 867 | 1148 |
| Reserves minus Gold | 72 | 119 | 344 | 499 | 504 | 597 | 704 | 781 | 867 | 1148 |
| Special Drawing Rights (SDRs) | 0 | 0 | 28 | 12 | 5 | 0 | 0 | 1 | 0 | 1 |
| Reserve Position in the IMF | 0 | 0 | 0 | 0 | 16 | 16 | 17 | 18 | 17 | 16 |
| Foreign Exchange | 72 | 119 | 316 | 487 | 484 | 581 | 687 | 763 | 849 | 1131 |
| Gold (National Valuation) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |

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Basic Socio-Economic Data

8. National Accounts

Millions of 1990 US\$
1990 US\$

| | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 |
|------------------------|------|------|------|------|------|------|------|------|------|------|
| Gross Domestic Product | 4879 | 4942 | 5313 | 5791 | 6249 | 6569 | 6758 | 6899 | 7066 | 7357 |
| GDP Per Capita | 2117 | 2102 | 2216 | 2369 | 2508 | 2588 | 2615 | 2622 | 2640 | 2702 |

Annual Growth Rates in Percent - Constant Prices

| | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 |
|-----------------------------------|-------|-------|-------|-------|------|-------|------|------|-------|------|
| GDP Per Capita | -15.1 | -0.4 | 6.0 | 7.3 | 6.2 | 3.5 | 1.0 | 0.0 | 0.7 | 2.5 |
| GDP by Type of Expenditure (MP) | -13.4 | 1.6 | 8.1 | 9.4 | 8.2 | 5.5 | 2.9 | 1.8 | 2.4 | 4.2 |
| Consumption | -11.3 | 15.5 | -10.0 | 17.1 | 3.3 | 3.8 | -1.8 | -2.5 | 15.8 | 1.7 |
| Gross Domestic Investment | -61.8 | -27.3 | 260.2 | 10.5 | 38.6 | 13.8 | 14.3 | 10.0 | -29.9 | 10.8 |
| Exports of Goods and Services | -13.4 | 12.2 | 17.1 | 39.4 | -8.4 | -10.4 | -3.4 | 9.8 | 0.7 | 13.8 |
| Imports of Goods and Services | -23.2 | 26.2 | 16.7 | 47.2 | -6.5 | -9.1 | -3.4 | 9.0 | -1.4 | 13.3 |
| GDP by Sector of Origin (MP) | | | | | | | | | | |
| Agriculture, Forestry and Fishing | -6.4 | 5.6 | 1.5 | 1.1 | 4.4 | 0.0 | 2.7 | 3.2 | 0.7 | -1.4 |
| Mining and Quarrying | -42.6 | -32.3 | 38.1 | 58.6 | 54.3 | 16.9 | 9.6 | -5.5 | -5.8 | 17.3 |
| Manufacturing | -22.5 | 1.3 | 13.8 | 10.5 | 9.2 | 6.3 | 4.3 | 0.2 | 0.7 | 3.4 |
| Electricity, Gas and Water | 7.5 | 0.2 | 0.6 | -5.8 | -6.4 | 18.1 | 6.3 | 1.9 | 19.7 | 3.2 |
| Construction | -52.8 | -40.3 | 17.9 | 131.9 | 36.7 | 40.5 | 2.2 | 4.1 | -4.1 | 4.8 |
| Wholesale and Retail Trade | -23.0 | 5.5 | 21.5 | 15.4 | 12.8 | 5.3 | 4.8 | -1.2 | -1.2 | 8.5 |
| Transport and Communications | -8.0 | -2.6 | 2.9 | 2.4 | 3.8 | -3.2 | 4.4 | 9.4 | 2.7 | 4.3 |
| Financial Services | -13.5 | 5.1 | 15.0 | 17.2 | 14.8 | 8.6 | -1.0 | -0.4 | 5.0 | 3.5 |
| Government | -0.5 | -3.5 | -5.3 | 2.1 | -5.5 | 0.7 | 3.3 | 3.4 | 1.8 | 3.6 |
| Other Services | -14.9 | 9.1 | 4.8 | 0.1 | 8.2 | 1.5 | 4.4 | 1.6 | 2.3 | 3.6 |

Composition in Percent - Current Prices

| | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 |
|-----------------------------------|------|------|------|------|-------|------|------|-------|------|------|
| GDP by Type of Expenditure (MP) | | | | | | | | | | |
| Consumption | 75.9 | 85.2 | 75.0 | 76.9 | 72.5 | 70.8 | 68.4 | 67.3 | 77.7 | 75.8 |
| Gross Domestic Investment | 7.5 | 6.2 | 16.8 | 19.2 | 23.7 | 24.7 | 26.8 | 30.0 | 23.6 | 25.1 |
| Exports of Goods and Services | 75.2 | 78.9 | 86.8 | 96.8 | 100.0 | 97.0 | 99.8 | 100.7 | 90.2 | 98.5 |
| Imports of Goods and Services | 58.6 | 70.2 | 78.6 | 92.9 | 96.2 | 92.6 | 95.0 | 98.1 | 91.5 | 99.5 |
| GDP by Sector of Origin (MP) | | | | | | | | | | |
| Agriculture, Forestry and Fishing | 9.3 | 10.0 | 9.5 | 9.0 | 8.1 | 7.7 | 7.6 | 7.6 | 8.1 | 7.6 |
| Mining and Quarrying | 0.1 | 0.0 | 0.1 | 0.1 | 0.2 | 0.2 | 0.2 | 0.2 | 0.1 | 0.1 |
| Manufacturing | 9.3 | 9.1 | 9.5 | 9.6 | 9.4 | 8.8 | 8.6 | 8.8 | 9.8 | 9.7 |
| Electricity, Gas and Water | 5.1 | 5.4 | 4.0 | 4.1 | 3.4 | 3.8 | 3.6 | 3.6 | 4.9 | 4.9 |
| Construction | 1.9 | 1.2 | 1.1 | 2.5 | 3.3 | 4.3 | 4.3 | 4.5 | 3.9 | 3.9 |
| Wholesale and Retail Trade | 12.9 | 13.3 | 15.2 | 15.1 | 17.4 | 18.9 | 20.7 | 19.2 | 18.4 | 19.2 |
| Transport and Communications | 16.1 | 15.3 | 15.9 | 15.2 | 14.2 | 13.4 | 13.5 | 14.1 | 12.3 | 12.3 |
| Financial Services | 20.1 | 20.8 | 22.0 | 23.3 | 23.7 | 23.6 | 22.2 | 22.6 | 24.3 | 24.1 |
| Government | 17.3 | 16.2 | 14.4 | 13.1 | 12.7 | 11.9 | 12.0 | 12.0 | 10.5 | 10.4 |
| Other Services | 7.9 | 8.7 | 8.3 | 8.1 | 7.7 | 7.4 | 7.3 | 7.4 | 7.7 | 7.7 |

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Basic Socio-Economic Data

9. Non-Financial Public Sector

As a Percent of GDP

| | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 |
|-----------------------------|-------|-------|------|------|------|------|------|------|------|------|
| Current Revenues | 21.7 | 22.2 | 26.7 | 28.4 | 29.2 | 28.1 | 28.2 | 28.9 | 27.8 | 28.0 |
| Current Expenditures | 30.4 | 31.7 | 28.7 | 27.8 | 25.1 | 25.8 | 24.7 | 25.6 | 23.7 | 25.2 |
| Current Savings | -8.7 | -9.6 | -1.9 | 0.6 | 4.0 | 2.3 | 3.4 | 3.3 | 4.1 | 2.7 |
| Capital Expenditures | 1.2 | 1.1 | 0.7 | 2.1 | 3.1 | 4.0 | 3.4 | 3.4 | 3.8 | 5.0 |
| Overall Balance (- Deficit) | -10.0 | -10.7 | -2.5 | -1.2 | 1.4 | -1.4 | 0.3 | 0.2 | 0.4 | -0.6 |
| Domestic Financing | -0.3 | 1.7 | -4.3 | -1.3 | -1.7 | -0.8 | -1.9 | -2.8 | 1.4 | -2.1 |

10. Monetary Survey

As a Percent of GDP

| | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 |
|-----------------|------|------|------|------|------|------|------|------|------|------|
| Domestic Credit | 70.9 | 64.5 | 49.6 | 49.1 | 52.9 | 55.0 | 59.8 | 66.6 | 66.4 | 70.8 |
| Public Sector | 13.6 | 13.4 | 4.7 | 2.1 | -0.5 | -5.0 | -5.2 | -8.4 | -9.9 | -9.6 |
| Private Sector | 57.3 | 51.1 | 44.9 | 47.0 | 53.4 | 60.0 | 65.0 | 75.0 | 76.2 | 80.4 |
| Money (M1) | 6.2 | 5.3 | 6.5 | 6.9 | 7.9 | 8.4 | 8.9 | 8.8 | 8.8 | 9.4 |

11. External Trade

Direction in Percent - Customs Basis Index 1990=100

| | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 |
|------------------------|-------|-------|-------|------|------|------|------|------|------|------|
| Exports of Goods (fob) | | | | | | | | | | |
| Developed Countries | 74.6 | 75.0 | 78.0 | 71.4 | 77.1 | 77.2 | 75.9 | 62.2 | 46.9 | 48.3 |
| Developing Countries | 25.4 | 25.0 | 22.0 | 28.6 | 22.9 | 22.8 | 24.1 | 37.8 | 53.1 | 51.7 |
| Latin America | 16.8 | 19.6 | 18.2 | 21.2 | 16.9 | 19.6 | 19.8 | 14.4 | 21.5 | 26.9 |
| Imports of Goods (fob) | | | | | | | | | | |
| Developed Countries | 55.8 | 54.6 | 48.7 | 52.7 | 54.1 | 54.4 | 56.9 | 58.7 | 62.3 | 55.9 |
| Developing Countries | 44.2 | 45.4 | 51.3 | 47.3 | 45.9 | 45.6 | 43.1 | 41.3 | 37.7 | 44.1 |
| Latin America | 27.4 | 20.4 | 26.0 | 20.7 | 20.5 | 19.7 | 19.7 | 4.4 | 31.4 | 8.4 |
| Terms of Trade Index | 101.1 | 100.5 | 100.0 | 98.2 | 98.1 | 97.5 | 95.4 | 92.2 | 90.9 | 93.9 |

Millions of US\$ - Customs Basis Composition in Percent

| | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 |
|-----------------------------------|-------|-------|--------|--------|--------|--------|--------|--------|------|------|
| Exports of Goods (fob) | 292.5 | 297.2 | 337.0 | 442.9 | 469.5 | 503.7 | 536.1 | 572.8 | ... | ... |
| All Food | 77.4 | 77.3 | 76.3 | 82.1 | 81.2 | 80.7 | 77.6 | 74.9 | ... | ... |
| Agricultural Raw Materials | 1.1 | 0.8 | 1.4 | 0.9 | 0.8 | 0.8 | 0.6 | 0.5 | ... | ... |
| Fuels | 0.0 | 0.1 | 0.1 | 0.3 | 0.7 | 2.0 | 2.4 | 3.2 | ... | ... |
| Ores and Metals | 2.2 | 2.1 | 1.4 | 1.0 | 0.7 | 0.6 | 0.8 | 1.2 | ... | ... |
| Manufactured Goods | 19.3 | 19.7 | 20.8 | 15.7 | 16.7 | 15.8 | 18.6 | 20.3 | ... | ... |
| Chemicals | 4.5 | 5.1 | 4.8 | 4.9 | 5.0 | 4.4 | 5.0 | 5.0 | ... | ... |
| Machinery and Transport Equipment | 0.1 | 0.1 | 3.0 | 0.4 | 0.4 | 0.3 | 0.3 | 0.2 | ... | ... |
| Other Manufactured Goods | 14.7 | 14.5 | 13.1 | 10.5 | 11.4 | 11.1 | 13.4 | 15.1 | ... | ... |
| Imports of Goods (cif) | 794.6 | 964.1 | 1484.3 | 1682.0 | 2008.7 | 2199.4 | 2399.4 | 2502.1 | ... | ... |
| Capital Goods | 13.6 | 8.8 | 10.5 | 14.9 | 16.1 | 19.3 | 18.6 | ... | ... | ... |
| Consumption Goods | 25.9 | 28.2 | 32.2 | 29.1 | 26.7 | 26.4 | 25.7 | ... | ... | ... |
| Intermediate Goods | 54.1 | 57.0 | 52.8 | 49.2 | 50.9 | 47.2 | 48.5 | ... | ... | ... |
| Fuels | 2.2 | 2.1 | 1.0 | 1.6 | 0.9 | 1.2 | 1.7 | ... | ... | ... |
| Other | 6.5 | 6.0 | 4.5 | 6.8 | 6.3 | 7.1 | 7.2 | ... | ... | ... |

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12. Balance of Payments

Millions of US\$

| | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 |
|---------------------------------------|--------|------|-------|-------|-------|-------|-------|------|-------|------|
| Current Account Balance | 722 | 112 | 208 | -212 | -270 | -143 | 22 | -343 | -60 | -250 |
| Trade Balance | 157 | -124 | -158 | -400 | -376 | -334 | -251 | -575 | -630 | -563 |
| Exports of Goods (fob) | 2506 | 2742 | 3346 | 4192 | 5104 | 5417 | 6044 | 6104 | 5889 | 6935 |
| Imports of Goods (fob) | 2349 | 2866 | 3504 | 4591 | 5480 | 5751 | 6295 | 6679 | 6518 | 7498 |
| Services Balance | 545 | 406 | 409 | 349 | 294 | 298 | 311 | 403 | 525 | 481 |
| Transportation | 283 | 173 | 144 | 65 | -23 | -25 | -38 | 18 | 120 | 90 |
| Travel | 78 | 75 | 73 | 95 | 95 | 103 | 139 | 183 | 207 | 213 |
| Other Services | 184 | 159 | 192 | 190 | 223 | 220 | 210 | 202 | 198 | 178 |
| Addendum: Freight and Insurance | -171 | -257 | -378 | -507 | -559 | -635 | -692 | -704 | -628 | -625 |
| Income Balance | -88 | -267 | -262 | -384 | -393 | -311 | -187 | -325 | -108 | -332 |
| Compensation of Employees | 83 | 88 | 92 | 94 | 89 | 92 | 95 | 96 | 78 | 94 |
| Investment Income | -171 | -355 | -354 | -478 | -482 | -403 | -282 | -420 | -185 | -426 |
| Current Transfers Balance | 108 | 96 | 219 | 222 | 204 | 203 | 149 | 154 | 152 | 163 |
| General Government | 61 | 45 | 148 | 141 | 122 | 123 | 67 | 69 | 66 | 73 |
| Other Sectors | 48 | 50 | 72 | 81 | 82 | 80 | 82 | 86 | 86 | 91 |
| Capital and Financial Account Balance | 18 | 173 | 283 | -269 | -296 | -21 | 135 | 627 | -9 | 531 |
| Capital Account Balance | ... | ... | ... | ... | 130 | ... | ... | ... | ... | ... |
| Financial Account Balance | 18 | 173 | 283 | -269 | -426 | -21 | 135 | 627 | -9 | 531 |
| Direct Investment | -595 | 52 | 132 | 41 | 139 | 156 | 354 | 179 | 238 | ... |
| Abroad | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... |
| In Reporter | -595 | 52 | 132 | 41 | 139 | 156 | 354 | 179 | 238 | ... |
| Portfolio Investment | 2154 | -468 | -236 | -247 | -117 | -809 | 373 | 314 | 3643 | ... |
| Assets | 2218 | -438 | -200 | -223 | -46 | -755 | -48 | 314 | 482 | ... |
| Liabilities | -64 | -30 | -36 | -24 | -71 | -55 | 422 | 0 | 3161 | ... |
| Other Investment | -1541 | 589 | 387 | -64 | -447 | 633 | -592 | 134 | -3890 | 531 |
| Assets | 12828 | -435 | -1408 | -1364 | -1494 | -1168 | -5252 | -198 | 422 | ... |
| Liabilities | -14369 | 1024 | 1796 | 1300 | 1047 | 1801 | 4660 | 332 | -4311 | ... |
| Change in Reserves (- Increase) | 6 | -48 | -356 | -148 | 116 | -93 | -105 | -77 | -238 | -281 |
| Errors and Omissions | -746 | -236 | -136 | 630 | 450 | 257 | -53 | -206 | 308 | 0 |

13. External Debt

Millions of US\$

| | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 |
|---------------------------------|------|------|------|------|------|------|------|------|------|------|
| Total Debt | 5733 | 5655 | 5660 | 5534 | 5281 | 5364 | 5529 | 5537 | 6941 | 5083 |
| Long-Term Debt | 4005 | 3935 | 3988 | 3918 | 3771 | 3799 | 3930 | 3914 | 5211 | ... |
| Public and Publicly Guaranteed | 4005 | 3935 | 3988 | 3918 | 3771 | 3799 | 3930 | 3914 | 5136 | ... |
| Bilateral | 516 | 480 | 483 | 581 | 620 | 682 | 674 | 643 | 393 | ... |
| Multilateral | 1017 | 997 | 1020 | 956 | 694 | 625 | 591 | 619 | 677 | ... |
| Bond Holders | 257 | 251 | 260 | 175 | 267 | 260 | 3 | 3 | 3327 | ... |
| Banks | 2090 | 2081 | 2102 | 2127 | 2124 | 2160 | 2599 | 2598 | 690 | ... |
| Suppliers | 77 | 78 | 76 | 61 | 53 | 60 | 53 | 40 | 38 | ... |
| Other Creditors | 48 | 48 | 47 | 18 | 14 | 12 | 12 | 11 | 11 | ... |
| Private Non-Guaranteed | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 75 | ... |
| Use of IMF Credit | 328 | 320 | 272 | 216 | 110 | 113 | 133 | 111 | 131 | ... |
| Short-Term Debt | 1400 | 1400 | 1400 | 1400 | 1400 | 1451 | 1465 | 1513 | 1600 | ... |
| Interest Arrears on Debt | 333 | 663 | 1018 | 1199 | 1205 | 1595 | 1600 | 1652 | 48 | ... |
| Total Debt Service | 28 | 13 | 345 | 336 | 966 | 282 | 386 | 374 | 954 | 1745 |
| Public and Publicly Guaranteed | 28 | 13 | 141 | 181 | 632 | 216 | 304 | 235 | 803 | ... |
| Bilateral | 2 | 5 | 4 | 4 | 78 | 54 | 35 | 52 | 463 | ... |
| Multilateral | 8 | 1 | 128 | 159 | 534 | 140 | 137 | 124 | 111 | ... |
| Private Non-Guaranteed | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | ... |
| IMF Repurchases and Charges | 0 | 1 | 87 | 69 | 279 | 17 | 8 | 46 | 57 | ... |
| Short-Term Debt (Interest Only) | 0 | 0 | 117 | 85 | 55 | 50 | 74 | 94 | 94 | ... |

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13. External Debt (cont.)

Ratios in Percent

| | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 |
|--------------------|------|------|------|------|------|------|------|------|------|------|
| Debt to GDP Ratio | 118 | 116 | 107 | 95 | 80 | 74 | 71 | 70 | 84 | 58 |
| Debt Service Ratio | 1 | 0 | 8 | 6 | 15 | 4 | 5 | 5 | 13 | 20 |

... Not Available

0.0 Indicates that the amount is nil or negligible

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Sources and Notes

Executive Summary

Social Statistics:

Land Area: Organization of American States (OAS), América en cifras, 1974.

Population: IDB estimates based on data from Latin America Demographic Center (CELADE) and United Nations Population Division (UNPOP).

Vital Statistics:

World Bank, Social Indicators of Development (WBSID).

Labor Force:

WBSID and UNPOP. Economic Commission for Latin America and the Caribbean (ECLAC).

Education:

Average Years of Schooling (Population > 25 yrs): Number of completed grades of formal education of population older than 25 years. IDB estimates based on data from United Nations Educational, Scientific and Cultural Organization (UNESCO), using the Perpetual Inventory Method.

Illiteracy: Number of adult illiterates as a percentage of that age group. UNESCO.

Economic Statistics:

Agricultural Terms of Trade: Index of ratio of agricultural GDP deflator to non-agricultural GDP deflator. IDB estimates from National Accounts data. Base year 1990.

1. Poverty and Inequality:

Gini Coefficient: Measure of inequality based on the income distribution of the population. A coefficient equal to one (1) indicates perfect inequality, and a coefficient equal to zero (0) perfect equality.

Poverty Incidence: The poor as a percentage of total population, using a poverty line of US\$60 (constant 1985 prices) per month per capita inflated using the Consumer Price Index (CPI).

Poverty Gap: Average income deficit of the poor in relation to the poverty line multiplied by the Poverty Incidence. IDB estimates based on income data from the "Encuesta de Hogares, Mano de Obra". Income data were corrected for likely underreporting using national income accounts estimates. Poverty estimates probably are "lower bounds".

2. Health and Nutrition:

Mortality Causes: Main causes of death by type of disease. Pan American Health Organization (PAHO).

Expenditure on Health: Consolidated Central Government. International Monetary Fund (IMF), Government Finance Statistics (GFS).

Immunization: Percentage of children under one year who have been immunized for dpt3 and measles. WBSID and PAHO.

Access to Safe Water: Percentage of population with access to safe water. WBSID.

Doctors/hospital beds per 1000 inhabitants: IDB estimates based on data from ECLAC.

Calorie and Protein Daily Intake: Apparent daily per capita average intake. Food and Agriculture Organization of the United Nations (FAO).

3. Education:

Net Enrollment Ratio Primary: Enrollment for the age group corresponding to the official age of primary education. UNESCO.

Gross Enrollment Ratio: Total enrollment in primary, secondary or tertiary education, regardless of age, divided by the population of the age-group which officially corresponds to primary, secondary or tertiary (ages 20 to 24 only) education. IDB estimates based on data from UNESCO and UNPOP.

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Basic Socio-Economic Data

Primary Survival Rate: Percentage of children of the same cohort starting primary school in a certain year who eventually finish it. UNESCO, World Education Report. Using the Reconstructed Cohort Method with enrollment and repetition data.

Pupil/Teacher Ratio: Number of students per teacher in primary and in secondary school. IDB estimates based on data from WBSID.

Expenditure on Education: Consolidated Central Government. IMF, GFS.

4. Labor Market:

Labor Force by Sector: Labor force in that sector as a percentage of total labor force. IDB estimates based on data from International Labour Office (ILO). Data from Labor Force Sample Surveys.

Participation Rate: Economically Active Population as a percentage of population age 15 and older. IDB estimates based on data from WBSID and UNPOP.

Unemployment Rate: Metropolitan region. ECLAC.

Real Minimum Wage Index: Base year 1990. ECLAC.

5. Exchange Rates:

IMF, International Financial Statistics (IFS). Official rate.

Real Effective Index: IDB estimates based on data from the IMF.

6. Prices:

IMF, IFS. Annual figures are expressed as average annual growth rates; monthly figures as a twelve month variation.

7. International Liquidity:

IMF, IFS.

8. National Accounts:

GDP in 1990 US Dollars: IDB estimates.

GDP by Type of Expenditure and Sector of Origin: Contraloría General de la República, Dirección de Estadística y Censo.

9. Non-Financial Public Sector:

Contraloría General de la República, Ministerio de Hacienda y Tesoro, IMF and IDB estimates.

10. Monetary Survey:

IMF, IFS (mid-year observations).

11. External Trade:

Trade by Direction: IMF, Direction of Trade Statistics.

Terms of Trade: ECLAC, Balance preliminar de la economía de América Latina y el Caribe.

Export Composition: United Nations Statistical Division (UNSTAT) Commodity Trade (COMTRADE) Data Base; Exports include Re-Exports.

Import Composition: ECLAC. Fuels and Lubricants and Passenger Automobiles are included in Other.

12. Balance of Payments:

Contraloría General de la República and IMF, Balance of Payments Statistics. For Trade Balance, Exports of Goods (FOB) and Imports of Goods (FOB) include activity within the Colón Free Zone.

13. External Debt:

World Bank, World Debt Tables and estimates.

I. BACKGROUND AND SECTOR ISSUES

A. Background

- 1.1 According to official figures, the Panamanian economy grew at a real rate of 4.4% in 1997, representing a consolidation of the recovery process begun in 1996, with a substantial rise in exports, growth of the Colón Free Zone, and increased investments in ports, highways, mines, and financing from the international banking community.
- 1.2 The country's economic policy has led to the gradual reduction of tariffs and economic subsidies, the elimination of many distortions, further trade liberalization, privatization of the infrastructure and an increase in private sector investments.
- 1.3 There is a substantial need for diversification of the Panamanian economy, which still remains service-based on the international financial center, the Colón Free Zone and the Canal Area. Together they form a significant added value, but with a relatively narrow base centered on the Interoceanic Region, which is vulnerable to foreign competition and policy change. Moreover, these activities do not generate sufficient long-term jobs. Labor-intensive activity in agriculture, mining and traditional manufacturing is very limited, mainly due to the relatively high cost of the labor component.
- 1.4 Given the fixed exchange-rate restrictions and the cost of labor, the strategy for development requires a heavier emphasis on activities with a perceived comparative advantage, largely in the service sector. A substantial tourism industry currently serves customers in the financial and commercial sectors. Because an adequate level of growth, foreign exchange and greater regional employment distribution requires economic diversification, the expansion of the transportation and hotel subsectors centered on ecotourism would be an alternative that would not require heavy additional investments in infrastructure and plants.
- 1.5 In addition, the country has significant natural, historic, ethnic and cultural assets to foster a sustainable development of tourism with high added value. Against this backdrop, tourism would not only boost economic performance in all aspects, but could help reduce poverty levels and improve subregional income distribution through the production of jobs and the sustainable development of depressed areas in the interior.

B. Tourism: A shift in focus

- 1.6 Tourism currently contributes 4% to the gross domestic product, providing work, directly or indirectly, to about 5% of the Panamanian labor force, approximately equivalent to 50,000 jobs.

After a falling-off between 1989 and 1995, tourism has shown strong signs of recovery since 1996. The current demand on the part of international visitors is primarily business-oriented (85%), for national and regional economic activity. Hotel capacity is 8,500 rooms, of which almost one-half are located in Panama City. More than 900 new luxury rooms have been available in Panama City since early 1998, and a tourism complex will be developed soon in Fuerte Amador (reverted area), capable of accommodating cruise ships that currently pass through the Canal but do not make stopovers in the country.

- 1.7 Given the country's limitations in enhancing competitiveness, the major challenge, then, is to diversify the current profile of business and trade-oriented visitors, and to develop new tourism products of high added value. Efforts are required to overcome the barriers hindering the positive contribution that the tourism sector could create for the national economy in terms of private investment, the creation of jobs and income for the microenterprise sector.
- 1.8 The institutional weakness of the country's central public agency for tourism promotion (IPAT) figures notably among other obstacles. Not only is IPAT currently in charge of promoting tourism in the private sector, but, as a public institution, it is responsible for planning and executing tourism projects, issuing permits, providing training and organizing the largest convention center in the country.
- 1.9 To increase future competitiveness in the tourism sector, the country needs a public agency that can facilitate private initiative so as to be consistent with the objectives of economic and social development. Within this context, IPAT's new role should be to generate and promote private investment in tourism projects that are environmentally and culturally sustainable. The object of the proposed operation is to create an enabling environment for this new approach.

C. IDB strategy in support of national development

- 1.10 As indicated in the country paper, the Bank is supporting Panama in achieving structural reforms that will alter the model of economic development traditionally aimed at the domestic market, provide sustainable management of natural resources, and social policies and programs to effectively and equitably modernize institutions. Institutional reform is a fundamental component of this strategy which is a prerequisite to the country's development of a stronger, more modern, efficient and environmentally sustainable tourism industry. The Bank, by way of its technical and financial support of the social and economic reform processes at work in the country, will place particular importance on institutional capacity, human resources development and private sector participation through this tourism support program.

- 1.11 As to the conditions for sustainable development, the Bank is already addressing the national government's request to support the preparation of a national environmental strategy, including a basic environmental law, and is also associated with other programs such as the clean-up of Panama Bay and the development of green areas in Panama City, which would complement the specific environmental regulations of the tourism sector.

D. Compatibility with other programs of the Bank and other organizations

- 1.12 The IDB cofinanced a study on tourism with the OAS in 1993. The JICA financed another study in 1995 aimed at identifying the country's tourism potential. The main deficiency of these studies has been their focus on highlighting the list of tourist attractions in Panama while not giving sufficient attention to market demand considerations, nor to the parameters of environmental protection and sustainability. However, it does represent a valuable information base which complements the expected results of the studies and activities proposed under this technical cooperation.
- 1.13 The IDB is currently supporting the country in its trade and economic liberalization efforts and in laying the foundation for greater economic growth, and fostering sustainable development. This technical cooperation will be an important element in this process, particularly with respect to the diversification of the economy built upon private investment. The program is very tied in to the environmental area, where the Bank already has a number of projects in preparation which, among other things, seek to strengthen environmental controls and preserve Panama's biodiversity.

II. PROGRAM DESCRIPTION

A. Objectives

- 2.1 The overall objective of this technical cooperation is to provide the Government of Panama, through IPAT, with a strategy for stimulating private sector participation in the tourism industry.
- 2.2 The specific objectives of the program are:
 - a. Restructure IPAT as an institution for facilitating and regulating tourism activities, with the capacity to coordinate with the private sector, communities, NGOs and other public agencies.
 - b. Obtain up-to-date information on markets, tourism products in Panama, and socioeconomic and environmental factors for decision-making.
 - c. Adapt the regulatory and operational framework to the sector's new approach, including social and environmental monitoring, as well as protecting and improving the quality of tourist services.
 - d. Make the Panamanian public aware of the potential and the importance of sustainable tourism, encourage community participation and enhance the image of Panama as a tourist destination.

B. Program description

- 2.3 This program consists of the following components: (1) strategic market study; (2) institutional restructuring of IPAT and a shift in its focus; and (3) environmental planning and monitoring, community participation and economic analysis. This is set out in the Logical Framework (see Annex I).

1. Strategic market study (US\$500,000)

- 2.4 Currently, the majority of visitors to the country come to carry out commercial and financial transactions. The tourism sector's emphasis on the service and business sectors means that stays are rather short and highly vulnerable to fluctuations in business activity. The plan is to expand the base of tourist activities by gathering and responding to information concerning market demand. Panama can thus identify and develop its comparative advantages in a sustainable manner and, on this basis, position itself as a competitive country. To overcome this barrier, a strategic market study is being conducted under this program which would provide

information and up-to-date criteria to help steer public and private investment toward tourism.

- 2.5 The first component of the strategic market study is to:
- a. Identify key tourism resources and target markets, with an emphasis on the country's comparative advantages.
 - b. Conduct a detailed investigation and analysis of target markets.
 - c. Prepare a strategic plan for promoting private, local and international investment for the development of key market segments and tourist areas in Panama.
 - d. Communicate the findings and the analysis of said strategy to the parties involved (local governments and the private sector).
- 2.6 A Project Preparation Facility (PPF) of US\$500,000 (loan 1040/OC-PN) was approved in September 1997 to move ahead on the execution of this component. That amount will be reimbursed to the Fund as soon as the proposed operation is declared eligible for the first disbursement.
2. Institutional restructuring (US\$767,000)
- 2.7 This component will support IPAT in its conversion to an institution that will facilitate and foster tourism activities for the private sector and civil society. IPAT was created in 1960 as an autonomous State agency, with its own legal personality. It operates with its own budget and is linked to the Executive Branch through the Ministry of Commerce and Industry. The basic regime governing its operation and performance has not materially changed during the 37 years it has been operating, except for modifications in 1976.
- 2.8 IPAT began an analysis and review of the organization at the close of 1996 with a view to preparing a proposal to amend its basis statute and transform the administrative structure of the institution. This process is nearing completion. The current constraints to the efficient operation of IPAT are: lack of capacity to effectively develop tourism investments in the country and to coordinate with public and private organizations and civil society; outdated or inadequate computer, records and communications systems for decision-making; lack of standards for tourism services; inadequate market research, marketing and tourism promotion systems; and the lack of methodologies and indicators for socioeconomic and environmental monitoring of the sector.
- 2.9 IPAT now has a renewed willingness and drive to upgrade and adapt so that it can respond more effectively to private sector needs and

thus compete successfully with other tourist areas. However, there are other organizations (ARI, PRO PANAMÁ) also promoting and developing the tourism sector of Panama or in charge of environmental protection, such as INRENARE, with which IPAT will need to coordinate efficiently.

2.10 This program is expected to transform IPAT into an agency to facilitate private investment as well as strengthen its capacity to boost local participation. The principal activities include:

- a. Identification of the requirements for institutional restructuring of IPAT, with respect to a clear definition of the role of public agencies (especially under the ARI Regional Development Plan), private agencies and NGOs; their respective responsibilities for marketing, promotion, review and monitoring of tourism development projects, as well as environmental protection, conservation of cultural heritage (such as the historic district), community relations and regulation. On this basis, IPAT's budget requirements will be defined, as well as its operating systems, human resources, the mix of technical skills required and a schedule for implementing these changes. The restructuring process will be launched with the creation of a team of specialists who can realize and implement the institute's new focus.
- b. Analysis of IPAT's current computer and communications systems and tailoring them to provide the technological support to minimize response and processing times, and increase access to national and international data sources.
- c. Designing a comprehensive human resources training and development program to increase the staff's operating capacity, thus ensuring IPAT's transformation into a facilitating institution. Given IPAT's need to increase technical capacity, and to learn from the experiences of other successful organizations within and outside the region, financing will be provided for a small group of officers and staff to participate in seminars and workshops during the implementation of the program, the funds of which will be managed by IPAT.
- d. Review of IPAT's cost recovery system through tax and nontax receipts, and other anticipated income, so that it will be financially self-sustaining and tie its current revenues to its performance in promoting private tourism projects.

2.11 The degree to which this institutional restructuring is effectively executed will determine in large measure the future opportunities for financing by the IDB in Panama's tourism sector.

3. Environmental planning, community participation and economic assessment (US\$650,000)
- 2.12 A fundamental goal of the program is to incorporate environmental, cultural and social considerations into the national tourism policy, planning, project review and monitoring. This goal depends on IPAT's role as liaison to public agencies in charge of environmental policy, and as an advocate of good practices in the tourism sector. IPAT has no specific policy at this time on environmentally sustainable tourism. The National Registry of Tourism, within IPAT, relies on the *Unidad Nacional para la Evaluación y Protección Ambiental* [National Unit for Environmental Protection and Assessment] (UNEPA) of INRENARE to review private sector tourism projects, but UNEPA does not have the capacity to comply with the time limits set forth in the sector legislation. Environmental impact studies are inadequate, there are no specific guidelines for tourism projects, and measures for prevention or mitigation of negative impacts are often not executed. During the preparation of this operation, meetings were held with representatives of the public sector, environmental NGOs and tourism operators, which defined the importance and identified the current difficulties of ensuring effective environmental monitoring of tourism activities.
- 2.13 In these circumstances, rapid growth and expansion of the tourism sector may accelerate degradation of the environment and natural resources, such as tropical forests, fauna, coral reefs and other marine ecosystems on which the tourism sector relies. The same observation applies to the assessment of social impact as well as conservation of the country's cultural heritage.
- 2.14 IPAT's current framework and activities are not geared toward stimulating ecotourism, but the institute has expressed its interest in developing this market segment. There are significant opportunities for ecotourism operations in several areas of Panama, which can be designed to achieve social objectives as well as expand the base for microenterprises and small businesses in rural areas where there are few employment alternatives.
- 2.15 The meetings with the ecotourism operators identified the need to train tour operators and guides and related enterprises, to be able to provide a sustainable product. Communities and municipalities also need to be informed of the opportunities which tourism offers and how they can take advantage of those opportunities.
- 2.16 IPAT has begun a process of formalizing its institutional commitment to environmentally sustainable tourism, and has appointed an environmental coordinator. This provides an opportunity to strengthen the environmental and social framework of the sector, and to coordinate with other entities, such as the INRENARE and the ARI, and the private sector.

2.17 Component 3 of the program recognizes these current limitations and will therefore fund activities aimed at providing the core group of specialists with up-to-date information, new methods of environmental and economic analysis, and instruments and incentives for boosting the participation of the communities involved. The following, among others, are included:

- a. Development of a regulatory framework for environmental protection and management of tourism resources, and instruments for fostering private sector compliance within this framework, to be developed in harmony with existing initiatives on environmental policies and regional planning, such as the National Environmental Strategy, the National Strategy on Biodiversity and the Plan for Sustainable Development of Darién.
- b. Development of operating mechanisms to be used for environmental review, consultation and monitoring of tourism projects. This activity would include training in environmental impact assessments for tourism projects, geared toward both the public (IPAT, INRENARE, MIPPE) and private sectors.
- c. Development of methods and guidelines for the cultural, social and community assessment of the impact of tourism projects, in order to maximize community participation and a sense of ownership of the projects, while ensuring that future activities are socially compatible. The methods and guidelines should be applied to the assessment of the existing tourism facilities, services, skills and interests of the community, assessment of the potential creation of jobs, the social, cultural and environmental impacts of tourism, gender considerations, particularly with respect to differences in workforce participation of men and women, evaluation of the traditional use of potential tourism assets, methods and channels of communication with local communities. Special attention will be given to the demarcation of buffer zones to protect the lands of indigenous groups or other culturally sensitive areas.
- d. Preparation of a program to foster participation by the community and NGOs in sustainable tourism projects in selected areas.
- e. Development of criteria and guidelines for the economic assessment of the tourism sector, including the creation, consolidation and updating of a database on basic conditions of the sector, the economic impact of the projects and their direct and indirect benefits to the national economy and subregional development.

- 2.18 To ensure the implementation of the new regulatory framework, the project will finance pilot initiatives in certain locations (such as Bocas del Toro) where operational elements would be validated and the lessons drawn would be incorporated into the final regulations, procedures and educational material. During the transition process, IPAT would accumulate experience as a facilitating instrument between local governments and the private sector. These initiatives would also allow for fine-tuning of the indicators and methods for monitoring environmental, social and economic impacts.

III. IMPLEMENTATION OF THE PROGRAM

A. Executing agency

- 3.1 The borrower will be the Government of Panama, which will assume the obligations of debt service. IPAT will be the executing agency; it is an autonomous public agency attached to the Ministry of Finance and the Treasury, and currently operates with the budget allocated by the central government.

B. Implementation of the program

- 3.2 IPAT will have full responsibility for implementing the program on behalf of the Government of Panama and will be the official representative of the borrower in all dealings with the Bank on the implementation of the program.

C. Implementing mechanisms

- 3.3 IPAT will be directly responsible for monitoring and supervision in the preparation of the bid and contract documents for the provision of goods and services, quality control and execution of all program activities, the monitoring and coordination of components, disbursements and preparation of quarterly reports to the Bank during the program. To support IPAT in this task, a proposed condition precedent to the first disbursement is the establishment of a Program Coordinating Unit (PCU) of approximately 11 persons, among whom are the coordinator, officers and support staff, for the supervision and monitoring of the various project components.
- 3.4 The program's resources will be used to hire a coordinator, whose duties will be the overall coordination and technical management of the technical cooperation operation. He or she will be responsible for organizing the consulting teams and their work schedule, directing the activities of such groups, and supervising the work, including the timely submission of progress reports. The program coordinator of IPAT will submit the following reports to the Bank: at the end of one month after the program's start-up date, a current schedule of calls for bids; three months after the aforesaid date, a work plan and the program implementation schedule; and 12 months after the start-up date, a program evaluation report which would analyze the initial work plan, accomplishments, and pending activities.

D. Monitoring and supervision

- 3.5 The Bank's Country Office will be responsible for the basic supervision of this operation. The Bank will conduct a mid-term review within 12 months of the effective date of the agreement, or on a mutually acceptable subsequent date, to assess the progress

made to comply with the program's objectives, especially changes required for the institutional restructuring of IPAT. Before this review is performed, IPAT shall present to the Bank the mid-term report mentioned in paragraph 3.10(ii).

E. Expected results and bid procedures

- 3.6 The current procedures of the Bank will be followed for the procurement of equipment, goods and services with the program's funds.

F. Program budget and financing

- 3.7 The total cost is estimated to be US\$3.58 million. The Bank's contribution will be US\$2.5 million in funds from the Single Currency Facility of the ordinary capital and US\$1.08 million from the local counterpart. The Bank approved the Project Preparation Facility (PPF) Fund of US\$500,000 for Component 1 of the project and US\$400,000 in local contributions. The following table summarizes the cost with respect to different items and sources of financing. The Bank will recognize as retroactive financing to be drawn on the proceeds of the loan such expenses as are incurred in connection with the procurement of furniture and office and telecommunications equipment for the Program Coordinating Unit and in compliance with the Bank's procedures, estimated to be about US\$150,000.

Budget summary
(in thousands of US\$)

| Budget item | IDB/OC | Local contribution | Total | % |
|---|--------|--------------------|-------|------|
| A. Components | 1,917 | 705.0 | 2,622 | 73.2 |
| 1. Strategic market study (reimbursement to the PPF line of credit) | 500 | 400 | 900 | |
| 2. Institutional restructuring | 767 | 185 | 982 | |
| 3. Environmental planning, community participation and economic assessment | 650 | 120 | 740 | |
| B. Administration | | | | |
| Coordinating Unit | 312 | 318 | 630 | 17.6 |
| C. Financing costs | 25 | 61 | 86 | 2.4 |
| 1. Interest | - | 52.5 | 52.5 | |
| 2. Credit fee | - | 8.5 | 8.5 | |
| 3. Inspection and supervision | 25 | - | 25.0 | |
| D. Unallocated | 246 | - | 246 | 6.9 |
| Total | 2,500 | 1,084 | 3,584 | 100 |

G. Implementation and disbursement periods

- 3.8 The program implementation period will be 32 months and the disbursement period will be 36 months.
- 3.9 A revolving fund will be established with the Bank's resources, and disbursements will be in the form of advances upon requests by IPAT, as needed. Each disbursement request will be accompanied by a report on achievement of operating targets or benchmarks during the prior period. Any disbursement request for equipment purchases (see Annex II, Procurement plan) will be accompanied by specifications and three offers.

H. Reports

- 3.10 To monitor the proposed activities, IPAT will submit the following reports to the Bank: (i) an initial report, which includes a work plan and an implementation schedule for the first three months of the program; (ii) within 12 months after the effective date of the agreement or a mutually agreed subsequent date, a mid-term review report, pointing up compliance with short-term goals in the execution of the program's components; and (iii) within six months after the date of the last disbursement, a final program evaluation report, which analyzes the original work plan and the results with respect to the proposed objectives based on the indicators defined in the initial report.

IV. FEASIBILITY AND RISKS

A. Environmental impact

- 4.1 The program is expected to yield the following positive environmental effects:
- a. Development of the regulatory framework and mechanisms necessary for environmental protection and monitoring of tourism assets for present and future activities, i.e., clear ground rules for action of the private sector.
 - b. Identification and promotion of environmentally sustainable tourism products, based on the market research.
 - c. Participation and involvement by the community and NGOs in identifying and executing environmentally sustainable tourism activities.
 - d. Identification and allocation of environmental responsibilities, including institutions involved in environmental protection.
 - e. Planning and execution of environmentally sustainable tourism projects in the medium and long term.
- 4.2 This technical-cooperation project does not contemplate the execution of physical works, and should therefore not have any direct negative impact on natural resources. However, investors who are aware of this proposed program might be encouraged to initiate certain activities that take advantage of the country's tourist attractions which, in view of the institutional weaknesses and shortcomings of current environmental rules and regulations, could have indirect negative environmental and social effects. This issue is expected to be covered by measures proposed by studies in component 3.

B. Benefits and risks

- 4.3 The proposed operation would have the following benefits:
- a. Provide an analysis of Panamanian tourism resources based on market needs and expectations, which would help develop a strategic marketing plan geared toward market segments likely to succeed.
 - b. Facilitate the execution of a plan of reorganization and regulation of tourism activities and the institutional restructuring of IPAT.

- c. Develop tourism projects with environmental and social sustainability, while establishing a basic framework and clear ground rules for assessing future strategies that would be instrumental for private sector and community participation.
- d. Encourage the private sector to promote the tourism industry and thus contribute to diversification of the economy in the long term.

4.4 The following risks can be identified:

- a. The institutional restructuring and regulatory changes could be undermined by resistance to change or by society's rejection of tourism. This risk can be minimized by an effective system of communication, involvement and participation by communities and the business sector.
- b. The studies may turn out to be merely an investigation without any follow-up. This risk is minimized by an intensive communication program during and after the process, publicizing the objectives and plan of action upon completion of each component of the studies.
- c. If the studies do not offer a sound analysis and framework, a tourism development plan could produce economic, environmental and social risks at a later stage. This risk will be minimized by having an executing unit ensure that the consulting firms comply with the terms of reference during the study preparation stage.

LOGICAL FRAMEWORK – IPAT

| OBJECTIVES | INDICATORS | MEANS OF VERIFICATION | ASSUMPTIONS |
|--|--|---|---|
| Development of the tourism finished | Tourism sector revenues increased by the end of 1999 | Statistics prepared by the Dept. of Immigration and INDESA on income and profile of tourists in Panama. | Strategy for sustainable development tourism sector is being implemented |
| Sustainable development of the y in Panama, developed | Strategy approved by IPAT by January 1999 | Studies contained in the plan of support for the tourism sector finalized and approved by IPAT, the MIPPE and the Government of Panama, ready for implementation. | <ul style="list-style-type: none"> - The private sector agrees with recommendations - Public opinion indicates full support the tourism program - Legal instruments approved by Government of Panama, based study recommendations - Government continues to give the tourism sector |
| 1 market study, prepared | Market study completed and approved by IPAT and the IDB by October 1998 | <p>Final consultant's report received.</p> <p>Number of interviews conducted in accordance with the terms of reference, verified through representative samples among tourism operators in several countries studied.</p> | Information from the study is used private sector toward sustainable investments. |

| OBJECTIVES | INDICATORS | MEANS OF VERIFICATION | ASSUMPTIONS |
|---|---|--|--|
| <p>2</p> <p>stitutional restructuring,</p> | <p>Study of institutional restructuring completed and approved by IPAT and the IDB in February 1999</p> | <p>Final consultant's report received.</p> <p>Dissemination of procedural manuals developed through the program, approved and included in seminars in component 1</p> <p>Interagency cooperation agreement signed by IPAT, UNEPA and INRENARE.</p> <p>Seminars and workshops with the participation of IPAT personnel, and approved by the Bank.</p> | <p>The central government and IPAT give priority to institutional reorgan</p> <p>IPAT continues to give priority to c training and informtion.</p> |
| <p>3</p> <p>environmental rules and prepared</p> | <p>Study of environmental rules and regulations completed and approved by IPAT and the IDB by February 1999</p> | <p>Final consultant's report received.</p> <p>Legal instruments regulating the zoning, land use, urban and rural planning, etc. of tourist sites based on the study results, approved by the competent authorities (IPAT and the Ministry of Housing)</p> | <p>Acceptance and environmental aw involved parties for the application rules and regulations.</p> |
| <p>community participation,</p> | <p>Study of community participation completed and approved by IPAT and the IDB by February 1999</p> | <p>Final consultant's report received.</p> <p>Number of interviews conducted in accordance with the terms of reference, verified through representative samples from the communities studied.</p> | <p>The communities in question unde benefits of the study and participa environmental project process.</p> |
| <p>onomic study, prepared</p> | <p>Socioeconomic study completed and approved by IPAT and the IDB in February 1999</p> | <p>Final consultant's report received.</p> <p>Socioeconomic parameters utilized are consistent with latest statistics from the Comptroller's Office and INDESA and generally accepted assessment criteria.</p> | <p>Report coming out of the study is and used by the public and private sector to create the socioeconomic envisaged in the studies.</p> |

| OBJECTIVES | INDICATORS | MEANS OF VERIFICATION | ASSUMPTIONS |
|------------------------------------|-----------------|-----------------------|-----------------------------------|
| market study conducted | Study completed | IPAT/IDB approval | Original timeframe and cost maint |
| environmental rules and nducted | Study completed | IPAT/IDB approval | Original timeframe and cost maint |
| community participation study | Study completed | IPAT/IDB approval | Original timeframe and cost maint |
| economic study conducted | Study completed | IPAT/IDB approval | Original timeframe and cost maint |
| institutional strengthening | Study completed | IPAT/IDB approval | Original timeframe and cost maint |

CONSULTANT HIRING SCHEDULE

| Description | Bid group | Method | Prequal. | SPN Public. Qtr/Year |
|---|-----------|--------|----------|-------------------------|
| Market study* | I | ICB | YES | II/1997 |
| Study of environmental regulations and planning | II | ICB | YES | II/1998 |
| Socioeconomic study | | | | |
| Community participation | | | | |
| Institutional restructuring | III | ICB | YES | III/1998 |
| Total contracts: US\$3.5 million | | | | |
| Thresholds: % of financing Consulting S\$350,000 IDB 70% Local 30% *Contract tendered | | | | |

ICB: international competitive bidding
SPN: Special Procurement Notice

RGII-PN133P
PN-0120
Original: spanish

PROPOSED RESOLUTION

PANAMA. TECHNICAL COOPERATION LOAN TO THE REPUBLICA DE PANAMA FOR A
PROGRAM TO SUPPORT THE TOURISM SECTOR

The Board of Executive Directors

RESOLVES:

1. That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such agreements as may be necessary with the República de Panamá and to adopt such measures as may be pertinent for the execution of the Plan of Operations of a Technical Cooperation Loan for a Program to Support the Tourism Sector referred to in Document --

2. That up to the sum of US\$2,500,000, is authorized for the purposes of this resolution, chargeable to the resources of the Single Currency Facility of the Ordinary Capital of the Bank.

3. That the above-mentioned sum shall be provided on a reimbursable basis.