

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

P A N A M A

PROGRAM TO FOSTER COMPETITIVENESS

**Operation No. 1410/OC-PN
Approved on June 19, 2002**

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PANAMA

INNOVATION LOAN

PROGRAM TO FOSTER COMPETITIVENESS

(PN-0145)

LOAN PROPOSAL

This document was prepared by the project team consisting of: Martin Chrisney (RE2/FI2), Project Team Leader; Alberto Paz (RE2/FI2); Manuel Agosin (RE2/RE2); Rafaela Varela (COF/CPN); Pablo Angelelli (SDS/MSM); Ana María Linares (LEG/OR2); Diego Buchara (LEG/OR2); Antonio Rodríguez (consultant); Antonio Arias (consultant); Mario Umaña (consultant), and Yolanda Galaz (RE2/FI2), who helped produce the document.

CONTENTS

EXECUTIVE SUMMARY

I.	BACKGROUND	1
A.	The Panamanian economy and competitiveness	1
B.	Dialogue and consensus	1
C.	The problem.....	2
D.	Tie-in of the proposed program with the Bank's country strategy	2
E.	Experience with competitiveness programs in the region.....	3
F.	Rationale for an innovation loan.....	4
II.	PROGRAM DESCRIPTION	5
A.	Objectives	5
B.	Conceptual framework of the program	5
C.	Components.....	5
1.	Component 1. Institutional process and diagnostic assessments of competitiveness (US\$510,000).....	6
2.	Component 2. Devising strategies and action plans (US\$322,000).....	8
3.	Component 3. Competitiveness Fund (US\$6,860,000).....	9
4.	Component 4. Monitoring and impact measurement (US\$294,000).....	10
D.	Program costs	10
1.	Cost elements.....	11
E.	Social-sector and poverty-targeting classification	12
III.	IMPLEMENTATION ARRANGEMENTS.....	13
A.	Implementation mechanism.....	13
1.	The borrower and the institutional counterpart.....	13
2.	Implementation strategy.....	13
3.	Functions and activities of the participating entities.....	14
B.	Program Operating Regulations	17
C.	Procurement.....	17
D.	Monitoring and evaluation.....	18
E.	Disbursement timetable.....	18
F.	Audits and transparency	19
IV.	BENEFITS, RISKS, AND VIABILITY	20
A.	Benefits	20
B.	Risks.....	20
C.	Environmental viability.....	21
D.	Institutional viability	22

ANNEXES

Annex I	Logical Framework
Annex II	Procurement plan

ABBREVIATIONS

CCS	Cluster Competitiveness Strategy
CLT	Cluster Leadership Team
CT	Competitiveness Team
MEF	Ministry of Economic Affairs and Finance
NCS	National Competitiveness Strategy
PMT	Competitiveness Program Management Team
PPF	Project Preparation Facility
PPTU	MEF Public Policy Technical Unit



Inter-American Development Bank
Regional Operations Support Office
Operational Information Unit

Panama

Tentative Lending Program

2002

Project Number	Project Name	IDB US\$ Millions	Status
PN0125	Training and Employment System Development	8.4	
PN0145	Program to Foster Competitiveness	7.0	
PN0148	National Land Management Program	21.0	
PN0147	Fiscal Management II	10.0	
PN0149	Sustainable Develop. Province Bocas del T	16.2	
Total - A : 5 Projects		62.6	
PN0139	Priority Activities in the Hydrografic Basin Panama Canal	10.0	
*PN0154	Colon International Airport	35.0	
*PN0155	Bonyic Hydroelectric Project	10.0	
Total - B : 3 Projects		55.0	
TOTAL 2002 : 8 Projects		117.6	

2003

Project Number	Project Name	IDB US\$ Millions	Status
PN0062	Panama City Sanitation Project	100.0	
PN0140	Urban Transport	30.0	
PN0141	Rural Panama Plan	25.0	
PN0143	Municipal Dev. and Community Participati	10.0	
PN0144	Attention to Vulnerable Urban Groups	30.0	
PN0146	Modernization Social Security	10.0	
PN0150	Rural Eletrification	30.0	
PN0152	Coast Zone Sustainable Management	10.0	
PN0156	Indigenous Community Development	10.0	
Total - A : 9 Projects		255.0	
TOTAL - 2003 : 9 Projects		255.0	

Total Private Sector 2002 - 2003	45.0
Total Regular Program 2002 - 2003	327.6

*** Private Sector Project**



PANAMA

IDB LOANS

APPROVED AS OF APRIL 30, 2002

	US\$Thousand	Percent
TOTAL APPROVED	1,876,620	
DISBURSED	1,411,426	75.2%
UNDISBURSED BALANCE	465,195	24.8%
CANCELLATIONS	391,505	20.9%
PRINCIPAL COLLECTED	652,491	34.8%
APPROVED BY FUND		
ORDINARY CAPITAL	1,553,765	82.8%
FUND FOR SPECIAL OPERATIONS	280,023	14.9%
OTHER FUNDS	42,832	2.3%
OUTSTANDING DEBT BALANCE	758,935	
ORDINARY CAPITAL	673,784	88.8%
FUND FOR SPECIAL OPERATIONS	84,111	11.1%
OTHER FUNDS	1,041	0.1%
APPROVED BY SECTOR		
AGRICULTURE AND FISHERY	175,282	9.3%
INDUSTRY, TOURISM, SCIENCE -TECHNOLOGY	71,593	3.8%
ENERGY	369,401	19.7%
TRANSPORTATION AND COMMUNICATIONS	413,794	22.0%
EDUCATION	125,032	6.7%
HEALTH AND SANITATION	126,401	6.7%
ENVIRONMENT	88,180	4.7%
URBAN DEVELOPMENT	68,526	3.7%
SOCIAL INVESTMENT AND MICROENTERPRISE	77,122	4.1%
REFORM -PUBLIC SECTOR MODERNIZATION	334,305	17.8%
EXPORT FINANCING	0	0.0%
PREINVESTMENT AND OTHER	26,985	1.4%

* Net of cancellations with monetary adjustments and export financing loan collections.



INTER-AMERICAN DEVELOPMENT BANK
Regional Operations Support Office
Operational Information Unit

PANAMA

STATUS OF LOANS IN EXECUTION AS OF APRIL 30, 2002

(Amounts in US\$ thousands)

APPROVAL PERIOD	NUMBER OF PROJECTS	AMOUNT APPROVED	AMOUNT DISBURSED	% DISBURSED
Before 1996	2	51,430	48,193	93.71%
1996 - 1997	8	215,536	84,526	39.22%
1998 - 1999	8	327,650	78,008	23.81%
2000 - 2001	3	78,501	767	0.98%
TOTAL	21	\$673,117	\$211,495	31.42%

* Net of Cancellations . Excluding export financing loans.

PROGRAM TO FOSTER COMPETITIVENESS

(PN-0145)

EXECUTIVE SUMMARY

Borrower:	Republic of Panama	
Executing agency:	Ministry of Economic Affairs and Finance	
Amount and source:	IDB (OC):	US\$ 7,000,000
	Local:	US\$ 3,000,000
	Total:	US\$ 10,000,000
Financial terms and conditions:	Amortization period:	20 years
	Grace period:	36 months
	Execution period:	30 months
	Disbursement period:	36 months
	Interest rate:	variable
	Inspection and supervision:	1.00%
	Credit fee:	0.75%
	Currency:	U.S. dollars, Ordinary Capital Single Currency Facility
Objectives:	<p>The program's overall objective is to make Panamanian businesses more competitive. The specific objective is to launch a consensus-building process to pave the way for developing strategies and projects to foster business competitiveness. By way of that process the program will support changes in four sectors: agroindustry, logistics, technology services, and tourism.</p>	
Rationale for an innovation project:	<p>The program was designed as an innovation loan for the following reasons: (i) it will establish a participatory process for developing and implementing shared strategies for increasing competitiveness; (ii) it sets in place a new institutional mechanism to foster the formation of business clusters and provide them with specialized technical assistance; and (iii) it will document lessons learned from this kind of business-targeted support, on which designers of future projects can draw.</p>	

Description: The program lays the foundations for consensus-building on policies to make Panamanian businesses more competitive, through coordinated action on two fronts: national and clusters. It will promote: (i) diagnostic assessments of national and cluster-specific barriers to competitiveness; (ii) joint, consensus-driven development of a national competitiveness strategy and associated action plan; (iii) building of a consensus on the development and selection of concrete sectoral and subsectoral strategies to resolve problems identified at the cluster level; and (iv) financing for projects coming out of the action plans that satisfy the program's selection criteria. The program would consist of four components:

Component 1: Institutional process and diagnostic assessments of competitiveness (US\$510,100). Under this component the program will fund national and sector-specific diagnostic assessments of competitiveness conditions in Panama. Funding also will be provided for devising and implementing consensus-seeking processes relating to the development of business competitiveness strategies and action plans, and for technical assistance to form business clusters. There will be support for the startup of a Competitiveness Team, to head up the national participatory planning process. The aim of this component is to remedy the lack of coordination and agreement on how best to tackle the challenge of business competitiveness, and to institutionalize a process to decide on objectives, instruments, and actions for a national competitiveness strategy and cluster-specific competitiveness strategies.

Component 2: Devising strategies and action plans (US\$322,000). This component will fund strategic planning processes to craft a National Competitiveness Strategy (NCS) as well as specific strategies for each of the clusters formed. At the national level there will be consultations with civil society about the NCS and its action plan, so that these will have won the broadest possible consensus by the time they are adopted. At the cluster level, technical assistance will be financed according to each cluster's needs for products, services, production chains, etc. With this support each of the program's clusters will develop a Cluster Competitiveness Strategy and its respective action plan.

Component 3: Competitiveness Fund (US\$6,860,000). This component includes: (i) creation of a Competitiveness Fund to provide funding, in the form of matching grants, for projects arising out of the action plans agreed on for the respective clusters, which meet the program's selection criteria, and activities for development and implementation of the NCS; (ii) preparation of a database of consultants accredited to deliver specialized assistance; and (iii) hiring

of the Program Management Team to administer the use of the Fund's resources and delivery of technical assistance to clusters so they can formulate their strategies.

Component 4: Monitoring and impact measurement (US\$294,000). This component's activities will design and use instruments to measure the program's quantitative and qualitative impact, to ensure that its objectives are being achieved and that it is providing good-quality services. Items to be closely monitored are: (i) quality of services delivered by consultants and firms hired with Competitiveness Fund resources; (ii) quality of service of the Program Management Team; and (iii) impact of program activities on the productivity of businesses comprising the clusters.

The Bank's country and sector strategy:

A number of operations in the Bank's portfolio are already addressing elements of a competitiveness strategy in the broad sense. However, a great deal remains to be done to enable businesses that have strong productive potential to attract private investment, create jobs, and open up new, better, and lasting opportunities to raise incomes. The program proposed here was built into the country strategy as one of five key challenges for economic development (see Panama country paper, document GN-2136-1).

Environmental and social review:

The operation is environmentally viable because: (i) it will have no direct impact on the environment and (ii) environmental considerations have been addressed in its components, to assure that the activities supported will promote environmental sustainability.

Benefits:

The program will implement a mechanism to secure a public/private sector consensus on policies and programs to enhance the business climate. The concrete results the program will yield will be inputs for developing and implementing the National Competitiveness Strategy and for activities in the various clusters that will come up with public, private, and public/private investment projects. Executing those projects will improve competitiveness. The program's anticipated direct benefits take the form of job creation and output increases, to rise to the challenges of competition and sustainability.

Risks:

The program's success will hinge directly on there being a clear understanding on participants' part of the need to improve competitiveness and on active private and public sector participation in shaping the necessary consensus. The country's government and its business community have already shown their interest in supporting the program through their participation in the Competitiveness Team. On the private-sector side, the project team met with business operators and business associations, who affirmed the importance of competitiveness, identified sectors offering the strongest growth

potential, and pledged to take part in the program. To be truly effective the program requires close coordination between the NCS development activities and the findings of the strategic analysis of clusters. To maximize this coordination, a lead-up phase funded with a Project Preparation Facility will produce baseline studies and identify clusters.

Special contractual clauses:

As conditions precedent to disbursement of the program funds, it shall be demonstrated that: (i) the Competitiveness Team has been formally created and is functioning and (ii) the program's Operating Regulations, prepared in accordance with terms agreed on in advance with the Bank, are in force.

As a further condition precedent to release of funds for each component, it shall be demonstrated that the consulting firm has been hired to manage the program.

A final provision, in addition to the standard conditions for programs of this kind, is that a revolving fund be set up for 10% of the loan amount.

Poverty-targeting and social sector classification:

This operation does not qualify as a social equity enhancing or poverty reduction project as described in the indicative targets mandated by the Bank's Eighth Replenishment (document AB-1704).

Exceptions to Bank policy:

None.

Procurement:

Bank procurement policies will be adhered to for goods and services procurement. International competitive bidding will be required for purchases of goods worth US\$350,000 equivalent and more. International calls for proposals must be held for services costing the equivalent of US\$200,000 or more. The selection and hiring of a consulting firm to manage the program will be based on the quality and price method provided that the relative weight of price as an evaluation criterion does not exceed 20% of the total ranking. The program management team will follow the Bank's procurement procedures in drawing on the resources of the Competitiveness Fund.

I. BACKGROUND

A. The Panamanian economy and competitiveness

- 1.1 Though Panama's economy has some features of a developed economy, its growth performance is sluggish. The services sector predominates, accounting for roughly 70% of the value of the country's output. Exports of goods (not counting Colon Free Zone business) contribute less than 10% of GDP. Foreign direct investment inflows are relatively small compared to other countries in the area. Low labor productivity in combination with high operating costs is impeding the creation and expansion of businesses. This has dampened economic growth and increased unemployment, pointing up market imbalances.
- 1.2 In today's global economy there is mounting pressure for economic sectors to be competitive. This requires new strategies to help sectors adapt quickly to change, particularly changes that bring in new technology, advance regional integration, and create an environment to nurture business competitiveness. At present the sectoral bases of economic activity in Panama are its financial services center, the Colon Free Zone and the Canal, ports, and flagship registry. Since these activities have little connection with the national economy they have limited potential to propel economic growth. Meanwhile, the country's productive base, and agroindustry specifically, is unable to progress because businesses are not equipped to contend with growing international competition and high production costs. Tourism and technology services are two sectors that offer competitive potential.
- 1.3 As for the political climate, in the past decade the government has adopted sweeping reforms to do away with some factors that had been inhibiting expansion, modernization and creation of sustainable businesses. At the top of the government's agenda were macroeconomic stability, infrastructure concessions and privatization, financial and capital market reform, export promotion, incorporation of new technologies, and updating of laws and regulations to make for better-functioning markets. Because these moves have yielded only modest results, there is a need to reassess the factors within the economy that are promoting or inhibiting competitiveness.

B. Dialogue and consensus

- 1.4 Since its return to democracy Panama has opened different avenues for dialogue to discuss and arrive at social pacts on important issues, many of them encompassing principles of political development and sustainable economic growth. Among these initiatives were forums to help ensure transparency and participation in elections, drawing up a core concerted agenda and mapping out the Panama that the nation desires for its people for the year 2020. Business and professional associations and labor organizations have not only participated in meetings of this kind: they also have frequently defined their respective positions in advance. More recently, usually in response to crisis situations, other issues have been fairly widely

discussed, such as pension funds, use of the Trust Fund, tax reform, and economic revitalization. Not all these exercises ended up in a meeting of minds, and even in cases in which some measure of consensus was achieved, the country has not had effective mechanisms in place to implement them.

C. The problem

- 1.5 Panama clearly needs to build on its competitive advantages if it is to speed up economic growth and achieve sustainable social development, while at the same time integrating more fully into the region and positioning itself in the global economy. A number of microeconomic factors are still affecting business productivity, thereby keeping businesses from becoming competitive. Domestic barriers are responsible for high production and transaction costs, a lack of information, and obstacles to efficient market operation. These in turn have tangible impacts on price formation for inputs and factors of production, the intensity of competition in various sectors, and prospects for business partnerships. There also are barriers to the creation and strengthening of business clusters or networks, which makes it complicated to create business alliances that could, for instance, take advantage of potential economies of scale and benefits stemming from geographical proximity to a large market and a critical mass of high-caliber human, operational, technical, and management resources.
- 1.6 At present the country has no effective institutional mechanism to enable the Panamanian government and private enterprise to develop and implement strategies and concrete, coordinated action plans, even though there is general agreement that the country's economy must become more competitive. This means that there is an opportunity to forge a consensus on policies and programs needed to that end. But the opportunity could be forfeited unless the country develops an institutional process to pinpoint barriers to competitiveness, devise concrete mechanisms for generating a consensus on policies, and secure commitments regarding coordinated public and private actions and investment programs.

D. Tie-in of the proposed program with the Bank's country strategy

- 1.7 A number of initiatives in the Bank's portfolio are already addressing elements of a competitiveness strategy in the broad sense.¹ Those Bank-supported activities have

¹ Until recently the Bank focused on support to Panamanian government efforts to make the private sector more competitive, with projects addressing one or several of the mentioned reform spheres, thereby helping improve the economy's competitiveness overall. See Basic Infrastructure Sector Support Program (PN-0097); Financial Sector Program (PN-0056); Agricultural Services Modernization Program (PN-0032); Support for Competitiveness in Producing Sectors (PN-0109), and technical cooperation initiatives: (i) Strengthening the Anti-Trust System (CLICAC); (ii) Strengthening Alternative Commercial Dispute Resolution Methods (Chamber of Commerce); (iii) Pilot Demand-Based Employment and Training System Program (MITRADEL); (iv) Institutional Strengthening of the National Securities Commission, and (v) Fundación Ciudad del Saber.

focused on: (i) establishing and/or strengthening the regulatory framework to afford assurances to investors; (ii) improving the quality of public services and rationalizing their cost; (iii) enabling private-sector participation in the delivery of public services; and (iv) lowering the cost of doing business in Panama (transaction costs associated with creating, setting up and expanding businesses). However, much remains to be done to assist companies that offer good prospects for competitiveness to generate private investment, employment, and lasting income opportunities for Panamanians. Since the program described here was first proposed there have been discussions about it between the Ministry of Economic Affairs and Finance, the private sector, and the Bank. In July 2000 the government confirmed the program's priority, and the issue of competitiveness was explicitly added to the country strategy as one of five key challenges for economic progress (see Panama country paper, document GN-2136-1).

E. Experience with competitiveness programs in the region

- 1.8 The region has amassed valuable experience in competitiveness programs pursued in Brazil, Chile, Colombia, the Dominican Republic, and Mexico, and in the Andean region and Central America. These programs have targeted different spheres, notably by way of plans to enhance the business climate and develop clusters. One is the Chihuahua Siglo XXI program in operation since 1992 in Chihuahua, Mexico, which has demonstrated how countries can gain from a public-private partnership like this one, which laid the groundwork for a strategic action plan for the state. Likewise, there is ample evidence of what a country gains when clusters are developed to spur linkages between businesses operating in a given sector and locality. These can improve business management, human capital accumulation, access to technical assistance, and overall productivity in the participating businesses.²
- 1.9 A highlight of Central American efforts in this regard is the diagnostic assessment and development strategy pursued by the Central American Competitiveness Agenda for the 21st Century, which was the underpinning for the creation of public/private sector partnerships to foster national competitiveness. This regional diagnostic assessment, which did not include Panama, identified sectors with competitiveness potential. In the case of Panama, four sectors that would be candidates for a competitiveness program have been identified after extensive discussion with the business community, officials, and economists. That identification process confirmed the findings of the Central American diagnostic study. Two of the four sectors—tourism and technology—are underdeveloped, with activities still in their infancy. The other two—agroindustry and logistics—are traditional sectors with an established production base and diversification potential.

² Chile's PROFO program, for instance, has had impressive economic returns: every peso that society invested in this program yielded 2.4 additional pesos in net benefits.

There are evident microeconomic barriers in each of these sectors, but there is a core of business owners who can serve as interlocutors in a dialogue on the National Competitiveness Strategy and as catalysts for growth in the various sectors.

- 1.10 Some of the key lessons learned from the main competitiveness experiences are: (i) the need for participatory (“bottom-up”) strategic planning processes; (ii) the need for such a process to come out of a consensus between the public and private sectors—the private sector having driven the process, the public sector being the strategic partner that fosters business-climate reforms; and (iii) projects should be demand-driven, not supply-driven, and demand is what makes the programs sustainable. These lessons learned imply value benchmarks that were taken into account in designing the program proposed here.

F. Rationale for an innovation loan

- 1.11 This program was conceived as an innovation loan in light of the core objectives of that form of lending to support innovation. In this case the loan would assist in efforts to institutionalize a coordinated public/private sector dialogue and consensus-building process to continue to develop Panama’s competitive advantages in a global economy and an ever more integrated region. The planned Competitiveness Fund planned in the program will help assure that the process is financially sustainable. More specifically, the program will: (i) establish a participatory process for developing and implementing strategies to foster competitiveness; (ii) implement a new institutional mechanism for promoting the formation of business clusters and delivering specialized technical assistance to the clusters; and (iii) document lessons learned from this kind of support targeted to the business sector, on which designers of future projects can draw.

II. PROGRAM DESCRIPTION

A. Objectives

- 2.1 The program's overall objective is to make Panamanian businesses more competitive. The specific objective is to launch a consensus-building process as a basis for devising strategies and projects to foster business competitiveness. By way of that process the program will support changes in four sectors—agroindustry, logistics, technology services, and tourism—at two levels: nationally, and at the business level. These sectors were selected after consultation with representatives of the public and private sectors. Out of that process came a consensus that the four sectors listed here would tentatively be the priorities the program should target. At the national level the program will assist with the development and implementation of a consensus-based National Competitiveness Strategy to improve the business climate. At the business level it will supply financial and nonfinancial assistance to improve the productivity of clusters in the four sectors. Successful implementation of the program will set the stage for this dynamic process to expand the analysis and institutionalized consensus-seeking efforts to other sectors of the economy and other business clusters.

B. Conceptual framework of the program

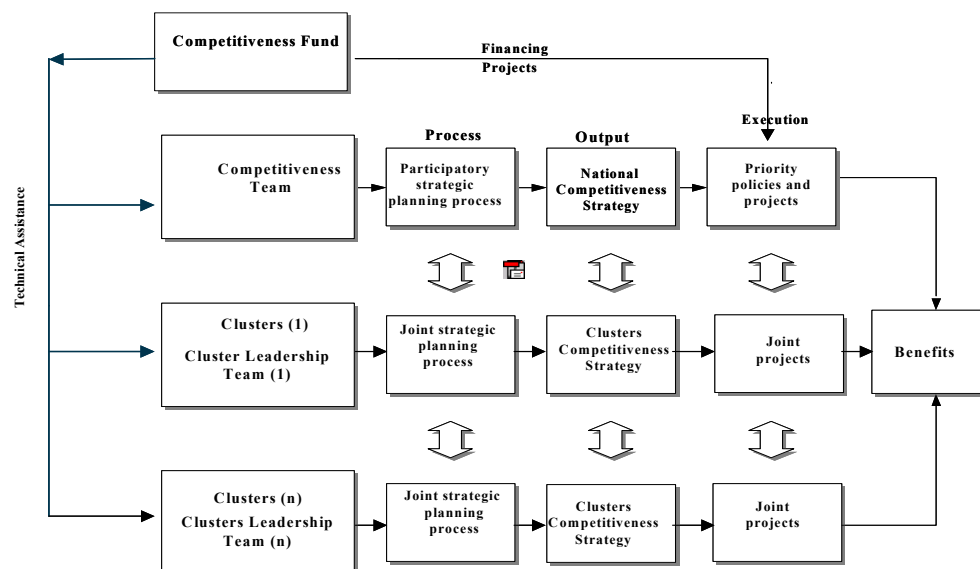
- 2.2 The activities planned as part of the program seek to promote active participation by the private sector in formulating strategies to create a more attractive business climate and to raise business productivity and competitiveness and in implementing them. To accomplish this aim, the program will use a cluster model as a basis for identifying strategic priorities in specific sectors which will in turn serve as elements for targeting public investment, formulating horizontal economic policy and strategies to improve business organization that maximize the country's economic performance. In addition, the program will put together a representative core of national and local stakeholders who will act as agents of change and an engine in formulating and implementing a competitive vision. In this way, the program will lay the groundwork for building a consensus on formulating a long-term vision designed to spur and speed up the process of gaining competitive advantages.

C. Components

- 2.3 The program has been designed to lay the foundations for consensus-building on policies that can make Panamanian businesses more competitive, through coordinated action on the national front and at the level of clusters (see Table 2.1). The program will promote: (i) diagnostic assessments of national and cluster-specific barriers to competitiveness; (ii) development of a consensus-based National competitiveness Strategy and associated action plan; (iii) building of a consensus as

to the development and selection of concrete sectoral and subsector strategies to resolve problems identified at the cluster level; and (iv) matching-grant funding for projects coming out of the action plans that satisfy the program's selection criteria. The program will support the startup of the Competitiveness Team (national level), Cluster Leadership Teams (at the cluster level), and the Competitiveness Fund. The program has been designed to ensure that the assessment of barriers to competitiveness and the deficiencies noted in the clusters and the different sectors are forwarded to the Competitiveness Team as inputs for the national competitiveness strategy.

Table 2.1 – Program organization



2.4 The following are the four components comprising this innovation operation.

1. Component 1. Institutional process and diagnostic assessments of competitiveness (US\$510,000)

2.5 Activities in this component will identify and analyze obstacles to national and sector competitiveness, institutionalize consensus-building processes, and identify business clusters in each of the four selected sectors. The aim is to remedy the lack of coordination and agreement on how best to rise to the challenge of business competitiveness. A process to define objectives, instruments, and actions for national and cluster competitiveness strategies will be institutionalized.

a. Formation of the Competitiveness Team and national diagnostic assessment

- 2.6 At the country level this component will support the preparation of baseline studies on competitiveness and the operation of the Competitiveness Team, which is the institutional core for development and design of the National Competitiveness Strategy. Diagnostic assessments will be done of structural conditions in the Panamanian economy, to provide basic inputs for an analysis of the country's competitiveness conditions and for identifying and designing policy instruments that can enhance the business climate and public investment projects to help instill conditions for productivity gains. The studies will examine the national economy's structure and global positioning and business operating costs. There is provision in this stage of the program for orientation activities for the Competitiveness Team and public information on the program, by way of workshops, seminars, presentations and other events.

b. Formation of Cluster Leadership Teams and diagnostic assessment of clusters

- 2.7 At the cluster level, this component will identify from four to perhaps ten clusters in the four targeted economic sectors. For purposes of the program, a "cluster" is a geographically bounded group of companies—usually between 5 and 50—engaged in a specified line of business and related to or complementing one another by virtue of purchasing or client-supplier relations or simply because they have the same client base, technology, distribution channels, etc. To identify the sectors of activity, meetings were held with the public and private sectors while the program was being prepared and the participants expressed interest in taking part in the program and in reaching a broad-based consensus on priority sectors. Taking into consideration possible future economic opportunities, agribusiness, logistics, technology services, and tourism were tentatively identified. The program will confirm this selection by assessing the sectors and identifying business leaders.
- 2.8 One element supported by this component to develop cluster competitiveness strategies is the preparation of baseline studies on the program's target sectors. These studies will provide a picture of international market trends, as a vantage point from which to assess *how* and *where* Panamanian businesses can best compete, and the implications for products and services in production chains. They also will identify barriers to competitiveness in the selected sectors owing to failures in factor-market operations and/or shortcomings in infrastructure and public services that affect country operating costs. As part of this sectoral analysis the assessments will present a comparison base for data on cost, quality, and coverage of services and factors that affect business competitiveness. These sectoral surveys will be core inputs for detailed studies of strategic options for the clusters participating in the program.

- 2.9 Another feature of this component is a set of *cluster development workshops* in the chosen sectors, to be held in various parts of Panama. The aim is to identify and select clusters within the target sectors and to nominate and appoint people to form the Cluster Leadership Team (CLT). CLT members should be people with demonstrated leadership skills; they should be decision-makers in their company or sphere of activity and should have a strategic vision about the cluster formation and development process. The workshops also will provide technical assistance on methodology for self-diagnostic studies within each cluster and for mapping out action plans.³

2. Component 2. Devising strategies and action plans (US\$322,000)

- 2.10 This component will support simultaneous strategic planning exercises at the national and individual cluster level, to define national and cluster strategy options, opportunities and key factors for success, a shared roadmap for the future, strategic positioning approaches, and priority projects.

a. National Competitiveness Strategy

- 2.11 At the national level, civil society will be asked for input about the National Competitiveness Strategy (NCS) and associated action plan, in order to secure the broadest possible consensus on the proposed actions. Plenary meetings will be organized to present the studies' findings and recommendations and the strategy options devised and evaluated. Out of these meetings will emerge the NCS selected by consensus and, subsequently, the associated action plan, which will be a coordinated blueprint setting out public- and private-sector actions and their respective timetables.

b. Cluster Competitiveness Strategy

- 2.12 Funding will be provided for each cluster's technical assistance needs relating to products, services, or production chain. The hiring of individual consultants or consulting firms or consortia to deliver assistance will be coordinated by the Competitiveness Program Management Team. With this support each cluster in the program will develop its Cluster Competitiveness Strategy and action plan. One of the program's most important challenges is to make sure that information on the economic and institutional barriers identified for each cluster becomes an input into

³ These events, for businesses, government agencies and private organizations that form part of the cluster, will: (i) explain the program; (ii) outline the conceptual framework of the model; (iii) highlight the objectives sought by cluster projects and the benefits of "clusterizing"; (iv) present examples of successful cases, and (v) present an example of an action framework for implementing the cluster projects. The agenda and content of these workshops forms part of the Project Preparation Facility operation currently in process, which will produce materials needed for these events and baseline studies of the four priority sectors. Terms of reference for this consulting work are on file in RE2/FI2.

the process of developing the NCS and its action plan. Costs of the strategy sessions in each cluster formed and the costs of preinvestment studies for proposed projects will be defrayed from the Competitiveness Fund.

3. Component 3. Competitiveness Fund (US\$6,860,000)

- 2.13 The program will establish a Competitiveness Fund as a flexible, rapid-response instrument for meeting needs that arise during the national and cluster participatory strategic planning stage. Specifically, this component will support: (i) creation of a Competitiveness Fund to finance cluster activities, through matching grants and contributions for the NCS's development and implementation; (ii) preparation of a database of consultants accredited to deliver specialized assistance to clusters and the CT, and (iii) hiring of the Program Management Team to administer the use of Fund monies to hire third parties, and also to provide technical assistance to the clusters as they design competitiveness strategies, monitor cluster activities, and to perform the other activities indicated in paragraphs 3.6 and 3.7 of this proposal.
- 2.14 The procedure for selecting projects for Competitiveness Fund financing will be as follows. At the national level, the Competitiveness Team (as NCS coordinating body) will define priority activities within the action plan for NCS implementation, for Fund financing. These activities must be nationwide in scope, and will have counterpart contribution requirements to be defined in the program's Operating Regulations. For instance, the Fund will co-fund activities with the public sector such as the preliminary drafts of legal framework reforms or preinvestment studies for public projects, or other activities that satisfy the requirement of helping to make the Panamanian economy more competitive.
- 2.15 At the cluster level, clusters that are registered as such with the Program Management Team can submit projects for financing. The cluster members are expected to defray most of the cluster setup and operating costs, with support and technical assistance from Management Team specialists. When this stage is complete and an action plan has been produced, the cluster will be eligible for matching-grant funding (see Table 3.2) for business activities related to exporting or export expansion, such as preinvestment studies, market analysis, or design of activities to improve production-sharing, purchasing or quality assurance systems. Consequently, in order to qualify for support a project must: (i) be part of the action plan agreed to by the cluster on the basis of the diagnostic study, and (ii) demonstrate that the required counterpart is available in accordance with the program's Operating Regulations. In principle the Fund will co-fund activities to launch joint projects and will lay the foundation for investment projects; it will not defray companies' capital costs.

4. Component 4. Monitoring and impact measurement (US\$294,000)

- 2.16 This component covers the design and use of measurements to gauge the program's impact in quantitative and qualitative terms, to make sure that its objectives are achieved and that its services are of good quality. There will be close monitoring of: (i) the quality of services delivered by consultants and firms hired with Competitiveness Fund resources; (ii) the quality of the Program Management Team's services; and (iii) the impact of program activities on productivity and output of goods and services of the businesses comprising the clusters and of the activities proposed in the NCS action plan.
- 2.17 The program will have a number of effects, ranging from improved relations between businesses in a production chain to in-house improvements in the participating businesses (financial, managerial, human resources, product quality, marketing, output). One of the component activities is development of a tool to analyze the program's impact, with a basic database of anonymous, aggregated data. There will be control groups for comparison purposes. Features of this component are: (i) design and implementation of the impact measuring system; (ii) target group identification within the clusters and control groups; (iii) data compilation; and (iv) an independent impact evaluation at the end of the program. The idea is to disseminate these results and the lessons learned in reports and studies that will be posted on the website.

D. Program costs

- 2.18 The total estimated cost of the proposed program is US\$10 million. Table 2.2 gives a cost breakout by funding source and expenditure item. The Bank would provide US\$7 million in financing from the Ordinary Capital Single Currency Facility. The local counterpart would be US\$3 million, up to US\$800,000 of which is expected to come from private enterprise as part of the contribution to projects to be financed out of the Competitiveness Fund.
- 2.19 Preparatory activities for the program have been funded under a US\$500,000 Project Preparation Facility (PN-0153, Letter of Agreement No. 1347/OC-PN signed on 29 October 2001). These resources count toward the respective components in the cost table (Table 2.2). There is provision in the program for funds to repay that sum with the first disbursement under the program.
- 2.20 The following are the loan terms and conditions: (i) variable interest rate; (ii) a credit fee of 0.75% per annum on the undisbursed balance; (iii) an inspection and supervision charge of 1% of the loan amount; (iv) a 36-month disbursement period; (v) 20-year amortization; and (vi) a grace period of 36 months.

1. Cost elements

- 2.21 To help execute the proposed program and implement policies and other NCS-related activities that fall to the public sector, the Competitiveness Team will receive support from the Public Policy Technical Unit of the Ministry of Economic Affairs and Finance (PPTU). These PPTU support tasks, which are above and beyond its work within the Ministry, will cost US\$348,000 (3.5% of the total program cost). Direct costs account for 79.8% of the total program budget, to fund activities in three components, costs associated with the Fund (68.6%), and administrative, technical assistance and logistical costs of the Management Team engaged under a management contract (16.6%), which will include facilities and personnel costs.
- 2.22 The “Associated costs” budget line covers audits and evaluations required in the course of the program.

Table 2.2
Cost breakout by component and expenditure item
(US\$000)

	IDB	Local contribution		Total	%
		Public	Private		
Administration *	209	139	0	348	3.5%
PPTU	209	139	0	348	
1. Direct costs *	5,936	1,250	800	7,986	79.9%
Component 1: Diagnostic assessments of competitiveness and institutional process	510	0	0	510	5.1%
Competitiveness Team activities	72	0	0	72	0.7%
Cluster activities	190	0	0	190	1.9%
Baseline studies	248	0	0	248	2.5%
Component 2: Devising of strategies and action plans	322	0	0	322	3.2%
Consultation meetings	126	0	0	126	1.3%
Dissemination	196	0	0	196	2.0%
Component 3: Competitiveness Fund	4,810	1,250	800	6,860	68.6%
Program Management Team	1,660	0	0	1,660	16.6%
Competitiveness Fund	3,150	1,250	800	5,200	52.0%
Component 4: Monitoring and impact measurement	294	0	0	294	2.9%
Methodology design and application	192	0	0	192	1.9%
Impact study	102	0	0	102	1.0%
2. Associated costs	127	0	0	127	1.3%
External audit	90	0	0	90	0.9%
External evaluations (midterm and final)	37	0	0	37	0.4%
3. Financial costs *	70	811	0	881	8.8%
Credit fee	0	79	0	79	0.8%
Interest	0	732	0	732	7.3%
Inspection and supervision	70	0	0	70	0.7%
4. Unassigned and contingency	658	0	0	658	6.6%
Total	7,000	2,200	800	10,000	100.0%
Percentage	70.0%	22.0%	8.0%		

* Project Preparation Facility PN-0153 of about US\$500,000 is to be repaid out of the first disbursement of the proposed program. Use of the PPF resources is included in the respective program components (US\$41,000 for administration; US\$37,500 to set up the Management Team; US\$321,500 for component 1; US\$20,000 for component 2; US\$9,000 for component 3; US\$59,000 for component 4; and the balance for contingencies).

E. Social-sector and poverty-targeting classification

- 2.23 The proposed program does not qualify as a poverty-targeted investment or as a social equity-enhancing project. However, it stands to yield benefits in the form of job creation and income increases.

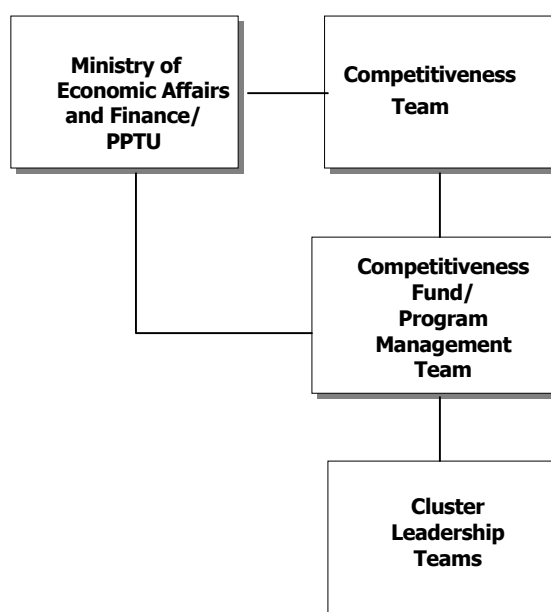
III. IMPLEMENTATION ARRANGEMENTS

A. Implementation mechanism

1. The borrower and the institutional counterpart

- 3.1 The program's executing agency will be the Ministry of Economic Affairs and Finance (MEF), through its Public Policy Technical Unit (PPTU), which will be responsible for ensuring effective interface with the Competitiveness Team (CT) and the Program Management Team, as illustrated in the following chart.

Table 3.1 - Program structure



2. Implementation strategy

- 3.2 The design and implementation arrangements provide for independent, nimble mechanisms to support and deliver technical assistance to the private sector, in order to gain credibility for the program and establish the responsibility-sharing and joint action that are central to the cluster development process. The public sector should adopt a businesslike approach to its work vis-à-vis the Competitiveness Program, to assure its success. The arrangement devised also must respect the levels of intervention of each institutional party to decide on actions that fall within its purview, namely policy-making (MEF and CT), instrument development and

impact evaluation (PPTU), technical/financial support for cluster formation and strengthening (Program Management Team), and business service delivery (consultants or independent firms).

3. Functions and activities of the participating entities

- 3.3 **PPTU functions and activities.** This MEF unit will play a central role in the program's implementation, serving as working liaison between the CT and ministries or government institutions, whether or not they are part of the CT. The PPTU will hire the Program Management Team and oversee its work. It will: (i) participate in CT deliberations and coordinate the CT's work with the Management Team; (ii) coordinate the participation of technical areas of other ministries as necessary in developing the NCS, and make sure the program receives needed technical support; (iii) ensure that the policies and specific actions that are part of, or are conditions for, the NCS and its action plan are duly implemented; and (iv) supervise Management Team activities and coordinate the evaluation of the services delivered, through surveys of the recipients.
- 3.4 The PPTU also will be the depositary of the program's institutional memory and will benefit from lessons learned in its implementation. To that end the PPTU will arrange for the Management Team to commission the planned impact studies and will make certain the study findings and lessons learned from the program are disseminated. To assure that activities are carried out as planned, advisors will be hired using program funds to assist the PPTU in its monitoring work and in achieving the program objectives.
- 3.5 **Competitiveness Team functions and activities.** As the NCS coordinating body, and given its senior-level membership, the CT will take the lead in promoting the program, in the consensus-building process, in approving the NCS, and in monitoring the action plan's implementation. The CT appointed by the MEF in December 2001 is made up of economic cabinet officials and representatives of the business and academic communities and organized labor. Its core terms of reference are: (i) identify structural impediments to competitiveness and commission the necessary studies and strategic diagnostic assessments; (ii) analyze strategy options and propose a National Competitiveness Strategy in consultation with, and with input from, the relevant sectors in the country; (iii) approve the NCS action plan, including investments, reforms, and policies needed to foster competitiveness and recommendations on priorities and funding sources; (iv) propose to the Executive Branch the policy instruments needed for competitiveness and regulatory framework reforms in order to achieve the national strategy objectives and targets in due time and form; and (v) quarterly tracking of the performance of the NCS and the associated action plan.
- 3.6 **Management Team functions and activities.** To implement the program components, provision has been made for hiring a recognized private consulting

firm selected through an open call for proposals and engaged under a management contract.⁴ This firm, which will be responsible for administering the program, will be called the Competitiveness Program Management Team (*Gestoría*). An agreement will be reached with the firm on a timetable of activities and targets as to number of clusters formed, use of the Fund, and other indicators to be set out in the management contract, with financial incentives for their attainment in a defined time frame. Given the importance of the Management Team's functions in the proposed program, its hiring will be a condition precedent to disbursement of funds for the program components.

- 3.7 The Management Team's terms of reference will define its role and makeup, to make sure it is equipped to deliver the necessary services to the requisite standard of quality. Its core function will be to offer technical assistance services to the clusters and to the CT. That activity is expected to take up about 70% of the funding allocated for the management contract; the balance will be used to manage the Fund.
- 3.8 The small Management Team will consist of a manager, a principal advisor, and a coordinator, with specialists in competitiveness and strategic analysis. Its primary functions will be to: (i) provide the CT with needed support, including an analysis to identify structural impediments to competitiveness, and propose and evaluate solutions and recommend policy-environment improvements; (ii) prepare the NCS, under the CT's supervision; (iii) expedite the setup and startup of the planned clusters and deliver technical assistance to Cluster Leadership Teams; (iv) compile data on clusters for the impact measurements; (v) compile and maintain a directory of consultants, as a guide to quickly identify consultants who are accredited service providers for the clusters; (vi) when so requested by the clusters and the CT, hire short-term consultants for specialized advisory support; (vii) decide on and perform administrative, accounting, and consultant hiring tasks, and manage the Competitiveness Fund; and (viii) report implementation data to the PPTU and CT, and be prepared to produce reports when requested.
- 3.9 **Competitiveness Fund.** This will be the prime funding instrument for projects that come out of competitiveness strategies agreed on at the various levels addressed by the program. There is provision for a government counterpart to the funds allocated for the NCS and implementation of its action plan. The PPTU will coordinate expenditure of those funds and, in its capacity as secretary of the Competitiveness Team, it will ask the Management Team to engage the services or purchase the goods required. Provisionally, US\$3,200 million will be allocated for that purpose. Funds intended for the clusters will have a private-sector counterpart for strategy development and implementation activities. Up to US\$200,000 is envisaged for

⁴ This form of contract has proven successful in Panama (e.g. FOMOTEC). It gives the Fund a measure of operational independence.

each cluster, for a total of US\$2 million if 10 clusters are set up. Competitiveness Fund monies for cluster projects may be used to reimburse eligible expenditures incurred by businesses comprising a cluster or for the Management Team to hire the necessary consulting services at the cluster's request, in accordance with the Operating Regulations.

- 3.10 Table 3.2 shows some possible criteria for distribution of Fund monies to clusters. The categories are based on an ascending scale by amount and counterpart, ranging from a minimum of US\$10,000 to a cap of US\$200,000 per project per cluster. The Operating Regulations will specify ceilings on number of projects by category and how funds can be used at different stages of the cluster strategy development cycle. For instance, use of the Fund for activities leading up to development of a strategy will be confined to category I, to make sure that the bulk of the funds are used to implement the Cluster Competitiveness Strategy (CCS). The lower counterpart amounts in category I will facilitate groups of smaller business that form a cluster and have projects that appear in the action plan corresponding to a CCS. Lastly, the Operating Regulations will specify cutoff times for use of the resources. When funds allocated to a cluster have not been committed 12 months after the cluster activities begin, the money will revert to the Fund for distribution to other clusters or Fund activities.

Table 3.2
Scale for use of the Competitiveness Fund for clusters

Amount by project/category	I	II	III
Range (US\$000)	>10 ≤ 20	>20 ≤ 50	>50 ≤ 200
Marginal private-sector counterpart (in cash)	20% of first US\$20,000	40% of the next US\$30,000 plus amounts stipulated in category I	50% of the amount over US\$50,000 plus amounts stipulated in categories I and II
Number of projects per category per cluster	2	2	4

- 3.11 **Cluster Leadership Team functions and activities.** For each cluster set up under the program a Cluster Leadership Team (CLT) will be identified, to coordinate and head up work in the respective cluster. These teams will be the liaison with: (i) government officials and international lending agencies, to handle arrangements for their support and funding for investment projects identified by the cluster, and (ii) the Competitiveness Team, to which recommendations will be submitted for public policy reforms that can develop production and improve the investment climate, and investment projects falling within the public sector's purview that are needed to support the cluster's productive activities. Lastly, the CLTs will be

responsible for implementing the Cluster Competitiveness Strategy, devising work programs, approving projects for financing from the Fund, and monthly monitoring of the program and of overall performance.

B. Program Operating Regulations

- 3.12 A set of Operating Regulations will be prepared as a guide to the use of program funds and operational aspects, taking account of the program's organizational structure, instruments, and sphere of action. The regulations will describe, *inter alia*: (i) objectives and specific activities for each component and their respective administration and financing modalities; (ii) eligibility criteria for recipients of support and procedures for accessing matching grants;⁵ (iii) environmental, gender, and social eligibility criteria, in line with Bank rules, for projects seeking matching grants; (iv) co-funding mechanisms and parameters for each component; (v) procedures for selecting and accrediting consulting service providers for the program; (vi) steps to process matching-grant applications; (vii) monitoring and supervision arrangements; and (viii) procedures for transferring funds to the Management Team. A condition precedent to disbursement of the loan will be the entry into effect of the Operating Regulations. A first draft of the Regulations is being produced as part of the Project Preparation Facility. It will be ready before the loan proposed here is approved by the Bank's Board of Executive Directors.

C. Procurement

- 3.13 The Bank's standard procurement procedures will be followed for the procurement of goods for the program and for consultant selection and hiring, when the goods and services are to be paid for in whole or in part with the loan proceeds. International competitive bidding will be required for purchases of goods worth US\$350,000 equivalent and more. International calls for proposals must be held for services costing the equivalent of US\$200,000 or more. The selection and hiring of a consulting firm to serve as the Program Management Team will be governed by the procedures in document GN-1679-3. If the contracting method based on quality and price is used, the relative weight of price as an evaluation criterion may not exceed 20%, to ensure that technical or quality features of the offer are given due weight. The program management team will follow the Bank's procurement procedures in drawing on the resources of the Competitiveness Fund.

⁵ The Operating Regulations will prohibit the use of the Fund for: (i) debt payments; (ii) corporate mergers or acquisitions; (iii) expansion of a company's real property holdings (real estate purchases); (iv) costs of administering the business, including human capital expansion; and (v) any other outlay not directly related to the project submitted.

D. Monitoring and evaluation

- 3.14 External consultants will be hired with program funds to conduct a midterm review and a final evaluation. The MEF Public Policy Technical Unit (PPTU) will prepare terms of reference for the evaluations, with the Bank's no-objection. The midterm review will take place when 50% of the Bank's loan has been disbursed or 10 months after the effective date of the loan contract, whichever occurs earlier. The final evaluation will be performed when 90% of the loan proceeds have been disbursed. The external consultants will report on the program's performance and the possibility of replicating or extending this experience through other Bank programs. To that end they will look at lessons learned and analyze the program's impact data.
- 3.15 One feature of the program monitoring activities is a periodic calculation of the Logical Framework indicators (see Annex I) and performance indicators set out in the Management Team's contract. The PPTU also will evaluate the Management Team's work throughout the program, by surveying cluster participants to gauge their satisfaction with services delivered by both the Management Team and the consultants and firms engaged. On the basis of this information adjustments can be made in the program's management as the operation proceeds.

E. Disbursement timetable

- 3.16 The program's implementation period is 30 months, with a 36-month disbursement period. To make sure the Competitiveness Fund resources are disbursed during the life of the program, the Operating Regulations would require the Management Team to stop accepting new commitments against the Fund in advance of the program's end, and would require the approved projects to have a timeline consistent with the program's end-date. Given the planned activities and anticipated pace of execution of the program in year 1, and the requirement that the Fund respond quickly to demand, it is recommended that, as an exception to the Bank's disbursement procedures, a revolving fund equivalent to 10% of the Bank's loan be set up. It will be administered by the PPTU on behalf of the Ministry of Economic Affairs and Finance.

Table 3.3
Disbursement timetable (US\$000)

Source	Year 1		Year 2		Year 3	Total
	1 st half	2 nd half	1 st half	2 nd half	1 st half	
IDB	1,500	1,800	2,500	1,100	100	7,000
Local contribution – Public	0	550	550	550	550	2,200
Local contribution – Private	0	0	267	267	267	800

F. Audits and transparency

- 3.17 Within 120 days after each fiscal year-end the Management Team, via the PPTU, will provide the Bank with the program's annual financial statements audited by an independent public accounting firm acceptable to the Bank. Audits will be paid for with proceeds of the Bank's loan. To ensure transparent use of Competitiveness Fund resources the list of Fund recipients would be published in the media and on the program website.

IV. BENEFITS, RISKS, AND VIABILITY

A. Benefits

- 4.1 The program will implement a mechanism whereby a consensus can be shaped in the public and private sectors on strategies for policies and programs to enhance the business climate. The concrete results this process will yield will serve as inputs for developing and implementing the National Competitiveness Strategy and for activities in the various clusters that will be generating public, private, and public/private investment projects. Executing those projects will improve competitiveness. The program's anticipated benefits take the form of job creation and output increases, these being necessary to rise to the challenges of global markets and competition. The establishment of an effective participatory strategic planning process and crafting of a consensus-based National Competitiveness Strategy will yield substantial intangible benefits as well, in shaping a comprehensive vision of the development process and in national social capital accumulation. Furthermore, as a result of this process the program can become a key tool for the Bank's programming with the Panamanian government, paving the way for identification of new projects and structural reforms where there is broad-based consensus between the public and private sectors. Lastly, experience with the structure and functioning of the institutional mechanism set up under the program will furnish important lessons for future activities of the Bank and the government in these areas.

B. Risks

- 4.2 The program's success will hinge directly on there being a clear understanding on participants' part of the need to improve competitiveness and on active private and public sector participation in forging the necessary consensus. The program's objectives would be jeopardized if there is not effective stakeholder participation in developing the National Competitiveness Strategy (NCS) or if there is little political will to implement the strategy's recommendations and action plan. The Panamanian government and private sector have already shown their interest in supporting the program through their participation in the Competitiveness Team. On the private-sector side, the project team held more than 25 meetings with business owners and business associations, at which the importance of competitiveness was underscored. Participants identified clusters offering the strongest growth potential and pledged to take part in the program. The common denominator of the interviews with businesspeople was the perception that it is essential and a priority for Panama to launch a program like the one envisaged here, particularly if the IDB is supporting it. It also can be inferred from these discussions that there is a core of participants prepared to act as "agents of change" to move toward new economic and business management paradigms.

- 4.3 One requirement for the program to be effective will be close coordination between the NCS development activities and the findings of the strategic analysis of clusters. Without such coordination the program would yield fewer benefits as an instrument to foster competitiveness. To minimize this risk, the baseline studies will be completed and the clusters identified during the Project Preparation Facility (PPF) lead-up phase. The analytical work on critical factors in the clusters thus will already be finished, to serve as analytical inputs when developing the strategic vision of the NCS. Likewise, since the clusters will have been identified and selected at the start of the process they will be able to be more proactive in defining pieces of the national strategy.
- 4.4 A final risk would be that, even in the conducive environment in Panama today, the Bank and the government might not act as quickly as would be necessary to establish an institutional framework that can catalyze, align, and give form to these interests. To attenuate that risk the government approved the use of the PPF, as a major step toward the program's preparation, and appointed a Competitiveness Team carefully selected to make it representative and giving it a say, early on, in the program's design. Likewise, to sensitize the various actors and promote the program activities, a high-profile national event—specifically, a program launch workshop—is planned.

C. Environmental viability

- 4.5 Competitiveness, as conceived in the proposed program, also must be consonant with the protection of productive resources and their quality, comprehensive and equitable social services and conditions for workers, and stewardship of the environment.
- 4.6 The operation is environmentally viable because: (i) it will have no direct impact on the environment and (ii) environmental considerations have been addressed in its components to make sure that the activities supported will promote environmental sustainability. To this end, the program's Operating Regulations will include environmental considerations at every stage in the project cycle, to ensure that the projects funded have no adverse environmental impacts.
- 4.7 Specifically, environmental and social variables will be built into the program at two levels—first, in the studies produced to map out national structural actions, and second, in studies relating to cluster activities. Those variables will be particularly important in studies of productive activities like agroindustry, tourism, and logistics. Businesses receiving support from the Competitiveness Fund are expected to apply methodologies such as ISO 9000 and ISO 14000 and other environmental sustainability indicators like “blue flag” and corporate responsibility standards when they are part of the Cluster Competitiveness Strategy. For this reason the directory of consultants that the Management Team will be compiling will highlight those specializations.

D. Institutional viability

- 4.8 The program is structured so as to delineate each agency's roles and functions and ensure that functions are delegated to the best-suited institutions. For example, by hiring a private manager and offering contractual incentives, the program proposes to reap the benefits of a nimble, flexible institutional arrangement that satisfies the needs of participating clusters and businesses. The program's expected outputs on this front are the development and implementation of national and cluster strategies to improve productive capacity in the private sector.
- 4.9 The program does not envisage establishing any fixed or permanent institutional apparatus for delivery of technical assistance to clusters or for strategy development. Nevertheless, it is possible that some activities of the institutionalized process may continue over time, such as a possible continuation of the Competitiveness Team in its functions of monitoring implementation of action plans and activities of clusters that are formed before or after the program ends.

LOGICAL FRAMEWORK
PROGRAM TO FOSTER COMPETITIVENESS

NARRATIVE SUMMARY	VERIFIABLE INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
Goal			
Help make Panamanian businesses more competitive			<ol style="list-style-type: none"> 1. The sectors selected have a considerable impact on Panama's competitiveness. 2. Macroeconomic stability is maintained.
Purpose			
Implement a participatory process for development of strategies and projects to foster business competitiveness	<ol style="list-style-type: none"> 1. Agreement of the Competitiveness Group on spheres of action to improve competitiveness of Panamanian businesses for the duration of the project. 2. Cluster Competitiveness Strategy (CCS) prepared for each cluster within 12 months of being established. 3. Support has been delivered successfully with 70% of participants in the clusters expressing satisfaction with services provided upon completion of the project. 4. Businesses in the clusters in project area are more competitive (sales, output, productivity) upon completion of the project (base year data and targets to be established at the outset). 	<ol style="list-style-type: none"> 1.1 NCS posted on website and distributed in hard copy. 1.2 Semiannual progress reports on implementation of actions proposed in the NCS and its action plan (MEF). 2.1 Cluster Competitiveness Strategy received and evaluated by management team and the Bank. 3.1 Evaluations of services provided by management team and consultants done by MEF/PPTU. 4.1 Study of the program's impact on business output (MEF). 	<ol style="list-style-type: none"> 1. Public and private sectors can sustain a dialogue on competitiveness. 2. The clusters can yield results within a relatively short timeframe (30 months). 3. The apposite actors and institutions support and implement the recommended changes.
Components			
Component 1: Institutional process and diagnostic assessments of competitiveness completed.	<ol style="list-style-type: none"> 1.1 Diagnostic studies and studies of the 4 sectors identified (7) posted on the website and printed in hard copy within 5 months into program (PMT). 	<ol style="list-style-type: none"> 1.1 Posting on program website and distribution in hard copy. 	<ol style="list-style-type: none"> 1. Most stakeholders (political, business, civil society groups) support the NCS. 2. The clusters prepare fundable projects within the agreed timeframe.

NARRATIVE SUMMARY	VERIFIABLE INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
<p>Component 2: Development of competitiveness strategies and action plans completed</p> <p>Component 3: Competitiveness Fund being set up</p> <p>Component 4: Monitoring and impact measurement completed</p>	<p>1.2 Between 4 and 10 clusters formed and implementing its CCSs with productive activities upon completion of the program (GPC/GLC).</p> <p>2.1 NCS published and disseminated to the public with action plan for implementation within 8 months after commencement of the program (CT/MEF/PMT).</p> <p>3.1 Commitments for 50% of funds within 12 months after commencement of the program and 75% of funds disbursed by month 24.</p> <p>4.1 Increased competitiveness (sales, output, productivity) in 50% of clusters served by program (base year data and targets to be established at start of the program).</p>	<p>1.2 Master list of members of each of the clusters updated quarterly (PMT/CLT).</p> <p>2.1 NCS posted on website and distributed in hard copy.</p> <p>3.1 Competitiveness Fund financial statements presented to Competitiveness Group, PPTU, and the Bank (PMT/CLT).</p> <p>4.1 Quarterly monitoring reports, midterm evaluation report, and final evaluation of program impact (PPTU).</p>	<p>3. Businesses share enough data to be able to gauge the program's impact.</p>
ACTIVITIES			
<p>Component 1: Institutional process and diagnostic assessment of competitiveness</p> <p>1.1 Baseline studies: assessment of structural weaknesses and strengths of Panamanian businesses and the economy, and identification of instruments and policies to make businesses more competitive</p> <p>1.2 Cluster studies: Production of analytical studies of barriers to development of competitive advantages (4 to 10 clusters)</p> <p>1.3 Startup of the Competitiveness Team (CT)</p>	<p>See table 2.2.</p>	<p>1. The Bank's accounting records</p> <p>2. Audit reports</p> <p>3. Midterm evaluation of the program</p>	<p>1. The government provides the local contribution on schedule.</p> <p>2. CT and CLT members are active and continue to work during the life of the program.</p>

NARRATIVE SUMMARY	VERIFIABLE INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
<p>1.4 Workshops with businesses to select clusters in the identified sectors and set up and appoint Cluster Leadership Teams (CLTs) in each cluster.</p> <p>1.5 Strategy missions for CT members to countries with best practices for competitiveness and cluster development</p> <p>Component 2: Devising competitiveness strategies and action plans</p> <p>2.1 Program inaugural event to launch preparation of the National Competitiveness Strategy (NCS)</p> <p>2.2 Design of a general guide to competitiveness and information and awareness-raising seminars</p> <p>2.3 Funding of studies to support development of the NCS</p> <p>2.4 Preparation of a NCS via a consultation process</p> <p>2.5 Support for preparation of cluster self-assessments and devising of action plans</p> <p>2.6 Development of a website to publicize the program</p> <p>2.7 Publication of the NCS and its action plan, and publicity on commitments secured</p> <p>2.8 Continual monitoring of implementation of the selected strategies and execution of the respective action plans</p>			<p>3. The midterm evaluation recommendations are duly implemented.</p>

NARRATIVE SUMMARY	VERIFIABLE INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
<p>Component 3: Competitiveness Fund</p> <p>3.1 Establishment of the Competitiveness Fund with its regulations and institutional structure</p> <p>3.2 Establishment of the Competitiveness Program Management Team (PMT) under a management contract</p> <p>3.3 Establishment of strategies for publicizing the program and Fund (meetings, notices, articles)</p> <p>3.4 Co-funding (matching grants) for preinvestment activities for productive activities included in approved action plans</p> <p>3.5 Co-funding for NCS preparation and implementation activities</p> <p>3.6 Preparation of monthly progress reports and press summaries</p> <p>Component 4: Monitoring and impact measurement</p> <p>4.1 Design and implement a system for monitoring NCS and CCS strategies and action plans</p> <p>4.2 Design an evaluation mechanism for services delivered by the Competitiveness Fund to businesses</p> <p>4.3 Design a system to measure the program's impact on business competitiveness</p>			

NARRATIVE SUMMARY	VERIFIABLE INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
4.4 Compile baseline data and develop databases 4.5 Measure and analyze the impact of PMT programs			

PROCUREMENT PLAN

Main items of procurement	Total amount (US\$000s)	Financing (%)		Method	Prequalification (yes/no)	Estimated date (quarter/yr.)
		IDB	Local			
A. Administration						
1. Contracting of program administration	1660	100		ICB	YES	IV-2002
B. Competitiveness Fund	5200	60	40	1/	1/	IV-2002
C. Consultancies						
1. Advisor to PPTU	140	100		LCP	NO	III-2002
2. Assistant to advisor	49.5	100		LCP	NO	III-2002
3. Consultants to gauge impact	234	100		LCP 2/	NO	IV-2004
4. Mid-term and final evaluation	37.2	100		LCP	NO	III-2003
5. Special studies	147.5	100		LCP	NO	I-2003
Financial audits	90	100		LCP	NO	III-2003
D. Services						
1. Dissemination	322	100		LCP 2/	NO	I-2003
ICP = International call for proposals						
LCP = Local call for proposals						
1/ The resources of the Fund will be used to repay expenses considered eligible under the Operating Regulations and in accordance with the Bank's procurement procedures						
2/ This item consists of various contracts of under US\$200,000 for consulting work and for services (events, publications, and dissemination of the program)						