**PANAMA**

**Analysis of economic potential of Panama: Maximizing spillovers of the Panama Canal**

**TERMS OF REFERENCE**

1. **Background**

The Republic of Panama grew 8.2% annually, on average, between 2005 and 2014 as a result of a combination of economic factors and policies to expand the capabilities of the Panama Canal. In addition, the country made substantial progress in the reduction of poverty: from 2007 to 2014, Panama’s poverty rate dropped from 39.9% to 25.8%, respectively, while its extreme poverty rate fell from 15.6% to 10.4%. Poverty reduction achieved in Panama was larger than the reduction achieved by other countries in the Latin American region. Meanwhile, income inequality measured by the Gini coefficient remained constant at 0.52 from 2009 to 2013. Nonetheless, the two extremes of the distribution have decreased their shares of income, showing a favorable trend towards middle-income strata.

However, the benefits of a booming economy have not been equally transmitted between regions: poverty rate stands at 49.7% in rural areas and 86.9% in the indigenous regions, contrasting with 13.8% in urban areas. Extreme poverty affects 26.3% of the population in rural areas and 66.8% of the population in the indigenous regions, compared with 3.3% of the urban population. Therefore, positive spillovers from the highly productive canal cluster have been insufficient to close the gaps between urban, rural and indigenous regions.

In the upcoming years, Panama will experience a potentially different scenario from the one observed throughout the last decade, given that large investments will gradually decrease with the completion of the Panama Canal expansion. Thus, Panama should maximize the returns of an expanded Canal, improve the activities that complement its operations, and explore alternatives to diversify its productive matrix in the medium run. In turn, as capital accumulation is reduced, it will become increasingly important to improve the quality of the labor force and the total factor productivity. Having an economy whose operation is more inclusive will positively contribute to the country’s productive prospects. However, achieving this goal may not be a trivial task, given that disparities between regions have not been substantially decreased.

For these reasons and in the context of the collaboration between the IDB and the Government of Panama this project seeks to build on the knowledge and the productive capabilities that Panama has developed in the service industry surrounding the Panama Canal, to move towards a more complex productive matrix.

1. **Objectives**

The objective of the collaboration is to provide policy inputs that would help Panama to rethink and structure a development strategy for the coming years. The idea is to study all the capabilities surrounding the Panama Canal and identify all profitable linkages that will allow the country to develop other economic activities and ultimately to diversify their productive matrix.

Specific objectives include:

1. Analysis of the state of Panama’s current productive capacity and identification of potential opportunities for goods and services production diversification.
2. Analysis of the development impact of Panama´s Free Zones and fiscal benefits granted to specific sectors
3. Identify the most important binding constraints to economic growth in Panama, at a national and sub-national level.
4. Define a set of policy recommendations aimed at overcoming the binding constraints, increase the probability of materializing the diversification opportunities identified, promote economic growth and reduce poverty on a sustainable basis.
5. **Activities**
6. Identify and analyze via interviews and surveys of the different actors in the public, private, and academic sectors obstacles to the growth of investment in Panama.
7. Characterize Panama’s Economic Model by depicting gains and losses of the free zones, industries with fiscal benefits, and the regular economy.
8. Identify the potential industries that can drive productive investment in the state, using the methodology of Economic Complexity at the export and industry levels (depth and number of years of industry-based opportunities will depend on the scope and quality of the data provided by the government of Panama, which typically include the population and economic census, industry surveys, and social security data aggregated at the location-firm-industry level)
9. Developing surveys and interview questions for the principal actors of the institutions and productive organizations of Panama.
10. Identify national and sub-national constraints to economic growth
11. Assess which industries or economic sectors offer fast gains with the proper reforms and investments.
12. Prepare, organize and present the final policy recommendations in dissemination events to relevant counterparts Panama. In particular, contrast the required actions with international experiences that have also handled similar issues. The content should assess both the role of the public sector and the participation of the private sector.
13. **Deliverables**
14. Document describing Panama´s productive capabilities at a national and sub-national level, identifying potential industries and exports that can help in increasing the productivity in Panama, using the methodology of Economic Complexity (4 months after inception or reception of the required data, whatever occurs later).
15. Document assessing the development impact of Panama´s current Free Zones and fiscal benefits granted to specific sectors (5 months after inception)
16. Growth diagnostic of Panama, identifying binding constraints at a national and sub-national level (5 months after inception)
17. Document comprising policy recommendations policy recommendations aimed at overcoming the binding constraints in Panama, increase the probability of materializing the diversification opportunities identified, promote economic growth and reduce poverty on a sustainable basis (6 months after inception).
18. **Characteristics of the collaboration**

* **Duration of contract**: 10 months (From February 10th, 2016 to December 9th, 2016)
* **Place of work**: External consultancy
* **Total Cost**: US$400,000
* **Payment Schedule**:
  + On submission and acceptance of first deliverable: 20%
  + On submission and acceptance of second deliverable: 20%
  + On submission and acceptance of third deliverable: 30%
  + On submission and acceptance of last deliverable: 30%
* **Coordination:** The consultancy will be coordinated by Regional Economic Advisor and Economist, Central America, Mexico, Panama and Dominican Republic Department, Inter-American Development Bank (CID / CID).