**TC ABSTRACT**

**I. Basic Project Data**

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| ▪ Country/Region: | PANAMA/CID - Isthmus |
| ▪ TC Name: | Increasing productivity through strengthening technical skills |
| ▪ TC Number: | PN-T1173 |
| ▪ Team Leader/Members: | Waldo Tapia (LMK/CPN), team leader; Galileo Solís (CTI/CPN), alternate team leader; Ethel Muhlstein (SCL/LMK); and Tania Gaona (SCL/LMK). |
| ▪ Taxonomy: | Client Support (CS) |
| ▪ Number and name of operation supported by the TC: | N/A |
| ▪ Date of TC Abstract: | 20 Jul 2017 |
| ▪ Beneficiary: | Competitiveness and Logistics Secretariat from the Presidency |
| ▪ Executing Agency: | Inter-American Development Bank (IDB), Social Sector, Labor Markets Division (SCL/LMK) |
| ▪ IDB funding requested (JSF): | $ 500,000 |
| ▪ Local counterpart funding: | $ 55,600 |
| ▪ Disbursement and execution period: | 36 months |
| ▪ Types of consultants: | Individual consultants and consulting firms |
| ▪ Prepared by Unit: | IDB, Social Sector, Labor Markets Division (SCL/LMK) |
| ▪ Unit with Disbursement Responsibility: | Country Office Panama (LMK/CPN) |
| ▪ TC included in Country Strategy (y/n): ▪ TC included in CPD (y/n): | Yes Yes |
| ▪ Alignment to the Update to the Institutional Strategy 2010-2020: | Productivity and innovation; Institutional capacity and rule of law |

**II. Objective and Justification**

2.1 The objective of this Technical Cooperation (TC) is to contribute to increasing productivity by strengthening the skills (including digital skills) of the workforce and supporting the information system on skills to demand economic growth in Panama.

2.2 Panama has been one of the fastest growing economies in the world over the past decade. Among Latin American countries (LAC), Panama exhibited the highest GDP growth with an average 7.3% over the period 2007-16. However, a portion of this economic growth was due to a greater number of people entering in the labor market rather than to an increase in productivity. Promoting human capital is then essential for productivity growth; better thinking and skilled workers makes possible the development and adoption of technological and organizational changes that cause productivity to increase.

2.3 From a labor markets perspective, there are three main binding factors in Panama that need to be addressed in order to increase labor productivity: (i) skills shortages (ii) insufficient generation of information on skills demand, and (iii) low incorporation of new technologies and little innovation in the productive sector.

2.4 **Skills shortages**. In Panama, there is a gap between available skills and skills needs by the labor market. According to the results of the 2015 Manpower Talent Shortage Survey, most employers in Panamá report difficulties finding workers with the right set of skills. In fact, the survey shows that 46% of employers have difficulties filling job vacancies. Similarly, the 2017-2018 Global Competitiveness Index reports an inadequately educated workforce as the third biggest constraint for business development, after "Inefficient Government Bureaucracy "and" Corruption". Estimates of the competencies among production workers suggest that only 35% of them are skilled (OECD, 2017). In addition, the Survey on Productivity and Training of Human Resources in Establishments in Panama (BID, 2014), suggests that, in addition to the lack of technical skills, there are serious attitudinal deficiencies and soft skills in young people who are entering the labor market. The Government Strategic Plan 2015-2019 shares this assessment and acknowledges that one of the main challenges for the development of Panama is the insufficient human capital in the labor force (technical and soft skills).

2.5 **Insufficient generation of information on skills demand**. A second binding constraint to productivity increase is the insufficient generation of information on labor market that can be effectively used for decision-making by a wide variety of stakeholders including policy-makers, people, education and training providers, etc. There is not enough information to identify, anticipate and evaluate the skills demands faced by the Panamanian labor market. Moreover, there is no institution in charge of coordinating, evaluating and unifying data collection on the labor market.

2.6 **Slow incorporation of new technologies in the productive sector**. With the accelerated pace of technological change driving new productive processes, promoting innovation and adoption of new technologies is critical for business growth. For developed economies, the investment in innovation and the adoption of new technologies have a direct effect on the development of new competencies and skills required by the productive sector. Despite the importance of this need for digital transformation, companies and the government in Panama do not have a clear strategy to meet the needs of this transformation.

**III. Description of Activities and Outputs**

3.1 **Component 1: Support for productive development through human capital**. The objective of this component is to contribute to strengthening of the skills development systems in Panama and to the development of an information system by coordinating efforts of different government agencies involved in collecting data to identify skills demand. This component will finance de following activities:

(i) assessments of skills demands and supply and the design of an action plan and roadmap for three specific sectors. This assessment will be concentrated in understanding skills gaps to reach the present and future needs (including digital skills) of the productive sector through in-country dialogue;

(ii) establishment of private sector engagement mechanisms for skills development in Panama. Specifically, the TC will establish the mechanisms to create the synergies through which employers will take an active role in identifying skills needs, setting occupational standards, and defining curricula for training programs;

(iii) design and implementation of one training sectorial pilot project with the objective of strengthening the skills development in Panama. This pilot project will be designed jointly with key actors from the public, private and civil society sectors to ensure a demand-driven approach when defining the projects’ objectives, target sector, population, and scope, among others;

(iv) a technical assessment of the institutional and management capacity for the implementation of an information system to identify skill demands;

(v) analysis of options for the implementation of technologies for prospecting workforce skills in Panama; and

(vi) disseminations activities and workshops with representatives from the private, public, and academic sectors to evaluate the feasibility and validate the proposed action plan.

3.2 **Component 2: Support to the technological capacities of productive sectors**. Activities to be financed: diagnostics of the demand for absorption capacities and transfer of technological knowledge for productivity; design of a technological extension program and technological managers, in priority sectors (logistics and transport, energy and water); knowledge of experiences and best practices of extension and technological managers. The products of this component include an analysis of the supply and demand of digital skills in Panama and a review of potential missed opportunities if the need for these skills is not adequately addressed. This study should determine what is the demand for digital skills in at least two main sectors of the economy and what are the different types of digital skills requirements; determine what factors prevent the development of digital skills, in which areas there are limitations of skills and to what extent the supply of trained people can cover the expected demand of the labor market. Additionally, at least two pilots will be financed to define the development of digital capabilities with business associations.

3.3 **Component 3: Evaluation and project management**.

3.4 **Component 4: Incidentals**.

**IV. Budget**

**Indicative Budget (US$)**

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| **Activity/Component** | **IDB/Funding (JSF)** | **Counterpart Funding** | **Total Funding** |
| Component 1: Support for productive development through human capital. | 285,000 | 20,000 | 305,000 |
| Component 2: Support to the technological capacities of productive sectors. | 160,000 | 15,000 | 175,000 |
| Component 3: Evaluation and project management. | 50,000 | 20,600 | 70,600 |
| Incidentals | 5,000 | 0 | $5,000 |
| TOTAL | 500,000 | 55,600 | 555,600 |

**V. Executing Agency and Execution Structure**

5.1 At the request of the Government of Panama, the Labor Markets Division (SCL/LMK) will execute this TC to facilitate the execution given that (i) SCL/LMK has technical expertise in labor market programs and international best practices; (ii) administrative burdens can be reduced on the government, particularly in the identification and contracting of international experts, and (iii) the Bank is better positioned to provide execution and oversight of the consultancies that will be carried out under this TC. SCL/LMK will be responsible for the direction, supervision and coordination of this TC. The Bank will coordinate its work extensively with Government of Panama benefitting entities, most directly, the Competitiveness and Logistics Secretariat from the Presidency. The Team Leader will be responsible for the execution and expenditure management. All disbursements will be made through the IDB Country Office in Panama (COF/CPN).

**VI. Project Risks and Issues**

6.1 There are no risks associated with the execution of this technical cooperation. A strategy for the execution is designed in line with the objectives and components of the TC. The only exception to that could be that for the execution of the TC is very important that the public and private sectors participate actively in the discussion of the work plan. To mitigate this risk, this TC will support the development of the action plans, starting with a mapping of the key stakeholders and will monitor the participation of these stakeholders in the different stages of the action plans.

**VII. Environmental and Social Classification**

7.1 Due to its nature, this TC is not expected to have a significant negative social or environmental impact. The ESG classification for this operation is "C".