

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PANAMA

**PROGRAM TO SUPPORT PRODUCTIVE DEVELOPMENT THROUGH
HUMAN CAPITAL IN PANAMA**

(PN-L1153)

LOAN PROPOSAL

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ABBREVIATIONS

CECOM-RO	Centro de Competitividad de la Región Occidental [Western Region Competitiveness Center]
CECOMs	Centros de competitividad regionales [regional competitiveness centers]
Cedefop	European Centre for the Development of Training
CGR	Contraloría General de la República [Office of the Comptroller General of the Republic]
COSP AE	Consejo del Sector Privado para la Asistencia Educacional [Private Sector Council for Educational Assistance]
CUT	Cuenta Única del Tesoro [General Treasury Account]
DNC	Dirección Nacional de Contabilidad [National Accounting Office]
DAF	Dirección de Administración y Finanzas [Administration and Finance Office], Ministry of Presidential Affairs
DEST	Directorio Estratégico del Programa [Strategic Board of Directors of the Program]
EPFRH	Encuesta sobre Productividad y Formación de Recursos Humanos en Establecimientos [Survey on Human Resource Productivity and Training in Schools]
INADEH	Instituto Nacional de Formación Profesional y Capacitación para el Desarrollo Humano [National Institute of Vocational Education and Training for Human Development]
IYF	International Youth Foundation
MCT	Mesa de Coordinación Técnica [Technical Coordination Forum]
MEDUCA	Ministry of Education
M&E	Monitoring and evaluation
MITRADEL	Ministry of Labor and Workforce Development
NEO	Programa Nuevas Oportunidades de Empleo [New Employment Opportunities Program]
OECD	Organization for Economic Cooperation and Development
PEU	Program execution unit
POVE	Programa de Orientación Vocacional y Empleo [Vocational Guidance and Employment Program]
SECLOG	Secretaría de Competitividad y Logística [Competitiveness and Logistics Department]

PROJECT SUMMARY

PANAMA PROGRAM TO SUPPORT PRODUCTIVE DEVELOPMENT THROUGH HUMAN CAPITAL IN PANAMA (PN-L1153)

Financial Terms and Conditions						
Borrower: Republic of Panama Executing agency: Ministry of Presidential Affairs through its Competitiveness and Logistics Department (SECLOG)			Flexible Finance Facility ^(a)			
			Amortization period:		20 years	
			Disbursement period:		5 years	
			Grace period:		5.5 years ^(b)	
			Interest rate:		LIBOR-based	
Source	Amount (US\$)	%	Credit fee:		(c)	
IDB (Ordinary Capital):	20 million	93%	Inspection and supervision fee:		(c)	
Local:	1.5 million	7%	Weighted average life (WAL):		12.75 years	
Total:	21.5 million	100%	Currency of approval:		U.S. dollars	
Project at a Glance						
Program objective/description: The program objective is to narrow the workforce skills gap in Panama. The specific objectives are: (i) to create incentives for the productive sector to train its workers with the required skills through a financing arrangement that incentivizes its leadership and engagement; (ii) to promote institutional capacity-building for technical/vocational education and training providers through a quality-assurance system; and (iii) to support implementation of a relevant information system on supply and demand for skills, with a gender focus.						
Special contractual conditions precedent to the first disbursement of the loan proceeds: Prior to the first disbursement of the loan proceeds, the Ministry of Presidential Affairs will demonstrate that: (i) it has created a program execution unit (PEU) within its organizational structure and selected at least the program coordinator, procurement specialist, and fiduciary specialist under the terms of reference agreed upon with the Bank; and (ii) the program Operating Regulations have been approved and entered into effect on the terms previously agreed upon with the Bank (see paragraph 3.4).						
Special contractual conditions for execution: None.						
Exceptions to Bank policy: None.						
Strategic alignment						
Challenges: ^(d)	SI	<input checked="" type="checkbox"/>	PI	<input checked="" type="checkbox"/>	EI	<input type="checkbox"/>
Crosscutting themes: ^(e)	GD	<input checked="" type="checkbox"/>	CC	<input type="checkbox"/>	IC	<input type="checkbox"/>

(a) Under the Flexible Financing Facility (document FN-655-1), the borrower has the option of requesting changes to the amortization schedule, as well as currency and interest rate conversions. The Bank will take operational and risk management considerations into account when reviewing such requests.

(b) Under the flexible repayment options of the Flexible Financing Facility, changes to the grace period are permitted provided that they do not entail any extension of the original weighted average life (WAL) of the loan or the last payment date as documented in the loan contract.

(c) The credit fee and inspection and supervision fee will be established periodically by the Board of Executive Directors as part of its review of the Bank's lending charges, in accordance with the applicable policies.

(d) SI (Social Inclusion and Equality); PI (Productivity and Innovation); and EI (Economic Integration).

(e) GD (Gender Equality and Diversity); CC (Climate Change and Environmental Sustainability); and IC (Institutional Capacity and Rule of Law).

I. PROJECT DESCRIPTION AND RESULTS MONITORING

A. Background, problem addressed, and rationale

- 1.1 In recent decades, Panama has experienced significant socioeconomic development. In the period 2008-2017, its economy grew at an annual average of 6.6%, the highest rate in Latin America and the Caribbean, and its per capita GDP rose from US\$14,519 to US\$24,446. With an unemployment rate of 6.1% and an informality rate of 40.8%, Panama stands out in the region as one of the countries with the best access to employment and to quality jobs. On the IDB's Better Jobs Index, which rates the number and quality of jobs, Panama ranks third out of a total of 17 countries. Growth has also been reflected in improved social indicators. Over the last decade, the population living below the poverty line fell from 15.7% to 9.9%, and income inequality, measured by the Gini coefficient, diminished from 0.54 to 0.49. Despite these gains, the impact of growth on poverty reduction has been lower than the average for the region, and marked inequalities persist in income distribution and access to basic services.¹
- 1.2 To sustain this growth and improve its social indicators, Panama needs to raise its labor productivity levels, which means developing the human capital of the workforce. Although labor productivity has risen in the last decade, its level is only about 60% of the average in the countries of the Organization for Economic Cooperation and Development (OECD, 2017). Increasing labor productivity is key for increasing prosperity in the country: labor productivity is the main determinant of the per capita GDP gap that separates Panama from the developed countries (OECD, 2017). To increase labor productivity, it is essential to improve the quality of human capital: in recent years, growth in Panama's productivity has been mainly attributable to the accumulation of physical capital per worker, whereas increases in human capital have contributed very little.² Panama faces the challenge of shifting toward a growth model based on knowledge, where there is more room for innovations that boost productivity (OECD, 2017). To address this challenge, the country must navigate major obstacles in the education and job training system. Shortcomings in the quality of secondary and tertiary education and high dropout levels sharply limit workforce skills. Furthermore, there is a mismatch between workers' skills and the skills required by the productive sector. According to the Talent Shortage Survey (Manpower-Group, 2018), 35% of Panamanian employers have difficulty in hiring employees with the required skills. The Global Competitiveness Report 2017-2018 states that for Panama, the "inadequately educated workforce" is the third largest constraint on doing business. The IDB's Survey on Human Resource Productivity and Training in Schools (EPFRH) notes that in Panama 18.9% of entrepreneurs say the main difficulty they encounter in the hiring process is underqualified applicants. This gap between workforce skills and the demands of the productive sector can widen in a context of rapid technological change, which quickly alters company requirements.
- 1.3 The gap between the workforce's skills and productive sector demands reflects shortcomings in the quality and relevance of the technical/vocational education and

¹ IDB country strategy with Panama 2015-2019 (document GN-2838).

² OECD (2017).

training systems.³ Shortcomings in quality limit the learning of the students who go through the system. Shortcomings in relevance reflect a mismatch between instructional content and productive sector requirements. Both these shortcomings are associated with three factors: (i) little productive sector involvement in program development; (ii) no quality assurance system for technical/vocational education and training; and (iii) no efficient mechanisms for information on the labor market and vocational guidance.

1. Productive sector involvement in the technical/vocational education and training systems

- 1.4 Business involvement in the technical/vocational education and training systems is limited. As in the rest of the region, public funds for technical/vocational education and training are traditionally earmarked for national institutions such as the National Institute of Vocational Education and Training for Human Development (INADEH)⁴ and training programs in which employers have limited input (De Diego, González-Velosa and Rucci, 2017).⁵ The same holds true of the technical/vocational supply on the secondary and higher education levels. The result is that a large part of the curriculum is designed with no input on company requirements. This is compounded by the fact that Panamanian companies invest very little in training. According to a study that analyzed business surveys in 25 countries in the region, Panama has the lowest percentage of companies that train their workers.⁶ Just 8.6% of Panamanian companies invest in technical/vocational education and training for their employees, while in countries with similar per capita GDP such as Mexico, Costa Rica, and Brazil, the figure exceeds 40%. This is partly due to market failures that limit company investments in training, such as the risk run by employers that the workers they train in skills that boost their productivity and employability prospects will leave the company after they have been trained. Accordingly, it is important to develop public supports that encourage entrepreneurs to invest in training. In Panama, supports of this kind have very little impact, given that just 16% of the country's firms that provide training say that they make use of them.⁷
- 1.5 To spur participation by employers in developing curricula that are better oriented to demand and encourage them to cofinancing training programs, different countries have used innovative public financing schemes such as competitive funds. Grants of this kind finance technical/vocational education and training and are assigned directly and competitively to the productive sector, seeking to directly involve employers in designing the educational supply. They incorporate cofinancing mechanisms to spur higher investments by companies in technical/vocational education and training. Typically, the funds are assigned competitively to companies and/or consortia and to suppliers of

³ "Education" refers to the offerings available in the formal secondary and tertiary school system. "Training" refers to offerings outside the formal education system.

⁴ INADEH is the government's lead agency in vocational education and job training (Law 8 of 2006) and is linked to the executive branch through the Ministry of Labor and Workforce Development (MITRADEL).

⁵ See [optional link 8](#).

⁶ Flores Lima, González-Velosa, and Rosas (2014).

⁷ Idem.

technical/vocational education and training (public and private) based on transparent allocation criteria. The selection process generally includes aspects such as potential cost-effectiveness, externalities on other sectors of the economy, and alignment with the economic development priorities of the country. International experience indicates that the use of competitive funds increases transparency and effectiveness in the assignment of public funds for technical/vocational education and training. As well, competitive funds promote leadership by employers and encourage them to take ownership of the technical/vocational education and training process. Since the employers have to design proposals to access these grants, the responsibility of identifying the work skills required is delegated to them. This makes it possible to develop technical/vocational education and training interventions that are better tailored to the real needs of the productive sector. Partnerships can be encouraged between entrepreneurs and trainers to design curricula, which helps to strengthen ties between the two. Lastly, since competitive funds delegate decision-making power to employers regarding the type of technical/vocational education and training, and required qualifications and suppliers, they generate larger incentives for private investment (De Diego, Gonzalez-Velosa and Rucci, 2017).

2. Quality of the education system and technical/vocational education and training

- 1.6 The technical/vocational education and training system is composed of three ministries and their respective agencies. The supply of technical/vocational education and training depends on the Ministries of Education (MEDUCA), Commerce and Industry (MICI), and Labor and Workforce Development (MITRADEL). MEDUCA regulates formal secondary education leading to a technical high-school diploma (vocational and technical institutes) and higher education leading to an advanced technical degree (higher technological institutes).⁸ The MICI and MEDUCA jointly manage nonuniversity post-secondary education offered by the network of private advanced technology institutes. MITRADEL leads the training system through INADEH and training establishments. The three ministries are aware of their weaknesses in terms of training to comply with their regulatory functions, particularly with regard to the definition of curricula and supervision.⁹ Lastly, the Competitiveness and Logistics Department (SECLOG) is the body responsible for coordinating and implementing the recommendations of the High Commission for Public Policy on Employment in Technical and Vocational Occupations (2014) related to strengthening human capital.¹⁰
- 1.7 Shortcomings in the quality of the technical/vocational education and training system impact the development of labor market skills. According to the results of the OECD's 2009 Program for International Student Assessment (PISA), 48% of youths entering the labor market in Panama are unable to understand a basic text and 62% cannot perform simple calculations. These deficiencies affect students'

⁸ The higher technological institutes offer two-and-a-half-year courses after the high school graduation diploma and grant university technical degrees.

⁹ Baptista and Flores (2014), Ibarra (2013). See [optional link 3](#).

¹⁰ See [optional link 5](#).

- capacity to continue their studies and to develop basic and general skills that facilitate joining the workforce and performing their jobs adequately. A study conducted by the United Nations Development Programme (UNDP) indicates that 87% of Panamanian youths between the ages of 15 and 24 obtained scores below 6 (on a scale of 1 to 10).¹¹ Although few measurements exist of the stock of labor skills, evidence suggests that decades of poor quality education throughout the Latin American and Caribbean countries have had an impact on the quality of the region's workforce.¹²
- 1.8 The suppliers of technical/vocational education and training do not have mechanisms for ongoing improvement in their services. The absence of an adequate regulatory framework and the institutional capacity to assure and promote the quality of institutions and their programs has implications for suppliers.¹³ In Panama, institutions have no quality standards, methodological guidelines, evaluation tools, or training programs for trainers, etc., that enable them to revise their processes, design plans for improvement, or evaluate their services. There are no minimum guidelines for designing and implementing quality education programs. However, the NEO Panama program has been a successful initiative that incorporated a line for institutional strengthening that contributed relevant information on the performance levels of suppliers.¹⁴ The results of self-evaluations by the 25 participating institutions pointed to the problems described when measured against a baseline.¹⁵ The average grade they obtained at the start of the program was 0.66 on a scale where 2 is the maximum.¹⁶ The average rose to 1.33 after they had implemented improvement plans.¹⁷
- 1.9 There are no effective mechanisms for ensuring the relevance of the training supply. Secondary technical/vocational education suffers from flaws in design, strategic development, and content, and mismatches in the application methodology.¹⁸ The nonuniversity higher technology institutes, which are mostly private, are completely unregulated and receive no guidance regarding the supply they generate. The courses offered by INADEH are very broad, varied, and atomized and are not targeted to company demand.
- 1.10 International experience and lessons learned in labor education programs funded by the Bank indicate that a quality assurance system for technical/vocational

¹¹ Human Development Report (2014).

¹² Labor Sector Framework Document (IDB, 2016).

¹³ Baptista and Flores (2014), Ibarra (2013).

¹⁴ The NEO program was implemented in 2014 through the IDB's Multilateral Investment Fund (MIF) and its Labor Markets Division to explore solutions to the challenge of youth employment in Latin America and the Caribbean. NEO Panama sought to improve linkage between the productive sector and programs for technical and vocational education in the provinces of Coclé, Colón, Chiriquí, and Panama.

¹⁵ Of the 25 institutions, four belonged to INADEH, four to MITRADEL, eight were vocational and technical institutes, and nine were private organizations.

¹⁶ The standards with the lowest grades were job placement services, relevance of education for employers, and vocational guidance.

¹⁷ IYF (2017). Informe final: servicios de evaluación y fortalecimiento de capacidades para la alianza NEO Panamá [Final report: evaluation and capacity-building services for the NEO Panama partnership].

¹⁸ COSPAE, through the NEO program, is identifying this problem in the logistics, construction, and tourism sectors.

education and training should be responsible for at least four functions. Although the country has made progress in terms of introducing university accreditation,¹⁹ no equivalent system has been developed for technical/vocational education and training. International evidence indicates that those functions should apply to the different stakeholders in the system and each of its levels. The four functions are: (i) identification of demand for skills; (ii) development of the curriculum and a framework of qualifications based on demand; (iii) quality assurance; and (iv) budget planning and alignment.²⁰ Best practices in quality assurance include the development of training programs for trainers which, in addition to permitting the introduction of methodological innovations, provide sustainability for interventions, endowing the systems with the capacity to continue to train teachers.²¹

- 1.11 In Panama, the NEO program developed a model for institutional strengthening and quality assurance for the suppliers of technical/vocational education and training. The model is based on the systemized experience and knowledge of the International Youth Foundation (IYF) and the experience of the NEO program. The model includes three lines. The first contains a series of quality standards against which suppliers evaluate themselves at the beginning and end of the institutional strengthening program. The second is the design and implementation of improvement plans. These plans mainly materialized through training programs for teachers designed to close the gaps detected in the self-evaluation processes. The IYF offered support in implementing this line to develop programs that combined: (i) training for teachers in effective teaching, life skills, vocational guidance, and job placement; and (ii) a training and certification program for trainers. The third is technical support for suppliers during the entire strengthening process. One key player in this process was MEDUCA, which as a result of its participation in the NEO program has formalized its interest in scaling up the strengthening line in conjunction with vocational and technical institutes around the country.²²

3. Information on the labor market and vocational guidance

- 1.12 Information on the labor market in Panama is insufficient to support decision making by key players in the system. Panama still has no labor market information system. Despite recent progress by MITRADEL through the establishment of a Market Intelligence Unit (UNIMEL) and an online labor exchange (Empleos Panama), information on the labor market is still not sufficient to enable the different market stakeholders to take informed decisions.
- 1.13 There are no platforms or mechanisms for compiling information on demand for skills by the productive sector. No mechanisms exist to compile current or future requirements for skills in the productive sector that could be used to develop the curricula of technical/vocational education and training institutions. Surveys have been sporadic and are generally carried out by the private sector with support from

¹⁹ Operated by the National University Evaluation and Accreditation Council of Panama.

²⁰ World Bank (2009), Evaluation of Implementation of the European Quality Assurance Reference Framework for Vocational Education and Training (2013), European Training Foundation (2014), Amaral et al. (2017).

²¹ European Centre for the Development of Training (Cedefop) (2017).

²² MEDUCA Resolution 4063-A (10/08/18) calls for the implementation of the NEO Panama methodology and the Marca tu Rumbo [Chart your Path] framework platform.

international cooperation agencies.²³ This situation places constraints on the ability of suppliers of technical/vocational education and training to make adjustments to respond in a timely manner to changes in demand by the productive sector.

- 1.14 Vocational guidance services in Panama are limited in their coverage and efficiency. Panamanian youths have insufficient information and guidance on the education supply and the employability prospects and remuneration associated with that supply.²⁴ Panama has two vocational guidance programs that seek to disseminate information on the job market: the Vocational Guidance and Employment Program (POVE) and the Marca tu Rumbo [Chart your Path] platform. Implemented by MITRADEL jointly with MEDUCA since 2015, POVE, is targeted to high school students in public and private schools around the country, seeking to inform them about which careers will offer them the best employment opportunities in future. Although POVE distributed information to 62 schools and 16,000 students during 2017, its scope is limited and one of its shortcomings is that its information source is not systematized.²⁵ As an alternative, as part of NEO Panama, MEDUCA developed Marca tu Rumbo, a platform used by vocational guidance counsellors to measure the vocational interests and aptitudes of students and offer them information on demand in the productive sector. The platform has 30,873 registered youths, 96 companies, 307 guidance counsellors.
- 1.15 None of these initiatives has a gender focus, which contributes to educational segregation in technical/vocational education and training. Panamanian girls are more likely to choose careers that are in less demand and not as well paid.²⁶ For example, in technical/vocational education and training, 90% of the students registered in careers such as beautician, craftsperson, and dressmaker are girls, while the reverse holds true for boys in transportation, metalworking, and auto mechanics, (INADEH, 2017). This segregation leads girls into careers that are in less demand and not as well paid.²⁷ In more dynamic sectors, such as transportation, construction, and wholesale trade, women are a minority presence (13%, 6%, and 35%, respectively). According to the IDB's Better Jobs Index, Panama has the fifth-widest gender gap in employment in the region. Although gender stereotypes (Sallé, 2012; Leslie, 2015; Sainz, 2017) are a major determining factor in occupational segregation, ignorance of the earnings that can be had in different occupations and the lack of job counselling with a gender focus limit girls' opportunities to choose better-paying jobs.
- 1.16 Internationally, there are successful examples of information systems that contribute to career decisions by individuals and influence the relevance of the education supply. These successful systems: (i) compile and disseminate information on present and future demand for skills using data on job vacancies, employer questionnaires, and quantitative prediction models; (ii) develop mechanisms to permit employers to indicate their skills requirements and turn them into skills standards; and (iii) evaluate employer satisfaction with the process

²³ NEO Panama (2017) performed surveys for the construction, tourism, and logistics industries.

²⁴ High Commission for Public Policy on Employment in Technical and Vocational Occupations (2014).

²⁵ The 62 schools are included in a total of about 1,085 (INEC, 2015).

²⁶ Plan de Paridad de Género en Panamá [Gender Equality Plan in Panama] (2018). See [optional link 9](#).

²⁷ Idem.

(Cedefop, 2009a, 2009b; González-Velosa and Rucci, 2016). Very interesting examples of employer participation can be mentioned. In Chile and Peru, sector councils have been established to identify the required skills. In Brazil and Colombia, models have been developed to survey demand for skills on the sector level. In Panama, the NEO experience showed that the use of sector councils was a useful tool for adapting course curricula.

- 1.17 Vocational guidance services have positive effects and can help to steer girls into jobs in higher demand with better pay. These services offer guidance on labor market options and wages. They can produce very positive results at minimum cost (Alaimo et al. 2015; Jensen, 2010; Goux, Gurgand, and Maurin, 2013; Hastings, Neilson, and Zimmerman, 2015). Information on the benefits of different educational opportunities can have a positive impact on women's career choices.²⁸ An evaluation of a program in Kenya (Hicks *et al.*, 2011) shows the positive impact of information (wages) on the probability that young women will prefer to enroll in careers that are traditionally male dominated.
- 1.18 **Program rationale.** To narrow the gap in workforce skills, the Panamanian government asked the IDB for technical and financial assistance in implementing a national human capital development strategy. This will be achieved by: (i) developing technical/vocational education and training initiatives guided by employers; (ii) improving the quality and relevance of the supply of technical/vocational education and training; and (iii) developing and disseminating relevant information for guiding the supply of technical/vocational education and training and the career decisions of students (with a gender focus). This support is consistent with the priority established in the government's Strategic Plan 2015-2019 to develop a strategy for human capital and labor skills tailored to the needs of sectors with the highest transformation and growth potential. Furthermore, the High Commission for Public Policy on Employment in Technical and Vocational Occupations points out the importance for Panama of having a new technical training system that responds to the needs of companies and individuals, offering relevant and high-quality education and vocational training.²⁹
- 1.19 At the government's request, the human capital development strategy will be implemented as a pilot project in western Panama and, depending on the results, it can be scaled up by the government to the national level. The western region has the potential for becoming a "logistics pole" with greater diversification and potential for integration with the central hub of the inter-oceanic zone on account of its agricultural and tourism advantages and connection to Central America. These advantages should be tapped given their high potential as reflected in the priorities established in the government's Strategic Plan and their ability to diversify the country's productive base.³⁰ However, the lack of a skills development strategy could become an obstacle to building these initiatives. The western region includes

²⁸ Gender and Diversity Sector Framework Document (document GN-2800-7) (IDB, 2015).

²⁹ See [optional link 5](#).

³⁰ Estrategia Logística Nacional de Panamá a 2030 [Panamanian National Logistics Strategy to 2030] and Antecedentes, actualidad y futuro de la Visión CHIRIQUÍ 2025 [Past, present, and future of Chiriquí Vision 2025]. The Strategic Plan notes that the logistics, agribusiness, tourism, and construction sectors present high potential for new job creation and for raising their productivity. See [optional link 4](#).

the provinces of Chiriquí, Bocas del Toro, and the Ngäbe-Buglé Comarca (indigenous region), and accounts for 21% of the total population, 17% of the economically active population, and 6.8% of GDP. In terms of per capita GDP, average income per person in 2016 in Chiriquí and Bocas del Toro was US\$3,196 and US\$3,015, respectively, far below the US\$13,510 in Panama province.³¹

- 1.20 The productive sector in the western region is a key partner for implementing the project. The Western Region Competitiveness Center (CECOM-RO) will be a key partner in program design, execution, and sustainability, given its reputation and capacity to influence the business sector in the western region positively, which positions it as the region's most relevant business organization.³² The CECOM-RO's capacity to influence has permitted to develop projects with the backing of the government and multilateral agencies.³³ Its interest in strengthening human capital in the western region, as part of its strategy to promote the region's competitiveness, puts it in a unique position in the country to establish a management model led by the private sector that can develop an educational supply based on demand.
- 1.21 **The Bank's lessons learned in the sector.** The Bank has regional experience in designing and executing the proposed activities, particularly the Skills for the Future Program (loan 2739/OC-BA), which supports human resource development in Barbados through competitive funds to finance private-sector training initiatives; the Global Services Promotion Program (loan 3112/OC-TT), which implements competitive funds to finance training initiatives through partnerships between the private sector and training providers in Trinidad and Tobago; Skills for Current and Future Jobs in the Bahamas (loan 3787/OC-BH), which promotes apprenticeship programs through a public-private strategy using matching grant facilities; the Innovation Project for Competitiveness in Peru (loan 2693/OC-PE), which employs competitive funds to promote business innovation projects; the Program for the Improvement of the Quality and Relevance of University and Technical Higher Education Services at the National Level in Peru (loan 4555/OC-PE), which finances knowledge generation through competitive funds, to promote the quality and relevance of higher education; and the Innovation Program for Social Inclusion and Productivity in Panama (loan 3692/OC-PN), which includes competitive funds to strengthen innovation at research centers. These experiences have been incorporated into Component 1, particularly the selection of competitive funds as the mechanism for making technical/vocational education and training more relevant. The lessons learned show the importance of setting objective selection criteria for the proposals to be financed by the competitive funds, and of supporting the companies in identifying them. Accordingly, the proposed project includes specific activities to address these two points (Component 1). The projects cited also underscore the importance of having a system to identify productive sector

³¹ The figure for Chiriquí includes the Ngäbe-Buglé Comarca. For further justification of the importance of the western region see [optional link 4](#).

³² The CECOM-RO is a private foundation whose members are the Panamanian Association of Business Executives, the Chiriquí Chamber of Commerce, Industry, and Agriculture, and the Pro-Chiriquí Foundation.

³³ One example is the Agriculture Master Plan that has been started up with financing from the public and private sectors and the Development Bank of Latin America (CAF).

demand for skills, which has been incorporated into Component 3. The Bank has supported the government in implementing the Action Plan of the Gender Parity Initiative in Panama, promoting the employment of women in careers with a future and the integration of women graduates into opportunity sectors.³⁴

- 1.22 **The program's strategic alignment.** The operation is consistent with the Update to the Institutional Strategy 2010-2020 (document AB-3008) and relates to the challenge of productivity and innovation by contributing to labor productivity through narrowing of the skills gap, and to the challenge of social inclusion and equity by building the capacity of the State to promote the development of issues of gender inclusion in labor markets. It is also aligned with the crosscutting theme of gender equality through its intervention to provide vocational guidance with a gender focus. The operation is aligned with the Corporate Results Framework 2016-2019 (document GN-2727-6) in terms of: (i) beneficiaries of on-the-job training programs; (ii) micro, small, and medium enterprises (MSMEs) financed; (iii) MSMEs provided with nonfinancial support; (iv) government agencies benefited by projects that strengthen technological and managerial tools to improve public service delivery; and (v) teachers trained. The operation is included in the Update of Annex III of the 2018 Operational Program Report (document GN-2915-2). It is consistent with the IDB country strategy with Panama 2015-2019 (document GN-2838), contributing to the dialogue area of labor markets; and with the Labor Sector Framework Document (document GN-2741-7) under sector priority V.B, to boost the productivity of workers in the workplace by extending access to vocational training systems that are relevant, high-quality, and cost-effective. The operation is also consistent with the Gender and Diversity Sector Framework Document (document GN-2800-8) in terms of its lines of action to expand economic opportunities for women by improving their access to more productive jobs.

B. Objectives, components, and cost

- 1.23 **Objective.** The program objective is to narrow the workforce skills gap in Panama. The specific objectives are: (i) to create incentives for the productive sector to train its workers with the required skills through a financing arrangement that incentivizes its leadership and engagement; (ii) to promote institutional capacity-building for technical/vocational education and training providers through a quality-assurance system; and (iii) to support implementation of a relevant information system on supply and demand for skills, with a gender focus.
- 1.24 **Component 1. Development of training initiatives guided by employers through a competitive fund (US\$13.8 million).** This component promotes training in the skills required by companies through a financing plan that offers an incentive for leadership and participation by the productive sector. Through a competitive process, resources will be allocated to finance initiatives for training, evaluation, or skills certification, where design and implementation are led by the productive sector. The proposals may also include the development of curricula and provision of equipment needed for the training process (with restrictions on the amount). The training initiatives can be targeted to the unemployed, secondary

³⁴ See [optional link 9](#).

school graduates,³⁵ and/or active workers. The competitive funds will be administered by the program execution unit (PEU), and the rules governing them will be described in the program [Operating Regulations](#). This component's activities will support proposals in the western region (including the provinces of Chiriquí and Bocas del Toro and the Ngäbe-Buglé Comarca in four strategic sectors identified in the government's Strategic Plan as sectors with high potential for new job creation and for increased productivity, i.e., logistics, agribusiness, tourism, and construction.³⁶ The eligibility requirements to participate in this initiative will be determined by SECLOG and described in detail in the [Operating Regulations](#). The minimum eligibility requirements will include that the proposals must be designed jointly by employers and training suppliers (public and private), be cofinanced by the participating firms, have clear observable and measurable objectives, have strategies to ensure the quality of the training, and contain a proposal for evaluation or certification of the skills to be developed by the recipients of the training, and mechanisms to guarantee the sustainability of the proposal.³⁷ In the proposals, partnerships involving companies and training institutions will identify their skills requirements and how they should be developed. Proposals that meet these requisites will be evaluated in a transparent process led by a panel composed of representatives of government, the public sector, and experts designated by SECLOG. The evaluation criteria will include such factors as the quality of the technical design, cost, alignment with the goals for regional development and gender inclusion, and the externalities the proposal will have on other sectors of the economy. The evaluation criteria will be determined by SECLOG.³⁸

- 1.25 **Operation and supervision of the competitive fund.** The loan will also set aside resources to ensure that the institutional capacity exists to base the preparation, selection, and implementation of proposals on technical criteria. Financing will also be earmarked for the different stages of implementation of the competitive funds: (i) preparation of a registry of institutions that offer technical/vocational education and training (hereinafter “suppliers”) able to participate in partnerships with companies; (ii) a communication strategy to extend a broad invitation to the private sector and suppliers to prepare proposals and disseminate the objectives and features of the competitive funds; (iii) specialized (and impartial) technical support for suppliers during the design of their proposals; (iv) operational support during the selection processes to ensure compliance with the eligibility and evaluation protocols; (v) design of a special communication strategy for the Ngäbe-Buglé Comarca; and (vi) monitoring the execution of proposals to verify compliance with milestones so that disbursements can be released. To feed into activities (ii) and (iii), the types of companies that could participate in the process and their skills requirements will be profiled. Lastly, the program will also include funds for an

³⁵ Sixteen is the minimum age to work as an apprentice and/or at a job.

³⁶ The logistics, agriculture, tourism and construction sectors account for 11.7%, 11.9%, 2.1%, and 6% of GDP in the western region, respectively. See [optional link 4](#).

³⁷ For information on scope, requirements, and beneficiaries see [optional link 7](#) and [optional link 8](#).

³⁸ The rules for execution and the responsibilities of the competitive funds are described in the program Operating Regulations.

impact evaluation to measure the suitability of competitive funds as a tool for narrowing gaps in workforce skills.³⁹

- 1.26 **Component 2. Improvement in the quality and relevance of the supply of technical/vocational education and training (US\$3 million).** This component will support institution-strengthening and quality improvement of suppliers at the secondary and higher education levels (public and private), so that they can better develop the skills of their students. Work will be done with at least 70% of the country's vocational and technical institutes (IPT)⁴⁰ and a group of five higher technology institutes (ITS).⁴¹ The institutional strengthening model will consider the progress made in the country under the NEO Panama program,⁴² specifically with regard to: (i) self-evaluation by suppliers (through an online platform to be administered by the component's technical management unit)⁴³ compared to international quality standards; (ii) design of improvement plans; (iii) training for teachers in effective teaching, life skills education, vocational guidance, and job placement; (iv) programs to train and certify trainers of trainers; and (v) monitoring of suppliers and their students. The training will be extended to NEO teachers, including a program to develop the capacity to design training programs based on the skills standards required by industry. Considering that the country does not have a quality-assurance system, the program's strategy is to scale up gains through the NEO program in developing supplier capacity. Participation by MEDUCA and the productive sector will lay the groundwork for addressing systemic challenges in the medium and long terms. In particular, the dissemination of quality standards and their application by suppliers will set the stage for their integration at the system level.
- 1.27 The educational centers participating the program will have access to: (i) technical assistance by a team of specialized professionals; (ii) a platform for their self-evaluation process; (iii) support for their self-evaluation processes and the design of improvement plans such as quality standard guidelines and a manual for system users;⁴⁴ (iv) at least two skills development programs including programs on effective teaching, life skills education, vocational guidance, and job placement; and (v) access to a platform for monitoring their own and their student's improvements.
- 1.28 To improve relevance, and with the objective of updating and complementing the supply of programs, interested centers will participate in a workshop on training programs designed to reflect productive sector requirements, based on diagnostic studies prepared by the regional competitiveness centers (CECOM).⁴⁵ The

³⁹ For more details on the impact evaluation, see the [monitoring and evaluation plan](#).

⁴⁰ MEDUCA lists 102 vocational and technical institutes around the country.

⁴¹ Priority will be given to vocational and technical institutes and higher technology institutes in the western region, which will be selected jointly with MEDUCA (in addition to those assisted by NEO Panama). The NEO program was not implemented in the higher technology institutes.

⁴² For more information see [optional link 6](#).

⁴³ The self-evaluation platform was developed by the IYF.

⁴⁴ See the documents at www.jovenesneo.org/neo/es-es/Recursos.aspx.

⁴⁵ CECOMs are private, nonprofit associations that seek to promote regional competitiveness. There are four of them: Western Region, Azuero, Colón, and Coclé.

programs may be taught at higher technological institutes or vocational and technical institutes as additional topics within an extended study day.

- 1.29 This component will finance: (i) technical assistance and support for the education centers in self-evaluation and design of improvement and monitoring plans; (ii) implementation of programs to develop capacity in effective teaching, life skills education, vocational guidance, and job placement; (iii) design and implementation of programs to develop program-design skills; (iv) programs to train trainers; and (v) licenses for access to the self-evaluation and monitoring platforms for all participating centers.
- 1.30 **Component 3. Development and dissemination of relevant information to orient technical/vocational education and training offerings and guide system users (US\$2.7 million).** Activities will be on three fronts. First, leadership will be strengthened at all the regional CECOMs, supporting activities to systematically compile information on demand for skills, needs for technical/vocational education and training of human capital, and a survey of regional and sector demand for skills. To promote continued performance of these activities, training will be provided for CECOM personnel in documenting these processes, thereby empowering them to carry out the procedures on their own, once the Bank financing has ended.
- 1.31 Second, information on the supply and demand for training will be compiled and targeted to students and apprentices. A system will be developed to enable the Panamanian government to centralize and update information on existing programs in the country. Information will also be compiled on the employability results of those programs (e.g., wages, access to formal employment).
- 1.32 Third, the project will include resources to ensure dissemination of the outputs described in the two preceding paragraphs as input for decision-making by key stakeholders in the system. This involves strengthening and developing new functions for the [Marca tu Rumbo](#) platform, as a platform to centralize labor market information for young people and for companies. In terms of support for individuals, existing vocational information and guidance systems will be strengthened by incorporating a gender vision. In other words, specific support will be provided for young women to steer them into careers with greater opportunities and futures and to expand training opportunities for them in better paying careers which have traditionally attracted more males. This will also help to narrow the gender gaps in employment in Panama. The gender focus will be developed through activities to support guidance counsellors in presecondary and secondary schools and the development of systematically documented information on types of careers and their remuneration. A gender approach will require the support of experts in behavioral economics to adequately incorporate the messages and focus groups to validate those messages. Services for companies can include information on technical/vocational education and training, support for the management of human talent, offers of apprenticeships, and support for obtaining gender equality certification, etc.
- 1.33 Lastly, this component will include resources to implement mechanisms at SECLOG to monitor and evaluate human capital building at the national and regional levels.

- 1.34 **Beneficiaries.** The Component 1 beneficiaries will be: (i) at least 135 companies in the western region that obtain the skills they require; (ii) at least 26 vocational and technical institutes and other educational institutions such as universities and training establishments in the western region that incorporate mechanisms to identify private sector needs; and (iii) up to 13,500 individuals trained, consisting of employees of those companies, high school graduates, and unemployed. The Component 2 beneficiaries will be 70 vocational and technical institutes, five higher technological institutes, and their students and teachers, averaging in the case of the 70 vocational and technical institutes 68,740 students and 4,176 teachers (MEDUCA). The Component 3 beneficiaries will be the users of the information system, particularly presecondary and secondary school students who totaled 391,000 in 2015 (INEC).

C. Key results indicators

- 1.35 A Results Matrix was prepared to measure the impacts and outcomes of the policy actions included in the program. The results will be monitored and evaluated in agreement with the borrower. The main expected impact is a narrowing of the workforce skills gap in Panama, as measured by the difference in the percentage of companies that report the lack of skills in applicants as one of the main difficulties they encounter in hiring staff, measured through a nonexperimental impact evaluation. For expected outcome 1 (companies participate by cofinancing and/or providing inputs to develop the curriculum for technical/vocational education and training programs), the following indicators will be measured: (i) the percentage of individuals proposed for training through competitive funds who completed their entire training program; (ii) the percentage of individuals who completed the entire training program and received certification that validates the skills and/or knowledge acquired; (iii) the percentage of companies receiving grants that are highly involved in training programs; and (iv) the percentage of training proposals meeting all the quality criteria for financing, out of the total number of proposals submitted for competitive funds. For expected outcome 2 (the institutional capacity of training suppliers has improved), the following indicator will be measured: (i) the average score given for the performance of the participating vocational and technical institutes. Lastly, for expected outcome 3 (decision-makers benefit from better service as a result of a relevant information system on skills, with a gender focus), the following indicator will be measured: (i) the percentage of female students in the final year of presecondary school who enroll in a study program for better paying technical careers.
- 1.36 An ex ante cost-benefit analysis was done of the main elements of the program, to assess its economic feasibility. The net present value calculated with a 12% discount rate for seven years is US\$600,000, yielding a positive rate of return of 3%. A sustainability analysis showed the minimum criterion required to cover costs and indicated that the program was economically justified. One optimistic and two pessimistic scenarios were also included, modifying the parameters used, yielding rates of return of 43%, -39%, and -24%, respectively.

II. FINANCING STRUCTURE AND MAIN RISKS

A. Financing instruments

- 2.1 The total amount of this specific investment program is US\$21.5 million. Of that amount, US\$20 million will be financed from the Bank's Ordinary Capital resources, and US\$1.5 million will be the local counterpart contribution from the Government of Panama, in kind.

Table 1. Program cost (US\$)

Component	IDB	Government of Panama	Total financing
Component 1. Development of training initiatives guided by employers through a competitive fund	13,822,000	-	13,822,000
Component 2. Improvement in the quality and relevance of the supply of technical/vocational education and training	2,955,750	-	2,955,750
Component 3. Development and dissemination of relevant information to orient technical/vocational education and training offerings and guide system users	2,722,250	-	2,722,250
Audits	500,000	-	500,000
Program execution unit	-	1,500,000	1,500,000
Total	20,000,000	1,500,000	21,500,000

- 2.2 The disbursement period for the program will be five years, which is the time required to complete all of the activities under the different components.

Table 2: Disbursement schedule (US\$)

	Year 1	Year 2	Year 3	Year 4	Year 5
IDB	2,026,875	3,281,500	3,355,500	5,640,083	5,696,042
Counterpart	300,000	300,000	300,000	300,000	300,000
Total	2,326,875	3,581,500	3,655,500	5,940,083	5,996,042

B. Environmental and social safeguard risks

- 2.3 In accordance with the Bank's Environment and Safeguards Compliance Policy (Operational Policy OP-703), this operation is classified as Category "C." Since the program will not finance any large-scale physical investments (civil works), no adverse environmental impacts are foreseen.

C. Fiduciary risks

- 2.4 Based on the risk assessment performed, a medium risk was identified of delays in the procurement and budget and financial management processes because: (i) staff are inexperienced in IDB fiduciary management policy; and (ii) management of the projects awarded competitive funds will entail a heavy

technical and administrative workload. The following measures will be taken, to mitigate both causes of the risk of delays: (i) strengthening of the program's fiduciary team by contracting personnel with knowledge of fiduciary policies for the Administrative and Finance Directorate (DAF) of the Ministry of Presidential Affairs; and (ii) training from the Bank for the staff of the DAF and the Audit Office of the Office of the Comptroller General of the Republic (CGR) on fiduciary management and Bank policies.

D. Other key risks and issues

- 2.5 **Development and public management and governance risks.** The following medium risks were identified, the first three related to development, and the fourth to public management and governance: (i) low participation by companies and suppliers of training in applying for the competitive funds, and poor quality of the proposals presented; (ii) poor public-private coordination for activities related to the relevance of the training supply; (iii) low participation by training centers in improving the quality of the training supply; and (iv) shift in priorities of the executive branch's technical counterpart after the government changeover in July 2019.
- 2.6 **The following measures have been designed to mitigate these risks:** (i) design and development of a communication/awareness campaign on the program for companies and training suppliers; early implementation of training for companies and suppliers in proposal preparation; and design and development of technical assistance to identify needs and plan interventions; (ii) development of an awareness strategy jointly with SECLOG, in partnership with the CECOMs, to promote active participation by the productive sector and establishment of a Strategic Board of Directors (DEST); (iii) development of a joint strategy with MEDUCA to communicate with the training centers about the benefits of participating in quality improvement activities, and establishment of MEDUCA commitments to ensure that its training centers participate in the strengthening activities; and (iv) ongoing awareness-raising of the program's benefits with key stakeholders in the new administration involved in its execution.
- 2.7 **Sustainability.** The project reflects the country's commitment to narrow the skills gap of its workforce. It will finance activities to consolidate the role of SECLOG in implementing a human capital development strategy. The private sector is committed to continue to invest in training after the project has ended, as a guarantee of the sustainability of the actions implemented. For Components 2 and 3, MEDUCA Resolution 4063-A establishes that the NEO Panama methodology and the Marca tu Rumbo [Chart your Path] platform will be used. After the program ends, MEDUCA will be responsible for continuing the progress of both components.⁴⁶ Lastly, based on the project's results and lessons learned, a technical note will be prepared evaluating the mechanisms and/or plans for institutionalizing competitive funds as a tool for narrowing the skills gaps in the workforce.

⁴⁶ The mechanisms for coordination with MEDUCA will be established in the program Operating Regulations and [optional link 2](#).

III. IMPLEMENTATION AND MANAGEMENT PLAN

A. Summary of implementation arrangements

- 3.1 **Borrower and executing agency.** The borrower is the Republic of Panama, and the executing agency will be the Ministry of Presidential Affairs, acting through the Competitiveness and Logistics Department (SECLOG). This arrangement is advisable because: (i) SECLOG is responsible coordinating areas and actions to raise the country's productivity and competitiveness with the entities involved; and (ii) SECLOG is responsible for coordinating the implementation of the recommendations of the High Commission for Public Policy on Employment in Technical and Vocational Occupations (2014). The program execution unit (PEU) will be headed by a general coordinator, who will be responsible for execution of the technical and fiduciary aspects of the program and will be the program's representative to the authorities and the Bank. The PEU will have a Strategic Board of Directors (DEST) for strategic management and coordination with other ministries. The DEST will have at least five members, including government authorities (SECLOG, MEDUCA, and the National Department of Science, Technology, and Innovation) and representatives of the productive sector (CECOM network and the Panamanian Association of Business Executives).⁴⁷ The DEST will have the following functions: (i) to support fulfilment of the program's guidelines and strategic objectives; (ii) to facilitate coordination of public institutions with private sector initiatives; and (iii) to oversee that the selection of key PEU staff is merit-based and transparent.⁴⁸ For the fiduciary processes, the general coordinator will be supported by a team working full-time on the program at the Administration and Finance Office (DAF) of the Ministry of Presidential Affairs.
- 3.2 To administer the program's technical operations, the PEU will receive technical and managerial support from two types of technical management units, depending on the nature of each of the components. For Component 1 (see paragraph 1.24), the PEU will receive technical assistance from a firm/entity with experience in managing competitive funds. The team will be hired following country contracting procedures approved by the Bank.⁴⁹ For Components 2 (see paragraph 1.26) and 3 (see paragraph 1.30), the PEU will receive managerial support from the Private Sector Council for Educational Assistance (COSPAE), which will be contracted by single-source selection (see paragraph 3.6).
- 3.3 **Program Operating Regulations.** The policies for project execution will be established in the program [Operating Regulations](#), which will be approved by the executing agency and agreed upon with the Bank. Among other aspects of the program, the Operating Regulations will describe: (i) the functions of key personnel; (ii) the functions and responsibilities of the technical management units; (iii) financial, procurement, and consulting services procedures; (iv) mechanisms for accountability and control of execution; and (v) mechanisms for coordination

⁴⁷ Coordination between SECLOG and other ministries and institutions is described in [optional link 2](#) and the program Operating Regulations.

⁴⁸ See [optional link 2](#).

⁴⁹ For more details on the functions of the firm/entity with experience in managing competitive funds, see [optional link 2](#).

with other entities. The Operating Regulations will establish mechanisms for coordination of the participating institutions, particularly the DEST at the strategic level and the Technical Coordination Forum (MCT), whose members will be the executive coordinator of the PEU, the technical managers of the components, and the DAF, which will perform the technical role of assuring operational execution of the components.

- 3.4 **Special contractual conditions precedent to the first disbursement of the loan proceeds.** The Ministry of Presidential Affairs, acting through SECLOG, will demonstrate that: (i) it has created a program execution unit (PEU) within its organizational structure and selected at least the program coordinator, procurement specialist, and fiduciary specialist under the terms of reference agreed upon with the Bank; and (ii) the program Operating Regulations have been approved and entered into effect on the terms previously agreed upon with the Bank. The first condition is essential for assuring the Bank that the executing agency will be ready to begin operating with an effective team. The second condition is justified because the Operating Regulations are indispensable for making the competitive funds operative and guaranteeing effective program execution.
- 3.5 **Procurement.** The funds in Component 1 (see paragraph 1.24) will be granted in the form of nonreimbursable contributions awarded through public competitions. The selection criteria and eligibility requirements for the proposals will be established in the program Operating Regulations. The funds will be granted through public competitions that guarantee the principles of competition, transparency, and equal opportunity. The Bank will verify the eligibility of each proposal to be financed with program funds. The Bank's Board of Executive Directors has approved the use of framework agreement subsystems up to the threshold set for national competitive bidding of US\$250,000, as well as the mechanism for small procurements up to US\$50,000 (document GN-2538-11), which may change if the Bank approves higher levels of use. The [procurement plan](#) establishes the procurements to be made during execution.
- 3.6 **Single-source selection.** Contracting of COSPAE is proposed for the execution of Component 2 (see paragraph 1.26) and Component 3 (see paragraph 1.30). This option is justified because Components 2 and 3 are similar to the activities performed under the NEO Panama program. COSPAE was that program's execution unit and obtained a positive performance rating in the final evaluation. Contracting COSPAE will leverage all its cumulative lessons learned and its relationships with the business sector and the centers for technical/vocational education and training. The contract amount is approximately US\$980,000. Single-source selection is justified under the Policies for the Selection and Contracting of Consultants Financed by the IDB (document GN-2350-9), paragraph 3.10(d), when only one firm is qualified or has experience of exceptional worth for the assignment.
- 3.7 **Disbursement flow.** The IDB will transfer the loan proceeds to an account exclusively for the program, to be opened by the Ministry of Presidential Affairs at a financial institution. Disbursements will be made in the form of advances to cover liquidity requirements, according to the financial plan, for a period of up to 180 days. A new advance may be requested once supporting documentation has

been provided for at least 80% of the funds previously disbursed. The following methods may be used: reimbursement of payments made or direct payment to supplier.

- 3.8 **Retroactive financing.** The Bank may retroactively finance, as a charge against the loan proceeds, up to US\$800,000 (4% of the proposed loan amount) in eligible expenditures incurred by the borrower prior to the loan approval date for economic and policy studies on the job success of training system graduates, for workshops to train offerors, for the design of skills-based programs, and for implementation of capacity-building programs, provided that requirements substantially similar to those established in the loan contract have been met. Such expenditures must have been incurred on or after 15 August 2018 (the project profile approval date), but under no circumstances more than 18 months prior to the loan approval date.
- 3.9 **Financial statements and external audit.** The financial statements for the project, audited by an independent firm acceptable to the Bank, will be delivered on an annual basis within 120 days after the close of each fiscal year or the last disbursement.

B. Summary of arrangements for monitoring results

- 3.10 **Monitoring.** The executing agency, acting through the PEU, will deliver six-monthly status reports to the Bank on compliance and progress toward the Results Matrix indicators, the [multiyear execution plan](#), the [annual work plan](#), and the [procurement plan](#), as described in the [monitoring and evaluation plan](#). This work will be supported by the DAF, in coordination with the monitoring and evaluation specialists of the respective technical management units.
- 3.11 **Evaluation.** A nonexperimental evaluation will be done, to generate evidence on the project's effectiveness in narrowing skills gaps. The methodology will compare the average impact between a treatment group composed of participating firms in the western region and a control group constructed on the basis of observed characteristics, assuming there are no unobserved differences associated with the relevant variable. The difference in the results between the two groups (Y) will give the expected impact of the program. Financing for the evaluation is included in the budget for Component 1.

Development Effectiveness Matrix		
Summary		
I. Corporate and Country Priorities		
1. IDB Development Objectives	Yes	
Development Challenges & Cross-cutting Themes	-Social Inclusion and Equality -Productivity and Innovation -Gender Equality and Diversity	
Country Development Results Indicators	-Beneficiaries of on-the-job training programs (#)* -Micro / small / medium enterprises financed (#)* -Micro / small / medium enterprises provided with non-financial support (#)* -Government agencies benefited by projects that strengthen technological and managerial tools to improve public service delivery (#)* -Teachers trained (#)*	
2. Country Development Objectives	Yes	
Country Strategy Results Matrix	GN-2838	To the dialogue area of labor markets (paragraph 3.32 of the Country Strategy).
Country Program Results Matrix	GN-2915-2	The intervention is included in the 2018 Operational Program.
Relevance of this project to country development challenges (If not aligned to country strategy or country program)		
II. Development Outcomes - Evaluability		Evaluable
3. Evidence-based Assessment & Solution	9.5	
3.1 Program Diagnosis	3.0	
3.2 Proposed Interventions or Solutions	4.0	
3.3 Results Matrix Quality	2.5	
4. Ex ante Economic Analysis	8.0	
4.1 Program has an ERR/NPV, or key outcomes identified for CEA	3.0	
4.2 Identified and Quantified Benefits and Costs	3.0	
4.3 Reasonable Assumptions	1.0	
4.4 Sensitivity Analysis	0.0	
4.5 Consistency with results matrix	1.0	
5. Monitoring and Evaluation	10.0	
5.1 Monitoring Mechanisms	2.5	
5.2 Evaluation Plan	7.5	
III. Risks & Mitigation Monitoring Matrix		
Overall risks rate = magnitude of risks*likelihood	Low	
Identified risks have been rated for magnitude and likelihood	Yes	
Mitigation measures have been identified for major risks	Yes	
Mitigation measures have indicators for tracking their implementation	Yes	
Environmental & social risk classification	C	
IV. IDB's Role - Additionality		
The project relies on the use of country systems		
Fiduciary (VPC/FMP Criteria)	Yes	Financial Management: Budget. Procurement: Information System, Price Comparison.
Non-Fiduciary		
The IDB's involvement promotes additional improvements of the intended beneficiaries and/or public sector entity in the following dimensions:		
Additional (to project preparation) technical assistance was provided to the public sector entity prior to approval to increase the likelihood of success of the project		

Note: (*) Indicates contribution to the corresponding CRF's Country Development Results Indicator.

The objective of the program is to reduce the skills gap of the labor force in Panama. The specific objectives are: (i) to encourage the productive sector to train its workers with the required skills through a financing scheme that encourages the productive sector leadership and participation; (ii) promote the improvement of the institutional capacity of the providers of technical-professional skills development and training through a system of quality assurance; and (iii) support the implementation of a system that delivers relevant information on the supply and demand of skills, with a gender focus.

The project identifies deficiencies in the quality and relevance of the technical-professional skills development and training system as the main problems that the program will address, with the aim of reducing the labor force skills gap in Panama. The percentage of companies that indicates that one of the main difficulties in hiring personnel is the lack of skills is 18.9% for the whole country and 46.9% in Chiriqui (Region Occidental). This reflects deficiencies in the quality and relevance of the technical-professional skills development and training system, the limited involvement of companies in the system, and the insufficiency of information on the labor market to support the decision-making process of the key actors of the system. The components of the program appear highly relevant to address these problems.

The economic analysis of the project is adequate, with reasonable assumptions, and with a sensitivity analysis that shows extreme values. The internal rate of return of the project is 3%, but with values associated with sensitivity scenarios ranging from -39% to 43%. This variability reflects the uncertainty about the expected impacts on salaries of the training programs in Panama.

Given the scarcity of relevant evidence on the effectiveness of this type of program, the project includes an impact evaluation. The evaluation plan is based on a non-experimental methodology, which appears as adequate. The impact evaluation is important because it will generate very relevant evidence about this type of intervention.

RESULTS MATRIX

Program objective:	The program objective is to narrow the workforce skills gap in Panama. The specific objectives are: (i) to create incentives for the productive sector to train its workers with the required skills through a financing arrangement that incentivizes its leadership and engagement; (ii) to promote institutional capacity-building for technical/vocational education and training providers through a quality-assurance system; and (iii) to support implementation of a relevant information system on supply and demand for skills, with a gender focus.
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EXPECTED IMPACT

Indicator	Unit of measure	Baseline		End target		Means of verification	Comments
		Value	Year	Value	Year		
Expected impact: Narrowing of the workforce skills gap in Panama							
Difference in the percentage of companies that report the lack of skills in applicants as one of the main difficulties they encounter in hiring staff	Percentage points	0	2019	-28	2023	Impact evaluation survey	<p>Definition: Difference between the percentage in the treatment and control groups composed of companies surveyed reporting that applicants are underqualified. The treatment group will be comprised of companies that participate in competitive funds and the control group will be comprised of companies with similar characteristics including province, sector, and number of employees.</p> <p>Baseline: 0 since no differences are assumed between the comparison groups. By way of reference, 18.9% of companies in Panama and 46.9% of companies in Chiriquí (western region) report underqualified applicants (EPFRH, 2011).</p> <p>Target: Implementation of competitive funds is expected to even out the differences between Panama's western region and the national level.</p> <p>M&E: Through a nonexperimental evaluation using a survey, to be administered at the start and end of the project.</p>

EXPECTED OUTCOMES

Indicator	Unit of measure	Baseline		End target		Means of verification	Comments
		Value	Year	Value	Year		
Expected outcome 1: Companies participate by cofinancing and/or providing inputs to develop the curriculum for technical/vocational education and training programs							
1. Percentage of individuals proposed for training through competitive funds who completed their entire training program	Percentage (%)	0	2019	90%	2023	PEU administrative data	Formula: Number of individuals proposed for training through competitive funds who completed the entire training program/Total number of individuals proposed for training through competitive funds. Baseline: 0 since competitive funds mechanism for training programs will be implemented for the first time. Target: Based on the experience of other countries, the dropout rate is estimated as 10%. M&E. Through program administrative data.
2. Percentage of individuals who completed the entire training program and received certification that validates the skills and/or knowledge acquired	Percentage (%)	0		75%			Formula: Number of individuals who completed the entire training program and received a certificate that validates the skills and/or knowledge acquired/Total number of individuals who completed the entire training program. Baseline: 0 since competitive funds mechanism for training programs will be implemented for the first time. Target: Based on the experience of other countries. M&E. Through program administrative data.
3. Percentage of companies receiving funds that are highly involved in training programs	Percentage (%)	0		50%			A high level of involvement means that the companies complete at least one of the following actions: (i) one or more employees trained to act as tutors; (ii) hire participants (not previously employed) at the end of the program; (iii) integrate the participants (not previously employed) into their own skills evaluation and certification processes; and (iv) cover 100% of the cost of complementary training programs. Formula: Number of companies awarded funds that are highly involved/Total number of companies awarded funds. Baseline: 0 since competitive funds mechanism for training programs will be implemented for the first time. Target: At least 50% of the companies awarded funds are expected to have a high level of involvement. M&E. Through program administrative data.

Indicator	Unit of measure	Baseline		End target		Means of verification	Comments
		Value	Year	Value	Year		
4. Percentage of training proposals meeting all the quality criteria to financing, out of the total number of proposals submitted for competitive funds.	Percentage (%)	0		50			<p>Formula: Number of proposals prepared through a partnership between companies and training suppliers meeting all quality criteria according to Competitive Funds Technical Committee/Total number of proposals presented for competitive funds.</p> <p>Baseline: 0 since competitive funds mechanism for training programs will be implemented for the first time.</p> <p>Target: For Trinidad and Tobago (loan 3112/OC-TT and technical cooperation operation ATN/OC-5185-TT), the ratio was 1:3. Given the support and advisory services to be provided in preparing the proposals, a ratio of 1:2 is expected.</p> <p>M&E: Through program administrative data.</p>
Expected outcome 2: The institutional capacity of training suppliers has improved							
1. Average score given for the performance of the participating vocational and technical institutes	Points	TBD	2019	1.30*Baseline	2023	Responses to the self-evaluations reported by the PEU	<p>Formula: Average scores in the self-evaluations by all the participating vocational and technical institutes.</p> <p>Baseline: To be determined when the results of the self-evaluation of each vocational and technical institute are known, prior to the design of its improvement plan.</p> <p>Target: Under NEO Panama, the vocational and technical institutes obtained an initial score of 0.87 and a final score of 1.33, for an improvement of 53%. A more conservative scenario is assumed here since NEO Panama may have over-estimated the final score owing to the attitude and self-interest of the participating school principals.</p> <p>M&E: Through the NEO Panama self-evaluation tools, which will be reported in the monitoring system for the vocational and technical institutes.</p>

Indicator	Unit of measure	Baseline		End target		Means of verification	Comments
		Value	Year	Value	Year		
Expected outcome 3: Decision makers benefit from better service as a result of a relevant information system on skills, with a gender focus							
1. Percentage of female students in the final year of presecondary education who enroll in a study program for better paying technical careers ¹	Percentage (%)	TBD	2019	Baseline+ 7pp	2023	Tracking surveys conducted by the participating vocational and technical institutes	<p>The study programs related to better paid technical careers will be identified at the start of the project using the household survey.</p> <p>Formula: Number of female students in the final year of presecondary school at the participating vocational and technical institutes who enroll in a study program for a better paid technical career/Number of female students in the final year of presecondary school at the participating vocational and technical institutes.</p> <p>Baseline: To be determined at the start of the project by calculating the percentage of female students in the final year of presecondary school at the participating vocational and technical institutes who enroll in a study program for a better paid technical career during the 2019 school year.</p> <p>Target: Based on preliminary results for vocational guidance in Mexico (Bustelo, Piras, & Szekely, 2017), an increase of 7 percentage points over the baseline is expected.</p> <p>M&E: Through a survey to track the graduates of the 85 participating vocational and technical institutes that offer presecondary education.</p> <p>Gender indicator. Male students will be tracked to monitor differences compared with female students.</p>

¹ This indicator will be tracked for male students to monitor differences compared to female students.

OUTPUTS

Output	Unit of measure	Base-line	Base year	Year 1	Year 2	Year 3	Year 4	Year 5	End target	Means of verification	Comments
Component 1. Development of training initiatives guided by employers through a competitive fund											
1. Training programs to improve general technical skills approved for competitive funds	Number of training programs	0	2019	-	45	45	45	-	135	Auditors' report	The training programs will be approved by a technical committee after evaluating a set of criteria established in the Operating Regulations for the competitive funds.
Component 2. Improvement in the quality and relevance of the supply of technical/vocational education and training											
2. Vocational and/or technical training centers self-evaluated and with improvement plans implemented	Number of training centers	8	2019	10	20	20	20	-	78	Monitoring and/or final report	At present 102 vocational and technical institutes are registered (MEDUCA, 2018). Baseline: From the NEO final report.
3. Training for teachers and professionals of the vocational and/or technical training centers	Number of training sessions	262		-	150	150	150	190	902	Monitoring and/or final report	A teacher can offer one or more training sessions. Baseline: From the NEO final report.
4. Training for trainers to certify their skills	Number of trainers certified	7		-	-	15	15	-	37	Monitoring and/or final report	Certification will be granted following an evaluation of the trainers' skills. Baseline: From the NEO final report.
Component 3. Development and dissemination of relevant information to orient technical/vocational education and training offerings and guide system users											
5. Venues for business coordination operating to develop human capital	Number of venues for business coordination	0	2019	-	1	-	1	1	3	Minutes signed by private sector representatives and submitted by the PEU	
6. Information system on demand for skills and training compiled at the venues for business coordination	Number of information systems	0		-	1	-	-	-	1	Visual test of access to the information system sent in the PEU's six-monthly report	Visual tests may be screen shots or public access links.

Output	Unit of measure	Base-line	Base year	Year 1	Year 2	Year 3	Year 4	Year 5	End target	Means of verification	Comments
7. Mapping the training supply which includes vocational and technical programs and job training available in the country	Number of reports	0		-	1	-	-	-	1	Report mapping the supply of training submitted by the PEU	
8. New functions incorporated into some existing Panamanian information platforms	Number of functions	0		-	-	1	1	1	3	Visual test of access to the new functions sent in the PEU's six-monthly and/or final reports	Visual tests may be screen shots or public access links.

FIDUCIARY AGREEMENTS AND REQUIREMENTS

Country: Panama

Project number: PN-L1153

Name: Program to Support Productive Development through Human Capital in Panama

Executing agency: Ministry of Presidential Affairs, acting through the Competitiveness and Logistics Department (SECLOG)

Prepared by: Ezequiel Cambiasso and David Ochoa (FMP/CPN)

I. FIDUCIARY CONTEXT OF THE EXECUTING AGENCY

- 1.1 The borrower will be the Republic of Panama, and the executing agency will be the Ministry of Presidential Affairs, acting through the Competitiveness and Logistics Department (SECLOG).
- 1.2 SECLOG has not executed operations with the Inter-American Development Bank in the past and therefore has no experience in fiduciary matters.
- 1.3 SECLOG does not have an administration and finance office. It uses the Administration and Finance Office (DAF) of the Ministry of Presidential Affairs for all contracting and payment processes.

II. FIDUCIARY RISK EVALUATION AND MITIGATION MEASURES

- 2.1 An institutional capacity assessment of the executing agency performed during the program design phase revealed no significant fiduciary risks. Based on the risk assessment performed, a medium risk was identified in fiduciary processes because: (i) staff are inexperienced in IDB fiduciary management policy; and (ii) management of the projects awarded competitive funds will entail a heavy technical and administrative workload. Taken together, the following measures will help to mitigate these two risks: (i) strengthening of the program's fiduciary team by contracting personnel with knowledge of fiduciary policies for the Administrative and Finance Directorate (DAF) of the Ministry of Presidential Affairs; and (ii) training from the Bank for the staff of the DAF and the Audit Office of the Office of the Comptroller General of the Republic (CGR) on fiduciary management and Bank policies.
- 2.2 The Panamanian government has implemented the ISTMO government resources planning process as its country system. Steps will be taken to ensure that the executing agency receives the necessary training and that the system has the necessary parameters to manage the budget and make expenditure commitments and program payments.

A. Considerations for the Special Provisions of contracts

- 2.3 The following agreements and requirements will be included in the Special Provisions:
- a. The Operational Guidelines for the Financial Management of IDB-financed Projects (document OP-273-6) will be applied, pursuant to which: (i) the project's annual financial statements audited by a firm of independent auditors acceptable to the Bank will be delivered within 120 days after the close of each fiscal year and the date of the final disbursement; (ii) advances will be requested for financial plans covering up to 180 days; and (iii) new advances may be requested, once supporting documentation has been provided for 80% of the funds previously disbursed.

III. AGREEMENTS AND REQUIREMENTS FOR PROCUREMENT EXECUTION

- 3.1 The Fiduciary Agreements and Requirements establish the provisions applicable to the execution of all program procurements.

A. Procurement execution

- 3.2 Procurements will be conducted in accordance with the Policies for the Procurement of Works and Goods Financed by the IDB (document GN-2349-9) and the Policies for the Selection and Contracting of Consultants Financed by the IDB (document GN-2350-9).
- 3.3 **Procurement of works, goods, and nonconsulting services.** International competitive bidding (ICB) processes will be executed using the Bank's standard bidding documents (SBDs). Procurements subject to national competitive bidding (NCB) and the shopping method will use the models identified for this operation by the Bank. The technical specifications for procurements will be reviewed by the program's sector specialist during preparation of the selection processes.
- 3.4 **Selection and contracting of consultants.** Contracts for consulting services generated under the project will be executed using the Bank's standard request for proposals. The terms of reference for consulting contracts will be reviewed by the program's sector specialist.
- 3.5 **Selection of individual consultants.** The selection of individual consultants will be based on their qualifications to perform the work, through a comparison of at least three candidates.
- 3.6 **Use of country procurement systems.** The Bank's Board of Executive Directors has approved the use of framework agreement subsystems up to the threshold set for national competitive bidding of US\$250,000 and the mechanism for small procurements up to US\$50,000 (document GN-2538-11), which may change if the Bank approves higher levels. The [procurement plan](#) and its updates will indicate which contracts are to be executed using the approved country procurement systems.
- 3.7 **Nonreimbursable contributions.** The funds set aside for Component I will be granted as nonreimbursable contributions awarded through public competitions. The selection criteria and requirements for the competitions will be established in the program Operating Regulations. The procedures for awarding the nonreimbursable contributions through public competitions will comply with the

- principles of competition, transparency, and equal opportunity established in Bank policies. The Bank will verify the relevance of project expenditures.
- 3.8 **Retroactive financing.** The Bank may retroactively finance, as a charge against the loan proceeds, up to US\$800,000 (4% of the proposed loan amount) in eligible expenditures incurred by the borrower prior to the loan approval date for economic and policy studies on the job success of training system graduates, for workshops to train offerors, for the design of skills-based programs, and for implementation of capacity-building programs, provided that requirements substantially similar to those established in the loan contract have been met. Such expenditures must have been incurred on or after 15 August 2018 (the project profile approval date), but under no circumstances more than 18 months prior to the loan approval date.
- 3.9 **Single-source selection.** Contracting of COSPAE is proposed for the execution of Component 2 (see paragraph 1.26) and Component 3 (see paragraph 1.30). This option is justified because Components 2 and 3 are similar to the activities performed under the NEO Panama program. COSPAE was that program's execution unit and obtained a positive performance rating in the final evaluation. Contracting COSPAE will leverage all its cumulative lessons learned and its relationships with the business sector and the centers for technical/vocational education and training. The contract amount is approximately US\$980,000. Single-source selection is justified under the Policies for the Selection and Contracting of Consultants Financed by the IDB (document GN-2350-9), paragraph 3.10(d), when only one firm is qualified or has experience of exceptional worth for the assignment.
- 3.10 **Domestic preference.** Not applicable.
- 3.11 **Procurement plan.** The Procurement Plan Execution System (SEPA) or the updated version that replaces it as the electronic system for procurement monitoring will be used.

B. Table of threshold amounts (US\$)

Works			Goods			Consulting services	
ICB	NCB/ Shopping	Shopping for complex works	ICB	NCB/PC	Shopping for complex goods	Inter- national	National
3,000,000 and over	Over 250,000 and under 3,000,000	Under 250,000	250,000 and over	Over 50,000 and under 250,000	Under 50,000	Over 200,000	200,000 and under

C. Main procurements

Activity	Type of process	Estimated amount US\$
Nonconsulting services		
Media contracting	ICB	340,000
Media publicity	NCB	212,000
Consulting services		
Strategic management of the fund	QCBS	1,700,000
Team of trainers	QCBS	900,000
Technical support, COSPAE	Shopping	982,000
Public competitions		
Programs financed	Public competitions	10,800,000

D. Procurement supervision

- 3.12 All ICBs and direct contracting for goods, works, and nonconsulting services will be subject to ex ante review. Selection of consulting firms for amounts over US\$200,000 and single-source selections will be subject to ex ante review. For the remaining contracts, the type of review will be determined on a case-by-case basis in the [procurement plan](#).

E. Special provisions

- 3.13 Not anticipated.

F. Records and files

- 3.14 The executing agency will maintain up-to-date records and properly organized files for review by the Bank in keeping with the following guidelines:
- Procurement documents will be kept in a single file or folder that can be clearly differentiated from processes financed from the local contribution or funds from outside the program.
 - The documents will be maintained in proper order, paginated, and numbered to permit their clear and immediate location and identification and be made available to the Bank and the auditors for review at any time.

IV. FINANCIAL MANAGEMENT

A. Programming and budget

- 4.1 The Ministry of Finance is responsible for budget formulation and control. It submits a draft budget each year by 31 July to the National Assembly, which is responsible for approving it and for any increases. The budget is annual and includes all public sector investments, revenues, and expenditures. The Budget Act for 2019 will create National Public Investment System (SINIP) codes and financing lines for the IDB loan and the local contribution. Initially, the entire annual budget will be requested in the form of a local contribution. Once the loan is approved, the executing agency will apply to have the source of financing replaced.

B. Accounting and information systems

- 4.2 The program execution unit (PEU) will make the necessary arrangements with the National Accounting Office (DNC) to identify the users of the ISTMO system and train them. It will also coordinate the parameterization of the system to enable the budget to be managed, expenditures committed, and payments made through it. The system is being evaluated to determine whether it can be used for Bank-financed projects, or whether it will be necessary to use a parallel system.
- 4.3 Accounting will be governed by the rules issued by the CGR, which are based on International Public Sector Accounting Standards (IPSAS).

C. Disbursements and cash flow

- 4.4 Panama has passed a law that calls for use of the General Treasury Account (CUT), and its implementation has begun in the central government. In 2019, the CUT and its relationship to implementation of the ISTMO system will be evaluated to determine whether it can be used in Bank-financed projects.
- 4.5 The IDB will transfer the loan proceeds to an account exclusively for the program, to be opened by the Ministry of Presidential Affairs at a financial institution. Disbursements will be made in the form of advances to cover liquidity requirements, according to the financial plan, for a period of up to 180 days. A new advance may be requested once supporting documentation has been provided for at least 80% of the funds previously disbursed. The following methods may be used: reimbursement of payments made, or direct payment to supplier.

D. Internal control and internal audit

- 4.6 Because the CGR performs ex ante controls, the systems for internal control and internal audit of government institutions are weak, since they rely on the work of the CGR rather than having effective processes and controls. They are not considered adequate for performing the control function required for projects.

E. External control and reports

- 4.7 The CGR has focused on ex ante control of actions to administer public assets, and its audit function is weak. Apart from participating in administrative processes through ex ante control, it does not have the necessary independence to perform audits and is not considered to have the capacity to perform external control of the program.
- 4.8 The financial statements for the project, audited by an independent firm acceptable to the Bank, will be delivered on an annual basis within 120 days after the close of each fiscal year or the last disbursement.

F. Financial supervision plan

- 4.9 Financial supervision will focus on the auditors' reports mentioned in the previous paragraph, and the supporting documentation for disbursements will be subject to ex post review by those auditors or during inspection visits.