

PILOT PROJECT FOR DEMAND-BASED EMPLOYMENT AND TRAINING SYSTEM

(TC-97-05-24-7)

EXECUTIVE SUMMARY

EXECUTING AGENCY: The Ministry of Labor and Social Welfare (Ministerio de Trabajo y Bienestar Social-MINTRABS).

BACKGROUND: The Government of Panama (GOPN) and the private sector have recognized that the development of human capital is essential for job creation and sustained economic growth, and are pushing for a reform of the existing employment and training system. Its key elements include the building of a policy making framework for promoting human capital development, and increasing the private sector's role in financing and delivering training.

MIF assistance is requested to finance a first phase of this reform to: (i) establish a structured dialogue among key actors including private sector business leaders to agree on reforms; (ii) develop policies, appropriate incentives and institutional mechanisms to manage training policies and programs; (iii) restructure financing schemes to diversify training investments and eliminate barriers to the efficient allocation of resources; and (iv) test new types of training programs to build the institutional capacity and the know-how in this sector. The proposed project would implement these actions over a three-year period, facilitating the definition of more ambitious programs for a second phase.

BENEFICIARIES: The proposed project will: (i) directly benefit 2,000 economically disadvantaged young men and women participating in the program; and (ii) improve the competitiveness of 300 participating firms and the productivity of at least 75% of their workers. Moreover, the reform and program proposals to be developed will enable the Government and the private sector to target resources more effectively to programs that aim to: (i) increase workforce competitiveness; and (ii) improve the employability of the unemployed.

OBJECTIVES: The general objective is to build initial capacity to begin the modernization of the employment and training system. The specific objectives are to: (i) develop a consensus among the public and private

sectors on new training policies and programs; (ii) formulate reform proposals; (iii) stimulate the creation of a training industry; and (iv) build long-term program development and implementation capacity.

Specific results include: (i) achieving national consensus and stakeholder support for the proposed shift to a demand oriented and private- sector led reform; (ii) the introduction of new legislation to define the new organizational framework and guidelines for managing the new training system including the liberalization of financing, the introduction of cost sharing schemes and proposed new programs; and (iii) enterprise-based training and youth training models tested in 300 firms and among 2,000 unemployed youth, respectively.

DESCRIPTION:

The proposed project has two interlinked components to advance in two areas: **Component I. Policy Development and Institutional Strengthening**, establish an institutional framework to define future training policy and guide training investments and will focus on policy and program design and capacity building (for private-sector leaders, policy makers and training specialists); and **Component II. Pilot Training Activities**, will introduce and test the effectiveness of alternative employment and training strategies, as well as provide a learning-by-doing opportunity to a wider variety of actors (enterprises, training providers, youth and workers). A public awareness campaign, to educate youth and firms about this program while also mobilizing consensus for the reform process, will be financed under this project. Together, these activities should help advance the know-how and commitments needed to define the new system and lay the ground work for the future.

A recently established public-private Employment and Training Council will help direct the reform process and oversee the project. The fact that these initiatives will be developed through a structured dialogue between private and public stakeholders, will help ensure the sustainability of this effort to create a human resource base.

FINANCING:

Modality:	Grant
MIF, Facility II:	US\$2,690,000
Counterpart/Recipient:	US\$2,690,000
Total:	US\$5,380,000

IMPLEMENTATION	Execution period:	36 months
SCHEDULE:	Disbursement period:	39 months
ENVIRONMENTAL CLASSIFICATION:	The Environmental Management Committee, at its meeting on August 29, 1996, classified this as a Category II operation.	
BENEFITS:	<p>The first set of benefits will be: (i) the development of a national consensus on the needed reforms of the employment and training system; (ii) the preparation of a financial reform proposal; (iii) the establishment of a proposed institutional framework to support the system; and (iv) the development of programs that would be implemented under the new system.</p> <p>The second set of benefits will come from the activities executed in Component 2 which will provide concrete experiences and provide a frame of reference for implementing effective training schemes on a larger scale in the future and enrich the policy and program development process. Pilot 1, Enterprise-Based Training is expected to increase private sector investment in training and improve the capacity of 300 Panamanian firms to identify, select and contract services. It is expected that the training support provided to these firms will improve the competitiveness of the 300 firms and the productivity of at least 75% of their workers. In addition, this pilot will have stimulated the development of the training market by improving the supply of training services available to small and medium enterprises. Pilot 2, Training for Disadvantaged Youth, will directly benefit 2,000 unemployed low-income youth while also having the broader benefit of: (i) stimulating the growth of a private sector training industry; and (ii) introducing new schemes for improving the employability of labor force entrants.</p>	
RISKS:	<p>Given the traditional role of the official training institution, National Vocational Training Institute (INAFORP) in the execution of training projects with national and international resources, the decision to give primary responsibility for this project to a public-private Employment and Training Council, along with the fact that private training providers would be encouraged to compete for public resources, could create conflicts. To minimize the risk, MINTRABS has involved INAFORP in the sector dialogue, in consultations related to project preparation and as one of the members of the Council.</p>	

The potential change in government in 1999 could affect the momentum to push the reform that currently exists. However, the fact that the private sector is driving the reform process, and that the reform is already underway should help mitigate this risk.

CONDITIONALITY:

The operation would be subject to the following conditions. Up to US\$25,000 of the MIF grant will be made available for MINETRAB to contract technical assistance to complete the action plan. Any further disbursements shall be subject to MINTRABS presenting to the Bank for its approval the following items: (i) evidence that the Council has selected a project director, acceptable to the Bank and based on terms of reference agreed upon with the Bank; (ii) an action plan including a detailed timetable with target dates for each project activity and timelines for technical assistance activities; (iii) submission of a timetable reflecting the necessary commitments by INAFORP and IFARHU to implement performance-based budgeting; and (iv) evidence that the GOPN's annual contribution to local counterpart has been allocated for each year of execution (par. 4.2).

Procedures pertaining to services contracted by the private sector and services provided by the executing agency, are detailed in Chapter IV, Disbursement and Procurement (par. 4.1).

I. COUNTRY ELIGIBILITY

- 1.1 Panama was declared eligible by the Donor Committee for Multilateral Investment Fund (MIF), financing on February 9, 1995.

II. BACKGROUND

- 2.1 **Introduction.** Panama's economic reform is aimed at promoting investment and increasing the competitiveness of its domestic sector. While significant strides have been made towards removing protectionist barriers and creating a framework to attract investments, the country continues to face high open unemployment and a weak human resource base. The Government of Panama (GOPN) and the private sector recognize that the development of human capital is essential for job creation and sustained economic growth, and are pushing for an overhaul of the existing training system. Challenges include building a policy making framework for promoting human capital development, increasing the private sector's role in financing and delivering training and establishing standards and mechanisms to regulate training.
- 2.2 The GOPN and the private sector are seeking MIF assistance to finance a first phase of this reform to: (i) reach consensus on reforms by promoting a structured dialogue among policy makers and private sector leaders; (ii) develop policies, incentives and institutional mechanisms to manage training policies and programs; (iii) restructure financing schemes to diversify training investments and eliminate barriers to the efficient allocation of resources; and (iv) test new types of training programs to build the institutional capacity and the know-how lacking in this sector. The proposed MIF project would implement a pilot over three years, facilitating the definition of a future Bank operation.
- 2.3 **Macroeconomic Context and Labor Market Concerns.** Panama is moving away from a dual economic model, with an export sector composed mainly of three enclaves (Panama Canal Area, International Banking Center, and Colon Free Zone) and a highly protected domestic sector where agriculture, construction, and, to a lesser degree, manufacturing figured prominently. The disincentives created by this model are being overcome through price liberalization, deregulation, and the elimination of labor code rigidities in 1995 ^{1/}. These reforms combined with investment incentives to expand strategic and more labor intensive sectors (transportation, tourism, and the maritime industry) should increase employment.
- 2.4 Despite these efforts, high unemployment continues. Recent figures show only a slight decline in unemployment, from 14% in 1994 to 13% in 1996. These rates are projected to fall gradually to 10% and 8%

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The 1995 Labor Code Reform gives employers more flexibility in hiring and firing, reduces the state's labor-management disputes, introduces a severance pay fund, and allows more flexibility in determining wage levels.

in 1998 and 1999, respectively. Women (27.7%) and youth (20.4%) unemployment is disproportionately higher. These groups problems are compounded by their lack of training, work readiness skills, combined with employer reluctance in hiring inexperienced workers.

- 2.5 The absence of a strong human capital base is strategic. Diversification and the successful utilization of the Canal's reverted areas will depend on steady supply of specialized personnel. Current estimates indicate that 33% the workforce need skills upgrading and at least 75% of unemployed workers need training to compete in the labor market and reduce lengthy unemployment periods. Structural reforms and investment promotion alone will not substantially increase employment nor the long-term competitiveness of enterprises and their workforce. Targeted skills training, labor market orientation and job placement programs are needed to complement the job creation strategy.
- 2.6 **Diagnosis of Current Employment and Training System.** The GOPN and the Bank co-sponsored a Labor Market and Training Systems Policy Seminar with employers and labor unions in early 1996 and later conducted a labor market and institutional analysis of the system. The study concluded that Panama's existing system is not capable of meeting the country's human resource needs, nor is it capable of responding to the unemployment problems. Specific problems identified, were the: (i) lack of a policy framework or institutional basis to coordinate training policy initiatives/programs; (ii) inefficient allocation of public training funds; (iii) limited supply of private sector training and the need for a wider range of training delivery schemes; and (iv) ineffectiveness of existing programs which are often irrelevant to labor market needs and lack the rigor of having to be accountable.
- 2.7 The current system is heavily public-sector oriented with limited private sector providers and little focus on demand. The main challenges lie in changing **financing regimes** to stimulate the development of a **training industry** (and providing incentives to expand the private sector financing and delivery of training) and **building capacity** to develop effective training programs.
- 2.8 **More Efficient and Flexible Financial Regimes.** There are substantial funds available in Panama for training, largely through a payroll tax, but these are not used efficiently. The payroll tax instituted in 1987 (Law 13) finances an Education Security Program (1995 revenue US\$53 million), which assigns approximately 62% to human capital development programs, the most important of which include: (i) a scholarship/student credit program for academic and technical training (43%) through the Instituto para la Formacion y Aprovechamiento de Recursos Humanos (IFARHU); (ii) and job training (11%) through the official training agency, National Vocational Training Institute (INAFORP). IFARHU is poorly managed and financially unsound. Despite highly subsidized interest rates and favorable lending conditions, over 30% of the credit portfolio is

not recovered 2/. The student lending program could be a cost effective tool to promote strategic investments in training, but its poor administration is depriving the country of resources that could be reassigned to job training. By assigning the 11% for job training exclusively to INAFORP, the GOPN is limiting investments to a traditional publically oriented institution-based model.

- 2.9 **Stimulating the Development of a Training Industry.** There are a number of private providers, but the training industry is not developed or regulated. Industry-sponsored training (tourism or banking institutes), which is common in other countries, is almost non-existent. Private providers are primarily for-profit training firms, which cater to the higher end of the market (management and computer training). NGOs specializing in training marginalized groups are scarce in comparison to other countries. Incentives and strong technical guidance are needed to develop a competitive training industry in Panama. Reforming financing schemes to make resources available for private sector providers has stimulated both program improvements and the expansion of private sector training in countries like Mexico and Chile.
- 2.10 **Building Institutional Capacity.** One of the most critical issues is the lack of a policy-making framework or institutional capacity to guide training policy and investments and to monitor the performance of training programs. The Ministry of Labor and Social Welfare (MINTRABS) has not dedicated resources to developing this capacity. INAFORP, an autonomous entity since 1983, is charged with providing coordinating training at the national level. INAFORP concentrates its efforts in training delivery, but does not have the authority to make training policy. It also has not exercised any coordination functions. As such, INAFORP lacks sufficient independence to spearhead reform, regulate or reorient training investments to meet current needs. As to the quality of its programs, INAFORP has one work-based program (Capacitación Dual), which is effective for training mid-level technicians, but it is very costly. INAFORP's other programs are often obsolete, lack job placement mechanisms, placement data or program standards. These deficiencies may be symptomatic of the lack of discipline perpetuated by the assurance of revenue.
- 2.11 Employers are pushing for the creation of training standards to gauge the effectiveness of training programs. However, a structured dialogue is needed among policy makers, employers, organized labor and human resource development experts to help identify ways to support a "standards development" process. The experience of other countries shows that successful training standards development requires a long-term commitment, some level of government subsidies, and should be industry driven.

2/ Of IFARHU's US\$46.2 million 1996 budget, 56% came from revenue assigned by Law 13 while only 9.4% came from money recovered from student loans.

BANK AND MIF Models for Promoting Training System Reform. In meeting the challenges listed above, the GOPN and private sector would benefit by learning from international experiences. Many industrial and developing countries are in the process of restructuring their education and training systems to respond to the demand for continuous learning created by rapid technology changes. Formal education systems are adjusting their traditional delivery methods to equip students with the practical, analytical, problem solving skills they need to function in these labor markets. In education, the Bank is supporting a comprehensive project (Loan 1013/OC-PN) to modernize basic education. The gains in educational efficiencies and output should improve the performance of youth entering the workforce in the long term. At the same time, the million workers already in the workforce must avail themselves of the options provided by the training system.

Training is becoming a worldwide industry, where both for-profit and nonprofit providers respond rapidly to the widening demands for work-based learning. Continuous training and learning opportunities are key elements in reducing the impact of displacement, as well as in promoting workforce competitiveness. However, knowledge is limited on how to best provide continuous training and education opportunities. To date, the MIF has financed a series of pilot programs that test training sector reform strategies also being tried in OECD and other developing countries. Support by the MIF and the Bank, has focused on private-sector financing policies to promote work-based learning, private sector driven skill standards and introducing placement oriented programs for youth and the unemployed. The spectrum of programs, at the firm, the institutional provider and national policy levels, emphasize private sector participation and a demand orientation.

Panama presents the MIF with an important opportunity to complement the Bank's efforts in formal education, by setting in motion the training sector reforms necessary to help build the human capital base the country needs. The proposed project would combine key elements of reform supported by the MIF strategy: (i) develop the institutional capacity to implement the structural reforms to make efficient use of training resources; (ii) implement long-term reforms; and (iii) support pilot training programs where the private and public sectors share responsibility for executing programs aimed at facilitating labor market insertion of new entrants as well as productivity enhancement programs for employed workers.

- 2.12 Given existing institutional gaps, resources will need to be dedicated to structure a new system. The role of public entities needs to be redefined and new public-private partnerships should be established to set standards, manage and regulate training.
- 2.13 **The Reform Agenda.** While private sector leaders and policy makers agree on the major weaknesses and challenges for the sector, they do not currently have the knowledge-base or institutional capacity to define and implement effective solutions. Technical support to analyze alternative solutions is required. Moreover, success will depend on the commitment of private and public stakeholders to build consensus around the reform agenda.
- 2.14 Specifically, the challenges are to: (i) build strong technical, policy and program development capacity to guide training investments; (ii) design an institutional framework to develop skill standards to monitor the effectiveness of training and labor market programs and to maintain their relevance to labor market demand; (iii) introduce measures to make the allocation of public resources contingent on program performance and lift restrictions to assign resources more strategically; (iv) create independent institutions to manage and fund training; (v) create incentives to promote private sector participation in training; and (vi) invest in better targeted training programs for the unemployed while also promoting programs that will spur private sector-led growth and

workforce competitiveness. The MIF can play an important role in assuring the private sector plays a key role in this process. Policy reform and experimentation through pilot activities in employment and training will be required as an first step toward addressing these challenges.

III. THE PROJECT

A. General Project Description

- 3.1 As detailed in Chapter II, Panama urgently needs to reform its employment and training system if it is to remain competitive. The main purpose of this project is to create the foundation for a more private sector and demand-based system.
- 3.2 Private sector leaders (employers, unions, and local labor market and training experts) will participate, for the first time, in a policy and program development activity that will define the future of Panama's employment and training system. Also, for the first time, enterprises and private sector training providers will compete for funds to implement training programs aimed at improving both the employability of trainees seeking to enter the labor market and the productivity of employed workers through worker training. For MINTRABS, the project represents an important step toward building internal capacity to play a more active role in formulating training policy and building better links with employers and workers on employment and competitiveness issues.
- 3.3 The introduction of competition for public funds and cost sharing schemes should stimulate the private sector's participation in training and increase efficiency. The pilots will help policy makers and other participants see how mixed interventions can lead to better results and forge stronger linkages between demand and supply. These actions will help shape proposals for reforming the training system and forge on-going dialogue among stakeholders.
- 3.4 **Organizational Framework.** The project will finance the activities of a newly created public-private Employment and Training Council (the Council). This Council will guide the reform, making policy recommendations to the GOPN, and helping define the organizational and financing structure of the new system. It is comprised of private sector employers and labor organizations, training agencies and sector ministries (Labor, Education and Planning), thus formalizing stakeholder participation in the reform process. The Council is a consultative body, but it is expected that a public/private sector consortium, whose structure will evolve from the Council, will continue on after the project. A Technical Unit (TU), affiliated to MINTRABS, will support the formulation of reform proposals and manage the operation (paras. 3.25-3.29).

B. Objectives

- 3.5 The general objective is to build capacity to begin the modernization of the employment and training system. The specific objectives are to: (i) develop a consensus among the public and private sectors on new training policies and programs; (ii) formulate reform proposals; (iii) stimulate the creation of a training industry; and (iv) build long-term program development and implementation capacity.

C. Project Components

- 3.6 The components are interlinked to advance in two areas: (i) establish an institutional framework to define future training policy and guide training investments; and (ii) introduce and test alternative employment and training strategies. **Component I** focuses on design and capacity building (for private sector leaders, policy makers and national training experts). **Component II** provides a learning-by-doing opportunity to a wider variety of actors (enterprises, training providers, youth and workers). A **public awareness campaign**, including outreach to attract youth and firms to the program, and activities to mobilize public consensus for the reforms, will be financed under this project. Together, these activities should help advance the know-how and commitment needed to define and lay the ground work for the future system.
- 3.7 Component I Policy Development and Institutional Strengthening (US\$468,000; 40% will be financed by MIF). This component will finance technical assistance to prepare proposals for long-term actions related to reforming the financial regime, institution building, program development and promote private sector participation in training. Some aspects of the reform are sequential, but flexible to accommodate the time needed to pass legislation. The **three main lines** of activities include: (i) the implementing of new **financing** policies, procedures and mechanisms for the training system; (ii) designing and agreeing on an **institutional scheme** to manage the system; and (iii) designing a comprehensive proposal to finance, develop and implement a wider scope of **programs to meet labor market demand**.
- 3.8 The technical assistance includes conducting a series of policy studies, internal workshops and public seminars facilitated by technical experts, and **three observation tours** to countries that have already undergone a training modernization process. For the tours, the participation of least three Council or program staff members would be supported. The **studies** will cover programmatic aspects of the reform and identify and prepare programs to be financed under the new system. Although the definition of these proposals are the responsibility of the Council and the technical staff, technical assistance is critical to have access to international experience and expert analysis to inform decisions on how to structure the new system.

- 3.9 The Council and technical staff would participate, over a period of three years, in both **internal workshops**, facilitated by experts, and **seminars** which would involve a broader group of stakeholders and training policy experts. They would discuss various proposals which utilize institutional and financial instruments to stimulate private-sector driven training initiatives and stronger linkages between training supply and demand. Three **workshops** would be held to: (i) provide orientation for the project startup; (ii) review and define the financial proposal; and (iii) agree on future programs. Three **seminars** would be held to: (i) set the reform agenda and gain support; (ii) present and discuss the new organizational structure; and (iii) discuss the final financial and organizational scheme (see Annex I, Project Activity Schedule).
- 3.10 For **financial reform**, two steps are required to increase efficiency in the use of public resources for labor training. A **first step** is the introduction of **performance-based budgeting** in INAFORP and IFARHU, as an intermediate measure to increase their accountability and efficiency. The Ministry of Planning and Economic Policy (MIPPE) has already mandated the use of such budgeting in some agencies, but this has not yet been universally enforced. The project will finance technical assistance to aid INAFORP and IFARHU in this transition. This technical assistance would be initiated in the first six months of the project, but is contingent on the submission of a timetable for its implementation. As a **second step**, technical assistance will be provided to guide the development of a proposal to **increase efficiency in the allocation of public training funds**, and introduce cost-sharing and cost recovery schemes. This includes creating mechanisms to allocate funds more strategically and increasing private contributions in financing training (See Annex I, Project Activity Schedule).
- 3.11 Technical assistance will be financed to prepare a proposed **institutional scheme** to develop and manage the system. This would be presented by the Council to the Government within the first 18 months of execution. The new structure would define the following: (i) policy and program development schemes; (ii) regulatory mechanisms, including standards; and (iii) a grant making body to manage and distribute funds. A draft proposal will be reviewed by a wide range of stakeholders and one of the seminars will be dedicated to refining the proposal and developing consensus.
- 3.12 The final proposal, which includes elaboration of **programs to meet labor market demand**, will be completed in 30 months. During project preparation, several strategic priorities were identified: (i) training programs to enhance enterprise or industry productivity; (ii) expanding training services to rural areas; (iii) developing adjustment programs for workers displaced by privatization and economic restructuring; (iv) developing specialized training packages to meet the demands of the Canal's reverted areas; and (v) proposing ways to use the installed capacity of INAFORP, IFARHU, and MINTRABS's employment services to provide better target

programs for the unemployed. Technical assistance will be contracted to support the design of these programs.

- 3.13 An important aspect of this component is the strengthening of the technical capacity of MINTRABS to fulfill its key policy and leadership role. The technical unit will include specialists supplied by MINTRABS in policy-making, project planning, labor economics, and labor law who will be incorporated into policy planning and programming departments of MINTRABS upon completion of this project. The participation of these departments, will provide MINTRAB valuable experience and institutional know-how.
- 3.14 Component II Pilot Training Activities. This component will finance two pilots to test the effectiveness of alternative training methods and help Panama gain hands-on program experience. These pilots are demand-driven and include incentives to stimulate the private provision of training through contracting. They will increase the linkage of training activities to needed skills and will respond more efficiently to the needs of the private sector by engaging employers in the program (paras. 3.32-3.34). The services will be initially delivered in two to four areas where there some training capacity exists: Colón, Chitré, David, and the metropolitan area (Panamá - San Miguelito).
- 3.15 Pilot 1: Enterprise-Based Training (US\$1,903,000, of which 50% will be financed by MIF). This pilot will finance initiatives to examine the viability of using incentive schemes to promote enterprise based training. An estimated 300 firms and at least 2,000 workers will benefit directly. On average, individual enterprises would receive US\$2,000 with a maximum of US\$7,500 per firm. The maximum amount of co-financing to be provided per worker is US\$500 to ensure that the activities are focused on short productivity enhancing training. As found in other countries, enterprise-based training is a more efficient method for meeting private-sector skill needs, because it ties training more directly to production.
- 3.16 Technical assistance will be provided to help firms to identify their training needs. Firms whose proposals meet program requirements can receive a one-time reimbursement of 50% of the cost of developing and implementing their human resource development plan and specific training activities. Beneficiary enterprises must finance 100% of the cost before receiving the 50% reimbursement. Eligibility for re-imbursement benefits are contingent on the program's approval of the plan prior to initiation of activities. Cost-sharing incentives have stimulated more investment in training in other countries. Among small and medium enterprises, they have also encouraged more systematic and effective investments of scarce training resources.
- 3.17 A Registry of service providers will also be financed to help firms evaluate the qualifications of providers, such as areas of

specialization, length of time in business, experience, and location. Providers must be registered with the program, but this Registry is open to any contractor who wishes to compete for contracts, and will be continuously updated.

- 3.18 The type of training this pilot supports is short-term, averaging 70 hours and focuses primarily on up-grading workers skills. Training will be framed by each firm's strategic plan to improve production processes. Although the specific activities are subject to each firm's requirements, these will typically include training in: operation of precision instruments, machine operation, process control, packaging, telemarketing, and customer service.
- 3.19 The pilot will target small and medium enterprises in four urban areas (para. 3.15.). Microenterprises are not likely to meet the minimum financial requirements and large enterprises are not likely to be interested in the size of grants. However, to ensure the desired beneficiary profile, no more than 10% of the recipients can be large enterprises. ^{3/} It will promote the participation of enterprises in sectors that are either labor intensive, major employers or show high employment potential, such as ports, transportation, tourism, mining, agriculture, and finance. The public awareness campaign and outreach will be targeted to these sectors. Enterprises will be evaluated to ensure they meet a minimum level of organizational and financial maturity based on their legal constitution, contractual agreements with employees, and business activities. Experience in other countries has shown that, for program purposes, the financial viability is demonstrated by the ability of the firm to finance 100% of the training upfront.
- 3.20 This is the first attempt to finance employer-led training schemes in Panama. This demonstration activity will lay the groundwork to expand these initiatives in the future. The expected results are that the participating enterprises will increase their investments in training and improve their capacity to select training services. This should have the effect of improving the supply of training services available to firms by stimulating demand for quality services. It is also intended to have a demonstration effect on building private-public partnerships in training.
- 3.21 Pilot 2: Training for Disadvantaged Youth (US\$1,611,000, of which 70% will be financed by MIF) This pilot will finance private sector-driven youth training and job placement activities contracted competitively. It will provide placement opportunities for 2,000 unemployed low-income youth, both men and women, between the ages of 15 and 29. The program includes two to three months of full time practical on-the-job training combined with approximately 250 hours of classroom instruction. Trainees will have a minimum

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In Panama, micro enterprises are defined as those firms with less than 5 employees, small with between 5 and 15 employees, medium with 16-50 and large, those with more than 50 employees.

level of education appropriate to occupations identified for training and placement (para. 3.19).

- 3.22 Proposals must demonstrate that providers have secured worksites for on-the-job training for least 80% of the proposed beneficiaries. The experience, of Chile and the U.S., have shown that this is an effective way to increase labor market insertion rates. These aspects of the model are innovative for Panama.
- 3.23 The classroom instruction will be comprised of three modules: (i) training in a specific occupational skill, for an average duration of 140 hours and a maximum of 200 hours; (ii) employment counseling and job placement support required for effective employment in any work environment and job-search skills; and (iii) complementary remedial training for participants who need to upgrade their basic skills (literacy and numeracy) or need specialized training to use the technology of the particular worksite where they are assigned. Combined the last two modules average 40 hours to 50 hours.
- 3.24 The project will also finance the participant costs (transportation stipends, accident insurance, and other related expenses). Employers involved in on-the-job training will dedicate personnel to supervise and monitor the participants during that period.

D. Project Execution

- 3.25 The executing agency, the Ministry of Labor and Social Welfare will direct the project in collaboration with a public-private Council (para. 3.5), already established by Executive Decree. The Council is a consultative body which will have an active role in recommending policy reforms and provide general direction to the project. The Council will be supported by a Technical Unit (TU), affiliated to MINTRABS, responsible for operations and technical activities of the project.
- 3.26 The Technical Unit will: (i) administer and supervise all project components; (ii) manage Bank and local counterpart disbursements; (iii) maintain data bases, registries and files; (iv) contract consultants; and (v) manage the public awareness campaign. It will also be responsible for the design, preparation and processing of bidding documents. The TU will receive training and technical assistance to set up program activities, monitoring and reporting systems in the first six months of project execution.
- 3.27 The main offices of the Technical Unit's and the Council meeting facilities will be housed in an accessible location. The pilots will operate out of two to four regional offices to interface with providers and participants. Where possible, these will be provided by private organizations such as local chambers of commerce.
- 3.28 The administrative staff of the TU includes: (i) a director, responsible for overall project supervision; (ii) one administrator each for the execution of Pilots 1 and 2 in Component II; (iii) one

accountant; and (iv) one assistant accountant. Staff will also be drawn, as needed, from MINTRABS for special assignments, such as reviewing legal documents (para. 3.13).

- 3.29 The project will be supervised by the Bank's Country Office in Panama and through annual technical review missions conducted by the Project Team, the authorities responsible for project implementation and external consultants, as needed. The Council will submit three progress reports to the Bank: (i) after the first 18 months to coincide with the mid-term evaluation and reform proposals; (ii) after month 28, to include the program proposals and (iii) a final report 30 days after project conclusion.
- 3.30 Execution of Component I. Policy Development and Institutional Strengthening. In addition to the staff indicated in para. 3.28, specialized support would include: (i) one policy analyst; (ii) one planning analyst; and (iii) one labor economist. They will manage the studies, seminars and workshops on training policy, programs and finance and be responsible for drafting training policy recommendations and program proposals to support the work of the Council. The TU will assist the Government in drafting policy proposals for the consideration of the legislature as required.
- 3.31 Execution of Component II. Pilot Training Activities
PILOT 1. Enterprise-Based Training. The Administrator, assisted by three Private Sector Development Specialists, will work with the 300 enterprises in formulating their proposals, and advise participating enterprises in selecting training providers. Other tasks are to: (i) prepare and process bids; (ii) assist firms in the contracting of service providers; and (iii) maintain the Registry of national and international professionals and institutions capable of providing training services. Enterprises will present proposals for cofinancing training activities. Proposals will be evaluated on a first-come, first-serve basis and a private-sector panel will make the final selection.
- 3.32 **PILOT 2. Training for Disadvantaged Youth.** The Administrator of this pilot, assisted by two Youth Coordinators, will select, process and manage training providers. They will monitor program implementation, including maintaining data on participant progress. The service institutions will be selected through a public bidding process managed by the TU.
- 3.33 Individual service providers may submit service proposals for a minimum of 20 and a maximum of 200 youth. The minimum is intended to ensure a certain economy of scale in terms of cost. The maximum is to avoid concentration in a small number of service providers. For this same reason INAFORP may present a proposal for no more than 100 youth during the duration of the project. The evaluation will include an analysis of these limits and recommend adjustments as needed for future programs to avoid fragmentation of the market.

- 3.34 Service providers will first be pre-qualified to present proposals, and these would be invited to present bids. Bidding will occur twice during the course of the project. Proposals will be evaluated based on a point system that will be detailed in the public bidding documents.
- 3.35 Execution Timetable. The execution period will be 36 months and a disbursement period of 40 months. For the timetable of project activities see Annex I.
- 3.36 Project Budget and Counterpart Resources. The total cost of the project has been estimated at the equivalent of US\$5.4 million divided as follows: (i) US\$2.7 million as a non-reimbursable grant from the Human Resource Development Facility of the Multilateral Investment Fund; and (ii) US\$2.7 million from the Government of Panama and private sector participants in the program. A summary budget is included in Table 1 below. The detailed budget is presented in Annex III of the Project Files.

BUDGET TABLE 1 (figures in thousands)			
ACTIVITY	IDB/MIF	GOPI	TOTAL
1. COMPONENT 1. Policy Develop./Instit. Strengthening	187	281	468
2. COMPONENT II. PILOT 1. Enterprise-based training	952	952	1903
3. COMPONENT II. PILOT 2. Disadvantaged youth	1128	483	1611
4. EVALUATION	124	35	159
5. PUBLIC AWARENESS CAMPAIGN	100	100	200
6. ADMINISTRATION COSTS	0	839	839
7. CONTINGENCIES	200	0	200
Total	2690	2690	5380
Percentage	50.0	50.0	100.0

IV. DISBURSEMENT AND PROCUREMENT

- 4.1 Standard Bank procedures will apply to all procurement of goods and services. As under all MIF financing, goods and services must be purchased from MIF donor countries or regional MIF-eligible countries. The participating enterprises will select the providers according to principles of cost efficiency and transparency consistent with Bank procedures. For services where the participating enterprises are responsible for contracting the training and technical assistance providers up front, the Bank will use private sector selection practices evaluated and accepted by the Bank in other labor market projects with private-sector driven activities. The same procedures are being applied in loan 983/OC-ME, and TC-95-08-40-1 for Mexico. An advance of no more than 5% of the MIF grant amount will be established.

- 4.2 The operation would be subject to the following conditions. Up to US\$25,000 of the MIF grant will be made available for MINTRABS to contract technical assistance to complete the action plan. Further disbursements shall be subject to MINTRABS presenting to the Bank for its approval the following items: (i) evidence that the Council has selected a director, acceptable to the Bank and based on terms of reference agreed upon with the Bank; (ii) an action plan including a detailed timetable with target dates for each project; (iii) submission of a timetable reflecting the commitments by INAFORP and IFARHU to implement performance-based budgeting; and (iv) evidence that the GOPN's has assigned MINTRABS the sufficient budget to cover the government's portion of the contribution to execute the activities of the first year. The same condition applies to grant disbursements for year two and three.

V. BENEFITS, VIABILITY AND RISKS

A. Viability and Risks

- 5.1 Projects which promote deep changes such as these, require political will and the strong leadership of policy makers and the private sector. The Government has shown its commitment to accelerate human capital development through the reform of formal education, supported by IDB and IBRD projects. Since this reform is motivated by concern about workforce competitiveness there is every indication that the effort will be sustainable.
- 5.2 This reform will not require expanding public expenditures. It will help build a self-sustaining system by encouraging greater private sector contributions, introducing cost recovery, and a more efficient allocation earmarked payroll funds.
- 5.3 Given that INAFORP is the traditional recipient of national and international resources, the decision to give primary responsibility for this project to MINTRABS and a private sector-led Council, along with the fact that private training providers would be encouraged to compete for public resources, could create conflicts. To minimize the risk, MINTRABS has involved INAFORP in the sector dialogue, in consultations related to project preparation and as one of the members of the Council.
- 5.4 The potential change in government in 1999 could affect the momentum that currently exists. However, the fact that the private sector is driving the reform process, and that the reform is already underway should help mitigate this risk.

B. Environmental Viability and Social Impact

- 5.5 **Environmental Viability.** The CMA classified this operation as Category II at its meeting of August 29, 1996. The pilots under Component II, and especially for productive enterprises and/or

industries will include environmental awareness activities in the design and implementation of labor training programs.

- 5.6 **Social Impact.** The project will have a direct impact on 2,000 economically disadvantaged young men and women. The reform and program proposals developed by the project will enable the government and the private sector to target resources more effectively to programs that aim to increase the employability of groups disproportionately affected by unemployment. Women already active in the labor market will also benefit from reforms supported by the project. Women employed by the 300 participating firms will benefit by increasing their skills and female trainees participating in the youth pilot will be encouraged to select better remunerated non-traditional jobs. The participation of women entrepreneurs and workers in the policy dialogue and in the pilots will be encouraged through the public awareness campaign and outreach activities.

VI. COMPLIANCE WITH PROJECT ELIGIBILITY CRITERIA

- 6.1 **General Criteria for Project Eligibility.** The project is consistent with agreement establishing the MIF, specifically Article I(b) and I (d) which call for strategies to expand the private sector and bearing certain costs associated with investment reforms.
- 6.2 **Facility Criteria for Project Eligibility.** The project is consistent with the grant financing criteria of the Human Resources Facility one of whose goals is to provide grants funds to develop the human resource base needed for increased investment flows and an expanded private sector. The project will finance actions aimed at improving labor force productivity through private-sector driven training programs, one of the key priorities approved by the MIF Donors Committee in March 1997.

VII. COMPATIBILITY WITH THE BANK STRATEGY FOR PANAMA

- 7.1 In line with the Eighth Replenishment and its country strategy for Panama, the Bank will assist the GOPN in achieving sustainable growth with equity. In labor-related activities the Bank's strategy is to promote: (i) more efficient use of training resources; (ii) institutional reforms that encourage the development of a more competitive and efficient training market including the introduction of training standards; and (iii) special programs for underserved segments of society to gain better access to job opportunities and improved living conditions.
- 7.2 The Bank encouraged the GOPN to avoid quick-fix solutions to unemployment and, instead, focus on its medium-term goal to develop better employment and training opportunities. The proposed MIF operation would help the Government and the private sector lay the ground work for further reforms over the medium and long-term.

- 7.3 This would be the first operation funded by the Human Resources Facility in Panama and it complements the instrumentation of the Strategy to Support Private Sector Development for Panama approved by the Bank's private sector group in July 1997. The strategy identifies training reform as a key base scenario/enabling factor to build human resource capacity. By stimulating private-sector participation in training and ensuring the reforms in Panama are private-led, the MIF is also making a significant contribution to the Bank's private sector development strategy.

VIII. AVAILABILITY OF MIF RESOURCES

- 8.1 **Funding Modality.** The project would be financed through a non-reimbursable grant. On February 9, 1995, the MIF Donors declared Panama eligible for all forms of financing.

IX. MONITORING AND EVALUATION

- 9.1 In the first three months of the project, the TU will select a firm, acceptable to the Bank according to terms of reference approved by the Bank, to develop a monitoring and evaluation system. The data compiled through the monitoring system will inform the evaluation and allow the TU to monitor project activities, thereby supporting project supervision. There will be two evaluation reports: (i) a mid-term evaluation after the first 18 months, to analyze progress and make adjustments; and (ii) a final evaluation at the end of the 36 month of project execution period focusing on effectiveness.
- 9.2 The evaluation will be more "hands on" and less traditional, emphasizing process analysis. It will focus on program design and costs to identify areas which need refinement. The benchmarks set out in the Logical Framework (Annex II) are the key variables that will be evaluated. It will also gauge examine training costs to inform future cost recovery strategies and the effects of the policy reform process.
- 9.3 Although impact is difficult to measure in a three year program, the evaluation will track a small group of program beneficiaries. Indicators for the enterprise pilot will examine impact on training investments. For the youth pilot, indicators would include level of employment or continuation of job training. Enterprises will be surveyed a year after completion. Youth will be tracked after 3 months, 6 months and one year after training. This data will be limited to groups that complete the program in the first 16 months. The evaluation methodology for the pilots will not include control groups analysis, because it was not deemed cost effective or feasible to measure impact in the time frame allotted for this stage. The focus will be on operational efficiency, incentive structures and program acceptance.

PROJECT ACTIVITY SCHEDULE

		1	2	3	4	1	2	3	4	1	2	3	4
Council established	x												
TORs for key technical unit staff and key consultancies approved		x											
COMPONENT 1: Policy Development													
First internal workshop		x											
First Seminar		x											
Submission by GOPN of timetable for implementing performance-based budgets in training sector, including commitments from agencies		x											
1/TA for adoption of performance-based budgeting		x	x										
TA for reform of financial mechanisms			x	x	x	x	x						
TA for reform of inst. framework			x	x	x	x	x						
Observation trips to analyze institut. structures in other countries			x	x									
Internal Workshop to finalize proposal on financ.mechanisms/inst. framework					x								
Seminar to present/debate proposals on financing mechanisms/inst. framework						x							
Presentation to GOPN of proposals on reform of financing mechanisms and institutional framework							x						
TA to elaborate new policies/ programs							x	x	x	x			
Internal workshop to finalize proposal on policies and programs									x				
Seminar to present and debate proposal on policies and programs										x			
Presentation to GOPN of proposal on policies and programs											x		
COMPONENT II - Pilot 1: Enterprise Based Training													
Elaboration of model contract and proposal criteria		x	x										
Develop Registry of Service Providers		x	x										
Promotional activities													
Receive and Evaluate proposals				x	x	x	x	x	x	x	x	x	
COMPONENT II - Pilot 2: Youth Training													
Elaboration of bidding documents		x	x										
Develop Registry of Service Providers (in conjunction with Pilot 1)		x	x										
First Bid				x									
Second Bid								x					
Evaluation and Monitoring													
Evaluation firm recruited		x											
Establishment of monitoring system and evaluation methodology		x	x										
Mid-term evaluation							x						
Final evaluation, three months following final disbursement													
Ex-post evaluation of pilots, one year following end of project													

1/ Technical assistance is short term but available as needed over the entire period indicated in this schedule.

LOGICAL FRAMEWORK

is to build initial capacity to begin the modernization of the employment and training system.
es are to: (i) develop consensus among the public and private sectors on new training policies and reforms; (ii) formulate reform proposals; (iii) stimulate the creation of a private sector training industry, and (iv) build long-term program development and

would include: (i) achieving national consensus and stakeholder support for the proposed shift to a demand oriented and private sector led reform; (ii) the introduction of new legislation/mandates that define the new organizational framework and guidelines; (iii) the liberalization of financing, the introduction of cost sharing schemes and proposed new programs; and (iii) enterprise -based training and youth training models tested in 300 firms and among 2,000 unemployed youth, respectively.

Lines of Activity	Monitoring Indicators	Means of Verification	Assumptions
ured dialogue among key private sector and nders to reach national consensus on training	(i) The signing of a social pact/agreement by key stakeholders organizations, supporting the essential elements of the reform proposals, within 18 months of project start-up.	(i) Executive decree appointing the Council and minutes of regular meetings of the Council. (ii) Social pact/agreement for the modernization of employment and training signed by key stakeholder organizations and political parties. (iii) Project progress reports, evaluations and monitoring visits.	(i) GOPN and private sector leaders' commitment to the reform process.
ing policies to eliminate barriers to the efficient es.	(i) Initiation of performance-based budgeting within INAFORP and IFARHU within the first year of project. (ii) Presentation of legislative proposal to liberalize the allocation of training funds	(i) Presentation to Bank of timetable for implementation of performance budgeting in INAFORP and IFARHU. (ii) Legislation introduced by Panama's legislative body and scheduled for consideration.	(i) GOPN commitment to apply performance based budgeting in public agencies. (ii) Public and private sector commitment to maximize the utilization of training resources. (iii) no external factors impede passage of legislation.
ational framework to manage the new employment	(i) Proposal presented for a organizational scheme organizational scheme within 18 months of project start-up.	(i) Social pact/agreement and supporting documents.	(i) Public and private sector commitment to establish partnerships to manage training system.
al to introduce a wider scope to employment and support the new	(i) Presentation of program proposals to the GOPN and the Bank including projected costs in the last quarter of the second year of project execution.	(i) Proposal and program diagnostics.	(i) The Council leadership, technical unit and assistance are sufficient to support the preparation of programs.
of training models to build institutional capacity lacking in the sector.	(i) The successful implementation of the cost-sharing enterprise based training model prompting 300 firms to: increase their training investments by at least 20%; increase the productivity of at least 75% of their workforce; take a more systematic approach to human resource development concerns. (ii) The successful implementation of a job placement oriented youth training model. The program is expected to successfully place at least 70% of the 2000 participants. (iii) Stimulate an increase in private sector training services by at least 20%.	(i) Program monitoring data, progress reports, MIF/Bank supervision missions and evaluation reports.	Enterprises, youth and training providers will implement the program (see i, ii, and iii in monitoring indicators) and will provide anticipated level of youth placements.

PROPOSED RESOLUTION

Panama. Non-reimbursable Technical Cooperation for a Pilot Project for a Demand-Based Employment and Training System

The Donors Committee of the Multilateral Investment Fund

RESOLVES:

1. That the President of the Inter-American Development Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Multilateral Investment Fund, to enter into such agreements as may be necessary with the Ministry of Labor and Social Welfare, and to take such additional measures as may be pertinent for the execution of the Pilot Project for Demand-Based Employment Training System.

2. That up to the amount of US\$2,690,000 or its equivalent in other convertible currencies, is authorized for the purpose of this resolution, chargeable to the resources of the Human Resources Facility of the Multilateral Investment Fund.

3. That the above-mentioned sum is to be provided on a nonreimbursable basis.