

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

P A N A M A

**ASSISTANCE PROGRAM FOR THE BUILDING OF A TRAINING
AND EMPLOYMENT SYSTEM IN PANAMA**

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DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PANAMA

ASSISTANCE PROGRAM FOR THE BUILDING OF A TRAINING AND EMPLOYMENT SYSTEM IN PANAMA

(PN-0125)

LOAN PROPOSAL

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ABBREVIATIONS

| | |
|------------|--|
| AMPYME | Autoridad de Micro, Pequeña y Mediana Empresa [Agency for Micro, Small and Medium-Sized Enterprises] |
| COSPAE | Consejo del Sector Privado para la Asistencia Educacional [Private Enterprise Council for Educational Assistance] |
| DGE | Dirección General de Empleo [General Employment Office] |
| GDCAL | Gerencia de Capacitación Laboral [Job Training Bureau] |
| IFARHU | Instituto Nacional para la Formación y el Aprovechamiento de Recursos Humanos [National Training and Human Resource Development Institute] |
| INAFORP | Instituto Nacional de Formación Profesional [National Vocational Training Institute] |
| MEF | Ministry of Education and Finance |
| MIF | Multilateral Investment Fund |
| MITRADEL | Ministry of Labor and Workforce Development |
| MSMEs | Micro, small and medium-sized enterprises |
| OC | Ordinary capital |
| PROCAJOVEN | Programa de Capacitación de Jóvenes [Youth Training Program] |
| PROCAMYPE | Programa de Capacitación a Trabajadores Activos en la Micro, Pequeña y Mediana Empresa [Training Program for Workers in Micro, Small and Medium-Sized Enterprises] |



PANAMA

IDB LOANS

APPROVED AS OF MARCH 31, 2002

| | <i>US\$Thousand</i> | <i>Percent</i> |
|---------------------------------------|---------------------|----------------|
| TOTAL APPROVED | 1,863,063 | |
| DISBURSED | 1,394,229 | 74.8% |
| UNDISBURSED BALANCE | 468,834 | 25.2% |
| CANCELLATIONS | 391,505 | 21.0% |
| PRINCIPAL COLLECTED | 644,660 | 34.6% |
| APPROVED BY FUND | | |
| ORDINARY CAPITAL | 1,540,532 | 82.7% |
| FUND FOR SPECIAL OPERATIONS | 280,023 | 15.0% |
| OTHER FUNDS | 42,508 | 2.3% |
| OUTSTANDING DEBT BALANCE | 749,569 | |
| ORDINARY CAPITAL | 663,582 | 88.5% |
| FUND FOR SPECIAL OPERATIONS | 84,947 | 11.3% |
| OTHER FUNDS | 1,040 | 0.1% |
| APPROVED BY SECTOR | | |
| AGRICULTURE AND FISHERY | 174,164 | 9.3% |
| INDUSTRY, TOURISM, SCIENCE TECHNOLOGY | 71,132 | 3.8% |
| ENERGY | 365,903 | 19.6% |
| TRANSPORTATION AND COMMUNICATIONS | 409,670 | 22.0% |
| EDUCATION | 124,614 | 6.7% |
| HEALTH AND SANITATION | 125,489 | 6.7% |
| ENVIRONMENT | 88,180 | 4.7% |
| URBAN DEVELOPMENT | 68,197 | 3.7% |
| SOCIAL INVESTMENT AND MICROENTERPRISE | 76,630 | 4.1% |
| REFORM PUBLIC SECTOR MODERNIZATION | 332,182 | 17.8% |
| EXPORT FINANCING | 0 | 0.0% |
| PREINVESTMENT AND OTHER | 26,903 | 1.4% |

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



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

PANAMA

STATUS OF LOANS IN EXECUTION AS OF MARCH 31, 2002

(Amounts in US\$ thousands)

| APPROVAL PERIOD | NUMBER OF PROJECTS | AMOUNT APPROVED | AMOUNT DISBURSED | % DISBURSED |
|-----------------|--------------------|------------------|------------------|---------------|
| Before 1996 | 2 | 51,430 | 47,139 | 91.66% |
| 1996 - 1997 | 8 | 215,536 | 82,945 | 38.48% |
| 1998 - 1999 | 8 | 327,650 | 74,344 | 22.69% |
| 2000 - 2001 | 3 | 78,179 | 770 | 0.98% |
| TOTAL | 21 | \$672,795 | \$205,198 | 30.50% |

* Net of Cancellations . Excluding export financing loans.



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

Panama

TENTATIVE LENDING PROGRAM

2002

| Project Number | Project Name | IDB Fin. US\$ Millions |
|--------------------------------|---|------------------------|
| PN0145 | Program to Foster Competitiveness | 7.0 |
| PN0125 | Training and Employment System Development | 7.3 |
| PN0148 | National Land Management Program | 21.0 |
| PN0147 | Fiscal Management II | 10.0 |
| PN0149 | Sustainable Develop. Province Bocas del T | 16.2 |
| Total - A : 5 Projects | | 61.5 |
| PN0139 | Priority Activities in the Hydrografic Basin Panama Canal | 10.0 |
| *PN0154 | Colon International Airport | 35.0 |
| *PN0155 | Bonyic Hydroelectric Project | 10.0 |
| Total - B : 3 Projects | | 55.0 |
| TOTAL 2002 : 8 Projects | | 116.5 |

2003

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

Total Private Sector 2002 - 2003 45.0

Total Regular Program 2002 - 2003 326.5

*** Private Sector Project**

ASSISTANCE PROGRAM FOR THE BUILDING OF A TRAINING AND EMPLOYMENT SYSTEM IN PANAMA

(PN-0125)

EXECUTIVE SUMMARY

| | | |
|--|--|---|
| Borrower: | Republic of Panama | |
| Executing agency: | Ministry of Labor and Workforce Development (MITRADEL) | |
| Amount and source: | IDB: (OC) | US\$ 8.4 million |
| | Local: | US\$ 2.1 million |
| | Total: | US\$10.5 million |
| Financial terms and conditions: | Amortization period: | 25 years |
| | Grace period: | 3 years |
| | Disbursement period: | 3 years |
| | Interest rate: | variable |
| | Inspection and supervision: | 1% |
| | Credit fee: | 0.75% |
| | Currency: | U.S. dollar from the Single Currency Facility |
| Objectives: | <p>The medium-term objective is to help build a training and placement system that improves the employment prospects and competitiveness of Panamanian workers through the diversification of training programs and the development of training models better geared to the needs of job seekers and actively employed workers. The specific objectives are to: (i) improve employment prospects for jobless youths; (ii) improve the performance and skills level of workers employed in micro, small and medium-sized enterprises; and (iii) strengthen program management, strategic planning and labor market policy analysis capabilities to heighten their relevance to and effect on the nation's economic development (paragraph 2.1).</p> | |
| Description: | <p>The proposed program is divided into the following three components:</p> <ol style="list-style-type: none"> Component I. Training and workforce entry assistance for youths and other at-risk groups (PROCAJOVEN) (US\$6.1 million) | |

The main objective is to improve employment prospects for jobless youths and disadvantaged groups. Program-financed activities under this component include: (i) workforce entry assistance for jobless youths; (ii) school-to-work transition assistance for secondary school graduates; and (iii) innovative job training services for disadvantaged groups. The goal is to motivate larger numbers of private service providers to furnish demand-driven job counseling, training and placement services to improve the quality and efficiency of these types of programs (paragraph 2.4).

2. Component II. Training of workers in micro, small and medium-sized enterprises (PROCAMYPE) (US\$1.1 million)

The objective of this component is to boost the productivity and the skills level of workers employed in micro, small and medium-sized enterprises to make spending on training activities more relevant to internal needs (paragraph 2.16). The focus of this component will be to furnish matching funds for in-service training to encourage Panamanian enterprises to invest in workforce training and technical assistance services to strengthen their competitiveness with respect to human resource development. Approximately 420 enterprises will be eligible for the direct funding of a portion of the cost of training services for some 5,400 workers in participating firms (paragraph 2.17).

3. Component III. Institution-strengthening and assistance in active labor market policy development and analysis (US\$900,000)

The objective of this component is to strengthen sector operating, strategic planning and technical capabilities for the design, analysis and implementation of labor market policy (paragraph 2.23). Program activities under this component are designed to foster the development of an institutional framework for the conduct of a holistic training policy and to synchronize efforts to reform the training and employment system. This component will fund: (i) technical assistance services for the establishment of a Consultative Job and Workforce Development Council (Consejo Consultivo de Trabajo y Desarrollo Laboral) institutionalizing private sector participation in the study and reform of labor policy and job programs; (ii) the strengthening of employment intermediation services through the establishment of an employment services network interconnecting the employment service operated by MITRADEL and private employment agencies; (iii) modernization of the Labor Ministry itself and efforts to strengthen the performance of other agencies operating in this sector.

The Bank's country and sector strategy:

The proposed program objectives are consistent with the development objectives jointly established by the Bank and the Panamanian government for the period from 2001 to 2003, which include: (i) ensuring more efficient social spending; (ii) heightening the competitiveness of private enterprise; (iii) achieving environmentally-sustainable growth; and (iv) improving governance and transparency (paragraph 1.21). In this sense, the sector strategy agreed on by the Bank and the Panamanian government is to lay the necessary groundwork for building a system that regularly updates training and employment programs and labor policy, with a demand-driven resource planning and performance-based resource allocation mechanism. To accomplish this aim, the country will need to develop new training and employment intermediation models tailored to the needs of a dynamic labor market, with the emphasis on boosting the competitiveness of Panamanian workers and enterprises.

Environmental and social review:

Environmental considerations. The program should not have any direct negative environmental effects (paragraph 4.7).

Social considerations. The program includes pilot assistance projects for female heads of household, indigenous peoples and other vulnerable groups designed to break through the barriers faced by these population groups (paragraph 4.2).

The proposed program includes a package of services for working women and female entrepreneurs to elevate their role and status, both in the program and, over the medium-term, in the nation's labor market (paragraph 4.11).

Benefits:

Implementation of activities envisaged under the proposed program will help: (i) lay the groundwork for building a training and employment system geared to meet nationwide development needs; (ii) strengthen training and employment programs; and (iii) heighten the effectiveness of government labor policy measures (paragraph 4.1).

The strengthening of training programs for the unemployed and underemployed has a positive impact on society in general by helping to mainstream them into income-producing activities (paragraph 4.2).

The main effect of mounting pilot assistance projects for female heads of household, indigenous peoples and other high-risk groups is to bolster the formulation of more effective types of interventions designed to break through the barriers faced by these population groups (paragraph 4.2).

A special effort will be made to elevate the role and status of working women and female entrepreneurs, both in the program and, over the medium term, in the country's labor market (paragraph 4.11).

Risks:

With MITRADEL in the midst of an institutional restructuring process, there is a risk that the loss of personnel with the right mix of skills in key positions within the program coordination unit will weaken program implementation capabilities. To mitigate this risk, the program design includes provisions for ongoing technical assistance, training and other institution-strengthening activities throughout the program implementation period to expedite the replacement of technical personnel, where necessary (paragraphs 4.8 and 4.9).

Special contractual clauses:

As conditions precedent to the first disbursement of program funding, the borrower must have:

Implemented the Procedures Manual and Operating Regulations approved by the Bank (paragraph 3.4).

Entered into an agreement with the Consejo del Sector Privado para la Asistencia Educacional (COSPAE) [Private Enterprise Council for Educational Assistance] for the implementation of Component II (paragraph 3.14).

Submitted an annual work plan listing all activities scheduled for the first year of the program (paragraph 3.44).

Retroactive financing:

It is recommended that the Bank agree to the retroactive financing of up to US\$850,000 to cover outlays incurred by MITRADEL since 21 August 2001, the date of the loan request, as itemized in paragraph 3.38.

Poverty-targeting and social sector classification:

The proposed program qualifies as a social equity-enhancing project as defined under the key areas of Bank activity established in the Report on the Eighth General Increase in Resources (document AB-1704). It does not qualify as a poverty-targeted investment (PTI) (paragraph 4.13).

Exceptions to Bank policy:

See the section on Procurements.

Procurement:

In a departure from established procedures for the selection of consultants based on competitive bidding, a direct contract award will be made to COSPAE for the coordination of program activities under Component II. While such an award involves the use of direct contracting without a competition, COSPAE will charge no fees whatsoever for its services. COSPAE is a non-profit organization

created specifically for the purpose of taking on a leadership role within the private sector in strengthening private vocational training services for the general public. This contract award is justified by the comparative, institutional and technical advantages offered by COSPAE and meets requirements under chapter GS-403 of the Bank's Procurement Manual (paragraphs 3.34 through 3.36).

Bidders will be selected for Component 1 through prequalification from a Roster of Bidders, which will be updated semiannually. Once the bidders have been prequalified, they will be invited to submit proposals. Amongst the requirements, the bid must identify a place where the work will be performed and the bidding conditions will stipulate that the contract will be awarded to firms that submit a bid within a certain period until such time as the resources allocated to this activity have been committed in their entirety and the requirements established in the Operating Regulations (paragraph 3.33) have been fulfilled.

Procurements of all other goods and consulting services will be carried out in accordance with the Bank's usual procedures.

International competitive bidding will be used for: (i) procurement of goods and services valued at US\$250,000 or more; and (ii) hiring of consulting services under contracts valued at US\$200,000 or more (paragraph 3.31).

I. FRAME OF REFERENCE

A. Macroeconomic framework and conditions on the labor market

- 1.1 The Panamanian economy continued to grow throughout most of the 1990s, up until the last three years of the decade, producing a steady growth in per capita GDP. This growth was nurtured by balanced budgets and stepped-up private investment, underpinned by sweeping structural reforms. The economic and social policies in place during this period held unemployment at 13% and lowered the percentage of households living in poverty from 44% in 1991 to 40% by 1999. The slowdown beginning in 1997 (with the growth rate tumbling from 4.4% in 1997 down to 0.3% by the year 2001), triggered by the closing of U.S. bases, cuts in private investment and exports and the world-wide economic slump, prompted the government to step up efforts to restructure its traditional economic model grounded in the Panama Canal, the Colón Free Zone, the International Banking Center and commerce, while a large part of the economy reliant on the informal sector remained steeped in poverty and inefficiency.
- 1.2 The government's strategy for strengthening competitiveness looks to spur growth in industries such as telecommunications, information technology and port administration requiring more highly skilled workers. The establishment of incentives designed to promote the growth of industries such as the transportation, tourism and maritime industries requires the development of appropriate training mechanisms providing a critical mass of skilled labor to attract a larger volume of investment. However, current training programs underpinning these strategies are in need of sweeping reforms.¹
- 1.3 This best-case scenario notwithstanding, the economic slowdown has hurt the job market. Rigid requirements in labor legislation inflating labor costs,² combined with the fact that more than 75% of the country's population lacks the necessary preparation to meet needs on the labor market, continue to thwart efforts to boost employment. The rate of open unemployment rose from 11.8% in 1999 to 13.7% in 2001. Unemployment rates are typically higher for women and youths. As reflected in the data presented in Table I.1, unemployment rates for the year 2000 for youths between 15 and 19 years of age and 20 to 24 years of age were 28.7% and 20.7% respectively. More than half of all youths surveyed who reported having no work experience felt it was impossible to find a job. Those with some work experience were more optimistic. Only one in six felt that it was hard to find a job, even with work experience.³

¹ Country Report: Panama, IDB, GN-2136, April 2001.

² The tax burden for each U.S. dollar of wages paid is approximately US\$0.52.

³ 2001 Household Survey.

| Table I.1 Age-specific unemployment rates (%) 2000 | | | | | |
|---|--------------|--------------|-----------------|--------------------|--------------|
| 15 to 29 | | | | 30 and over | Total |
| 15-19 | 20-24 | 25-29 | Subtotal | | |
| 28.7% | 20.7% | 13.4% | 19.3% | 9.0% | 12.8% |

Source: Sixteenth National Population and Housing Census, 2000.

- 1.4 There are large gender differences in labor force participation rates and occupational status. As reflected in the data presented in Table I.2, the female unemployment rate (18%) is higher than the male rate (11.5%), with working women heavily concentrated in jobs in commerce and service industries (83%), while the male workforce is more evenly distributed, suggesting a tendency to use gender stereotyping in hiring practices and a skills gap between male and female workers.

| Table I. 2 Labor market data for 2001 | | | | | | | |
|--|------------|-------|---------|-------|-----------|-------|---------------------------|
| Item | Population | | | | | | Unem- ployment Rate |
| | Urban | | Rural | | Total | | |
| | Number | % | Number | % | Number | % | |
| Male | 616,447 | 48.1 | 356,353 | 53.1 | 972,441 | 49.8 | 11.5% |
| Female | 665,148 | 51.9 | 314,745 | 46.9 | 980,252 | 50.2 | 18.0% |
| Total | 1,281,595 | 100.0 | 671,098 | 100.0 | 1,952,693 | 100.0 | 13.7% |
| EAP | 787,340 | | 390,592 | | 1,177,932 | | |
| Out-of-work population | 131,014 | 16.6% | 30,355 | 7.8% | 161,369 | | 13.7% |

EAP: Economically active population

Source: Household Survey, August 2001.

- 1.5 The Panamanian economy has given rise to one of the widest income gaps in the world. Nearly 40% of the nationwide population falls under the poverty line. Most of the nation's poor are working in the informal sector, in low-paying jobs with no job security. According to the IDB country report, ethnic minorities, including indigenous peoples (the Kuna, Ngobe-Bugle, Emberá-Wounaan, Teribe and Bri-Bri) and Afro-Panamanian populations (Afro-Darienites and Afro-Caribbean groups) are living in poverty and considered high-risk groups. The worst pockets of unemployment are in areas inhabited by indigenous communities, such as the Comarca Emberá area, where 95% of the local population is living in abject poverty.⁴ The job market for the Afro-Panamanian population is segmented and there is a high rate of migration by members of this group. Prospects for better-paid jobs in the modern sector of the economy in poorer areas of the country are

⁴ Panamá: Estudio sobre pobreza [Panama Poverty Assessment] (World Bank, 2000).

extremely limited and educational levels in these areas are lower than in other parts of the country. However, there is also a clear lack of equal opportunity for these population groups in industrialized areas such as Panama City and Colón, with very limited research data on appropriate assistance programs for disadvantaged groups such as women with limited access to the job market, indigenous peoples, Afro-Panamanians, the elderly and the disabled.

- 1.6 Moreover, despite Panama's high levels of educational attainment compared with other countries in the region (8 years), school leavers lack the basic skills required to compete on the job market, which limits their employment prospects. The main challenges faced by Panama in endeavoring to strengthen its competitiveness have to do with the need to develop a more highly skilled workforce and to formulate policies fostering the creation of new jobs. To accomplish this, it needs to reform its current job training system and provide appropriate incentives for the building of a training and employment system geared to the following types of needs: (i) job placement assistance for new workforce entrants; (ii) retraining and job placement assistance for unemployed and underemployed workers; (iii) continuing in-service training geared to current production dynamics; and (iv) satisfaction of investor requirements.

B. Human capital development and the training and employment system

- 1.7 Law No. 34, known as the Education Act of 1995, mounted an educational reform effort financed by the Bank under educational development loan 1013/OC-PN laying the foundation for the delivery of more relevant training services. However, the country still lacks a training and employment system geared to its current human capital development needs. It lacks the institutional capacity to target training efforts to meet emerging needs, the private job counseling and employment services industry is still in an incipient stage of development and public employment services report low placement rates and lack the necessary instruments with which to successfully match job seekers with employment or job training opportunities.
- 1.8 As far as competitiveness is concerned, the amendment of the 1995 Labor Code streamlined hiring and wage-setting procedures to some extent, but failed to reduce labor costs. In the right political climate, this type of reform would require the simple passage of a bill by the Legislature, while the development of a training and employment system serving as a catalyst for strengthening competitiveness requires years of research and development. Aware of this fact, the Panamanian government has been studying existing training programs since 1997 in conjunction with labor and management, in search of viable alternatives.
- 1.9 Shortcomings in this area include: (i) the lack of an institutional and policy framework to target and regulate spending on training and employment services; (ii) the lack of active labor market policies and appropriate incentives for tailoring

- training to needs in the goods-producing sector; (iii) inefficiencies engendered by existing resource allocation mechanisms in which allotments are made automatically, with no penalties for inefficiency or nonperformance; and (iv) a private training industry which is still in an incipient stage of development and, thus, is still not diversified enough to keep pace with changing needs or developed enough to generate heightened competition among service providers.
- 1.10 Following the lead of other regional countries, in 1983 Panama established an independent government agency to promote vocational training and meet needs engendered by the nationwide development process. The Instituto Nacional de Formación Profesional, (INAFORP) [National Vocational Training Institute] is funded by a 2.7% payroll/income tax payable in the form of employer (55%) and employee contributions (45%). Unlike other countries, Panama uses these tax revenues to fund a broader-based program referred to as an "educational security" program (Law No.13), under which they are earmarked as follows: (i) 43%, or approximately US\$28 million, is used for student loans and grants; (ii) 11%, or anywhere from US\$7 to US\$10 million a year, is used to finance vocational training activities by INAFORP; (iii) US\$22 million (27%) is earmarked for basic education, accounting for 6.1% of the education budget; and, (iv) less than US\$1 million goes for labor education activities. These funds are earmarked strictly for the aforesaid programs according to the percentage breakdown established under Law No. 13.
- 1.11 The allocation of a mere 11% of these tax revenues to INAFORP limits the government's ability to increase spending in response to adjustments in its economic model. As is typically the case in other countries, training services provided by government agencies such as INAFORP have little relevance to the needs of private enterprise and all such agencies have serious cost management problems. Nearly 95% of INAFORP funding, for example, goes to finance recurrent expenditures, leaving virtually no margin for meeting strategic government needs. Of its 750 full-time staff members, 599 hold administrative positions and 151 are instructors, which means that its course schedule is supply-driven rather than geared to demand in the goods-producing sector. INAFORP hires an additional 468 part-time instructors and trains approximately 25,000 persons a year throughout the country. However, according to an independent evaluation conducted in 2001, a number of its courses are out-of-date and it has no monitoring systems and no means of measuring the impact of its training activities. Its financial and accounting system is inadequate, which only heightens the inefficiency of its operations. In light of these constraints, in 1997, the government began allocating additional funding over and above the so-called "educational security" contributions earmarked for INAFORP to meet top-priority training needs. Now, the challenge is to achieve an across-the-board improvement in returns on these investments.
- 1.12 In the long run, Panama's training and employment system will need to develop into an integrated system combining public and private training initiatives and

employment intermediation programs matching labor supply with demand. The system requires a supervisory agency and a regulatory framework recognizing ongoing efforts to diversify training activities and synchronizing such activities. Such a system will also require appropriate financial and institutional mechanisms to promote spending on training activities and steadily build an institutional capacity to target and monitor government spending on training programs and regulate private training services. The government must have the capacity and funding to establish necessary incentives for building a training and employment services system based on private service providers, with its own role limited to quality assurance and resource management and supervision. It is also up to the government to develop appropriate mechanisms and eliminate obsolete procedures, to ensure that spending on training activities provides workers with timely, appropriate, continuing learning opportunities for the assimilation of new technology.

- 1.13 The first and foremost requirement for a reform of this nature is the restructuring of the Ministry of Labor and Workforce Development (MITRADEL) and of INAFORP per se. The Ministry is already in the midst of a sweeping reform effort under the Bank-financed "Pilot Project for a Demand-Based Employment and Training System" (ATN/MH-5739-PN), whose deadline for disbursement ended in 2001.
- 1.14 The demonstration effects generated by the MIF project encouraged the government to apply for Bank assistance to mount the proposed program, which will help lay the necessary groundwork for modernizing its training and employment system. MITRADEL has experience in operating relevant training programs for private enterprise, prompting the government to expand such programs. The Ministry is heading up efforts to establish a Consultative Job and Workforce Development Council (Consejo Consultivo de Trabajo y Desarrollo Laboral) creating an unprecedented institution-based consultation mechanism involving private enterprise and labor in decisions on active labor market policy and government spending on training and employment services. In another major development, INAFORP has been working with industrial enterprises interested in building job skills, taking an important step forward in tailoring its operations to market needs. Moreover, INAFORP's National Committee has agreed to implement the recommendations formulated in the 2001 evaluation report (funded by the MIF) over the course of 2002, which call for the restructuring and streamlining of its training and administration areas, the reorganization and systematizing of its financial operations and the establishment of planning processes for the development of accounting systems with proper control mechanisms.

C. Bank experience and lessons learned

- 1.15 The MIF project confirmed the effectiveness of two demand-driven training models, namely a youth training model and an enterprise training model, and

helped expedite modernization efforts by the Labor Ministry, training 3,000 youths and prompting some 300 private training service providers to compete for government funding. The success of this pilot endeavor encouraged the Ministry to fund school-to-work transition assistance services for youths with a higher level of educational attainment than that of the project's original target group. As expected, the quality of services rendered as part of this first attempt at developing a private training industry was somewhat inconsistent. Accordingly, a special effort will be made to standardize training content, control procedures and incentives to ensure the consistently high quality of all services furnished under the proposed program. Stricter measures will be taken to encourage service providers to meet employment targets and to create a placement culture within training service providers.

- 1.16 Demand for the enterprise training model was lower than expected. The evaluation attributes this to: (i) misgivings with respect to the government's ability to run a training program for private enterprise and, more specifically, to duly and properly process payments for training services rendered in a timely manner; (ii) the need to provide private enterprises with more help in assessing their training needs; (iii) a shortage of manpower to assist with the formulation of enterprise training plans; and (iv) rigid administrative procedures incompatible with private sector dynamics.
- 1.17 The pilot project confirms that an enterprise training program in Panama would have a greater impact if managed by the enterprise sector per se. In similar experiences in OECD countries and, more specifically, in Mexico (Loan 1384/OC-ME), the government relied on some 400 business councils and centers to run the program. These business organizations offered better prospects for disseminating relevant procedures for the planning and organization of training activities to private enterprises and, working through these organizations, the government was able to solidify its training model for the Mexican enterprise sector. Moreover, training incentives yield better results if accompanied by technical assistance services rendered directly to corresponding enterprises to assess training needs in line with company business plans or priorities and to monitor the implementation of training and technical assistance activities. Panama's Consejo del Sector Privado para la Asistencia Educacional (COSPAE) [Private Enterprise Council for Educational Assistance], representing 20 business organizations and engaged in enterprise training activities, has a solid reputation in the enterprise sector and is known throughout the country. Accordingly, the Ministry is planning to use its services in implementing the proposed program (see paragraph 2.19).
- 1.18 The lessons drawn from the pilot MIF project and the Bank's experience with programs for Mexico's labor market and with other projects in Chile and Argentina all demonstrate that: (i) active labor market policies tend to be more relevant when developed as part of a collaborative effort by the public and private sectors; (ii) job training is more effective when combined with practical working experience; (iii) workforce training activities yield better results in the form of in-service training, where workers have a better opportunity to assimilate new technology and

practice their newly acquired skills in a work environment; and (iv) programs based, in part, on private funding better ensure that resulting training is more relevant and geared directly to constantly changing production dynamics.

- 1.19 The proposed program design is based on these guidelines and, as such, provides for: (i) new mechanisms fostering public/private sector cooperation in labor policy analysis and in the operation of training, employment and institution-strengthening programs; (ii) new incentives for the employment of youths; and (iii) the use of a private organization to promote and administer assistance programs for in-service training activities.

D. Country strategy and rationale for Bank involvement

- 1.20 The strategy jointly agreed on by the Bank and the Panamanian government calls for the need to strengthen the competitiveness of private enterprise and heighten the efficiency of social spending to lower the percentage of households living in poverty from 37% (1999) to 27% by the year 2004. The country's future development and the attainment of this goal are contingent upon the success of efforts to boost productive capacity. To put it simply, the government's top priorities in terms of poverty reduction, human development and competitiveness cannot possibly be attained without reforming its training and employment system as described in this proposal.
- 1.21 The specific objectives set by the Bank and the Panamanian government for the period from 2001 to 2003 are as follows: (i) **efficient social spending**: the goal is to make sector investment more efficient through cooperation with the private sector and demand-driven investment targeting, underpinned by the strengthening and streamlining of proposed program operating systems; (ii) **competitiveness of the enterprise sector**: the goal, in this case, is to develop training and employment intermediation models geared to the needs of a dynamic labor market, with the emphasis on strengthening the competitiveness of micro, small and medium-sized enterprises; and (iii) **governance and transparency**: in this case, the goal is to strengthen governance and transparency in this area through the establishment of an institutional framework under which government agencies or government-funded private training service providers are accountable to a supervisory agency (the Ministry of Labor).
- 1.22 The establishment of a Consultative Job and Workforce Development Council will help give civil society a more active role in reshaping labor policy through corresponding consultation mechanisms. As for the objective of promoting environmentally-sustainable growth, envisaged training activities will address safety and health issues helping to sensitize labor and management to the economic advantages accruing to businesses with an awareness of the environmental impact of their operations.

- 1.23 The proposed program will also endeavor to build synergies with competitiveness-strengthening policies and capitalizes on other Bank operations complementing this initiative. It is consistent with the Competitiveness Strengthening Program (PN-0145) instituted by the Bank and the Panamanian government, in that it lays the groundwork for promoting spending on training activities by micro, small and medium-sized enterprises. MITRADEL will synchronize its operations with efforts mounted under all competitiveness-strengthening programs and other assistance programs for MSMEs, including the MIF enterprise development project (ATN/OC-7393) to be conducted by the Autoridad de la Micro, Pequeña y Mediana Empresa (AMPYME) [the new Agency for Micro, Small and Medium-Sized Enterprises], establishing interfaces and joint service networks for the latter two operations. Moreover, the establishment of a system providing for the regular updating of training programs will help furnish more relevant training services for MSMEs. The long-term development objective is to build a modern system with the following main features: (i) job programs geared to needs in the goods-producing sector providing for a continuous, smooth flow of workers between the workplace and education and training activities, strengthening the competitiveness of the enterprise sector; (ii) the required level of coverage to meet social needs; (iii) appropriate instruments for providing job training for the general working population, as well as for groups with special needs such as the poor, women and indigenous peoples; (iv) active labor market policies geared to a constantly changing global marketplace strengthening workforce competitiveness and improving working conditions (income); and (v) the capacity to systematically update workforce skills.
- 1.24 The government is endeavoring to lay the necessary institutional groundwork for this reform effort. The decision by INAFORP to implement the recommendations formulated in the year 2001 evaluation report should produce basic improvements in its management, budgeting and planning system, which should help further this process. The Ministry of Labor is also working closely with the Education Ministry on another Bank-financed program (1013/OC-PN) and is taking part in the Regional Program for the Modernization of Labor Ministries (ATN-MH-5978-RG) promoting discussions of labor policy and institution-strengthening efforts by participating ministries (such as the development of information systems).
- 1.25 Another objective shared by the Panamanian government and the country's goods-producing sector is the establishment of a workforce skill certification system as an integral part of the training and employment system. In 2001, MITRADEL led a nationwide discussion on the standardization of workforce skills. It also funded four pilot projects for the development of certification standards for labor and employers organizations in the maritime, tourism, construction and information technology industries. The Fundación del Trabajo de Panamá [Panamanian Labor Foundation], which represents most labor and employer organizations throughout the country, has applied for MIF funding to develop a pilot project for the mounting of this initiative. The MIF project would bolster efforts in this area by private enterprise.

The Ministry will use proposed program funding to procure needed technical assistance services providing guidance for the establishment of a supervisory agency for this system. This effort to standardize workforce skills could strengthen the relevance of formal education and training in Panama over the medium term.

II. PROGRAM

A. Objectives

- 2.1 The medium-term objective is to help build a training and employment system improving the employment prospects and competitiveness of Panamanian workers. The specific objectives of the proposed program are to: (i) improve employment prospects for jobless youths; (ii) improve the performance and skills level of workers in micro, small and medium-sized enterprises to heighten the relevance of spending on training activities to internal needs; and (iii) strengthen program management, strategic planning and labor market policy analysis capabilities to heighten their relevance to and effect on the nation's economic development.

B. Description

- 2.2 The proposed program is divided into the following three components:

| COMPONENT I | COMPONENT II | COMPONENT III |
|--|--|---|
| Training and workforce entry assistance for youths and other at-risk groups (PROCAJOVEN) | Training of workers in micro, small and medium-sized enterprises (PROCAMYPE) | Institution-strengthening and assistance in active labor market policy development and analysis |
| IDB: US\$6.1 million Local: US\$0.1 million Total: US\$6.2 million | IDB: US\$1.1 million Local: US\$0.1 million Total: US\$1.2 million | IDB: US\$0.9 million Local: US\$0.4 million Total: US\$1.3 million |

- 2.3 Together, these components will help spur the development of an institutional framework whereby the Labor Ministry as the supervisory agency for the training and employment system would make use of the private sector to maximize the efficiency of government spending on training and employment services. Under Component I, MITRADEL will promote the development of a private industry offering demand-driven, timely, appropriate training and job placement services. Under Component II, the responsibility for operating a cost-sharing program for workforce training activities is delegated to a private organization. Component III is designed to help MITRADEL strengthen consultation mechanisms fostering active participation by the private sector in the formulation of labor policy and in quality-control efforts with respect to government-funded training services. This program will help MITRADEL solidify its role as the supervisory agency for the training and employment system and establish necessary mechanisms for maximizing the efficiency of government spending on training activities. Table II.1 is a summary of indicators for targeted outputs by the proposed program.

| Table II.1 Output indicators | | |
|---|---|--|
| Component | Key performance indicators | Qualitative impact indicators |
| I. Youth training | <p>1.1. 7,000 youths are given training for workforce entry; at least 40% of the trainees are women.</p> <p>1.2. 4,400 youths are given employment counseling and training for the selection of education or career paths; at least 45% of program participants are women.</p> <p>1.3 Training of 200 occupationally disadvantaged persons.</p> | <p>1.1 70% of the youths are hired upon the completion of their training and 65% are still employed six months later. Program participants take 30% less time to find a job than the control group.</p> <p>1.2. 80% of the youths pursue their vocational training or find a job upon completing their training.</p> <p>1.3 There are new instruments available to better serve these groups by month 18 of the program implementation period.</p> |
| II. Strengthening of workforce productivity | <p>2.1. 420 enterprises receive assistance for worker training activities, of which at least 100 are headed by women.</p> <p>2.2. Training of 25,400 actively employed workers.</p> | <p>2.1. 90% of the firms spend 25% more per worker on training activities than the control group.</p> <p>2.2. Training efficiency is 80%.</p> |
| III. Institution-strengthening | <p>3.1. The Employment Service has 4,000 registered job listings.</p> <p>3.2. 25,500 persons are served by workshops for the unemployed.</p> | <p>3.1. 45 % of the job listings are filled by job seekers referred by the Employment Service.</p> <p>3.2. The placement rate for job seekers served by the network is 30% higher than for the typical job seeker registered with the Employment Service.</p> |

1. Component I. Training and workforce entry assistance for youths and other at-risk groups (US\$6.1 million)

- 2.4 The main objective is to improve employment prospects for jobless youths and disadvantaged groups. Program-financed activities under this component include: (i) preparation for workforce entry for jobless youths; (ii) school-to-work transition assistance for secondary school leavers; and (iii) innovative job training services for disadvantaged groups. MITRADEL plans to use program funding for this component to motivate larger numbers of private service providers to furnish

demand-driven job counseling, training and placement services, to improve the quality and efficiency of these types of programs.

- 2.5 The program will provide funding for preparatory services for **workforce entry** (US\$4.2 million), including short-term training, job counseling and job placement assistance. These services will be outsourced to training companies and service providers through competitive bidding procedures. This service delivery mechanism is designed to help some 7,000 low-income jobless youths between the ages of 18 and 29 find employment. Program participants will be given training geared to meet the specific needs of prospective employers. Training courses will include basic skills development modules (one month in length) providing instruction in needed workplace skills and a minimum of two months of on-the-job training and practical instruction for the acquisition of specific skills for a particular job position, including instruction in occupational safety, where applicable. Based on the experience gleaned from the pilot MIF project, the number of hours of classroom instruction is being reduced, putting more emphasis on on-the-job training, which tends to produce better outcomes for new labor market entrants. Program participants must have the required level of educational attainment to qualify for sought-after job positions. The unit cost per training activity is roughly US\$580. The program will also finance the cost of supervising program participants during on-the-job training and internship periods, stipends,⁵ training materials and accident insurance for participating youths while taking part in the program.
- 2.6 In order to qualify for acceptance, proposals from prospective training service providers must specify available job openings, which will be reconfirmed at the time of the contract award. The placement and continued employment of corresponding trainees will be confirmed 3 and 6 months after their completion of the program, upon the conclusion of their internships. A sizeable share of the payments due training service providers will be contingent upon the successful workforce entry of participating youths. Thus, under the proposed program, training providers will be paid a bonus equal to 20% of unit training costs subject to the presentation of evidence of the hiring of a given trainee within three months after completing the program.
- 2.7 Participating employers will furnish necessary facilities for on-the-job training and internships and must agree to hire corresponding trainees subject to a satisfactory performance rating at the end of the training and internship period.
- 2.8 The program will also finance the cost of consulting services and subsistence allowances associated with the performance of management auditing and monitoring duties assigned to the program coordination unit, which include updating the register of program participants, verifying the completion of program

⁵ US\$85.00 per month (less than the US\$252.00 minimum monthly wage) for food, clothing and transportation, to make a good impression during the training and internship period.

- activities in each action area and holding regular meetings with employers and groups of program participants to evaluate the progress of program activities.
- 2.9 The program will also furnish **school-to-work transition assistance** (US\$1.6 million) to help bridge the gap between the formal education system and the working world. This service option is designed to help smooth the transition between school and the workplace for lower secondary or middle school graduates interested in: (i) exploring employment opportunities but also thinking about entering a vocational education or job training program; or (ii) finding suitable employment to gain work experience relevant to their future career objectives. The pilot phase of this activity will serve up to 4,400 youths. Any expansion in targets and additional funding for this action area would be contingent upon the findings from an independent evaluation. Program funding for this area will cover the cost of information activities, employment counseling services, training in employment counseling, stipends, training materials and accident insurance for program participants.
- 2.10 Participating youths will be given training and employment counseling. Training activities will focus on providing rudimentary job hunting tools and basic information for assessing the employment and income potential of different occupations and developing basic skills (reading comprehension, written communication, applied arithmetic, planning and problem solving) required for success in the working world. Participants will attend a minimum of 150 course-hours dedicated to the development of basic skills and a study of the Panamanian labor market and complete at least two months of on-the-job training in a position relevant to their career objectives.
- 2.11 Since the main objective of this component and the basic mandate of MITRADEL is to promote employment, most jobless youths will be steered into workforce entry training and assistance activities, with program information activities and public awareness campaigns geared to pointing youths towards this option.
- 2.12 The program will also fund activities specifically designed to help develop **innovative training services for disadvantaged groups** (US\$340,000). These groups have special needs, either because it is harder for them to penetrate the job market or because they require more individualized training and supporting services. Previous experiences with similar programs in Central America show that smaller-scale projects using specialized intermediary organizations (NGOs, community organizations, etc.) can help address the problems faced by these population groups, supplementing the training through an integrated service package including childcare services for female heads of household, for example. However, Panama has very little research data on the characteristics and occupational needs of these population groups and limited experience in best practices for disadvantaged groups (indigenous peoples, Afro-Panamanians, the elderly, the disabled and female heads of household).

- 2.13 To improve prospects for mainstreaming these groups into the labor market, the program will fund small-scale studies, information activities or grass-roots discussions of training and employment needs and best practices for targeted population groups. These studies will be used as the basis for the design and implementation of pilot "training for employment" projects for these groups using program funding, including special training courses, supporting services and job placement assistance. MITRADEL will submit a proposal for each such an endeavor (i.e. study, information activity, pilot project or a combination study/pilot project) for clearance by the Bank identifying the target group in question and its occupational disadvantages (i.e. barriers to training and employment), describing the proposed activity, evaluation mechanisms, and furnishing a corresponding cost estimate. The proposal will be reviewed by an in-house technical committee, including representatives of the target group. Pilot projects may finance services such as child care centers, social/cultural training, group meals programs and translations of training materials into native languages to test different training and service packages designed to help mainstream these groups into the labor market. The cost of each pilot project is estimated at approximately US\$30,000, but there would be no cost ceilings placed on these operations. The Operating Regulations establish specific eligibility requirements for these pilot projects.
- 2.14 Participation in these innovative initiatives would be open to intermediary and/or research organizations serving these types of groups, whose proposals must be responsive to local demand, as well as to the needs of these population groups. Such efforts would initially address the specific needs of female heads of households, rural women and indigenous groups excluded from the job market. To ensure that most funding is allocated to the mounting of pilot projects, funding for studies and information activities will be limited to a maximum of 20% of program funding for this activity area. These pilot training projects are designed to target activities and identify practices to be mainstreamed into core government programs over the medium term.
- 2.15 The program has an explicit policy of steering young women into nontraditional, better-paid jobs and corresponding information activities include efforts to raise employer awareness of gender issues, underscoring the positive experiences of companies hiring workers from groups with special needs, indigenous populations and other disadvantaged groups as a way of encouraging other business owners to hire members of these groups.

2. Component II. Training of workers in micro, small and medium-sized enterprises (PROCAMYPE) (US\$1.1 million)

- 2.16 The objective of this component is to boost the productivity and skills level of workers employed in micro, small and medium-sized enterprises to make spending on training activities more relevant to internal needs.

- 2.17 The main activity under this program component is the provision of matching funds for **in-service training** (US\$766,000) to encourage enterprises to invest in workforce training and technical assistance to strengthen their competitiveness with respect to human resource development. Approximately 420 enterprises will be eligible for the direct funding of a portion of the cost of training services for some 5,400 workers in participating firms. Most of the funding for this activity will go for incentive payments to business owners for the mounting of training activities. Allocations to microenterprise owners will cover 65% of the cost of up to 100 hours of training services per year and 20 hours of technical assistance services per year, subject to a ceiling of US\$5,000 per enterprise per year. Allocation payments to owners of small and medium-sized enterprises will cover 50% of these costs. (see paragraphs 3.16 and 3.17 and Table III.1).
- 2.18 In addition to this direct assistance, the program also provides for the organization of 30 or so outreach activities in which some 900 enterprises will be indoctrinated in the benefits of investing in continuing in-service training activities. The program would fund some 180 assessments and the formulation of corresponding training plans over a three-year period and train some 50 experts in program intervention policy, the conduct of assessments of training needs and the formulation of enterprise training plans. It also includes overseas training for ten private experts and technical personnel attached to MITRADEL to study the operation of similar enterprise development programs.
- 2.19 The following improvements were made in this new service delivery mechanism based on the experience gleaned from the pilot program: (i) program funding will be administered by a private organization (COSPAE) to ensure that service and benefit delivery to participating enterprises meets the standards of efficiency and responsiveness demanded by private enterprise; (ii) outreach and networking activities and supporting services for participating enterprises will be stepped up considerably in an endeavor to boost participation; (iii) awareness-building and in-service training activities will include specific targets geared to promoting diversity, preventing discrimination and breaking down barriers to worker mobility; and (iv) the establishment of public information systems will ensure greater transparency and strengthen the program's credibility. MITRADEL feels that the use of a private intermediary organization will help build confidence in the program within the business community, thereby heightening the impact of information activities and the effectiveness and relevance of in-service training efforts.
- 2.20 The program will also finance the cost of outreach activities, the development of customized training plans and the processing of authorizations and cofinance activities conducted by COSPAE, a nonprofit organization for the promotion of vocational education and training created by some 20 employers associations, with the operating capacity to serve as a liaison agency and facilities accessible to businesses throughout the country. The program will initially finance the cost of hiring five or so outreach workers to work with employers associations affiliated

with COSPAE to disseminate information on networking procedures and generate a multiplier effect to expand program coverage as demand increases. COSPAE will seek out the advice of representatives of ethnic minorities in each region of the country to ensure that these population groups share in the benefits generated by the program. Outreach workers will assist enterprises in formulating training plans and choosing the best training solutions for the achievement of targeted training outcomes. However, participating enterprises will select and procure these training services on their own. To facilitate this process, the program will finance the cost of designing and setting up a web site where business owners can consult the register of bidders and access information on training courses of possible interest to participating enterprises.

- 2.21 Program funding for this component will also be used to finance the cost of professional services, materials and travel and communication costs associated with: (i) the organization of outreach activities; (ii) the development and mounting of information activities and public awareness campaigns by employers associations and business councils to attract firms qualifying for matching funds and technical assistance services under the program; (iii) technical assistance services by outreach workers for an assessment of training needs and the formulation of a training plan; (iv) allocation payments for training and technical assistance services; and (v) technical assistance and training services and field trips to similar programs within the region.
- 2.22 The program will help business owners better understand how and why training activities would strengthen the productivity of their companies and workforces. Envisaged program activities will create the proper demand dynamics to help boost investments in human capital, improve company productivity and produce tangible evidence of the benefits of workforce training, which will be carefully documented and used for demonstration purposes to encourage more businesses to invest in training services.

3. Component III. Institution-strengthening and assistance in active labor market policy development and analysis (US\$968,000)

- 2.23 The objective of this component is to strengthen sector operating, strategic planning and technical capabilities for the design, analysis and implementation of labor market policy through the activities described below.
- 2.24 Component III will make it possible for MITRADEL to standardize the consultative mechanisms so that the private sector can be actively involved in developing labor policy and targeting public investment in training. The activities of this program and particularly those of this component will work together to spur the development of an institutional framework whereby the Ministry of Labor as the regulatory body for the system will make use of the private sector to maximize public investment in active labor market policies.

- 2.25 This component will concentrate on the funding of technical assistance services and studies dealing specifically with active labor market policy analysis and institutional considerations and awareness-building and information activities (workshops, field trips, etc.) to help further **institution-strengthening** efforts (US\$215,000) and promote policy discussions in this area (by labor, management and government). To this end, it provides for the establishment of a Consultative Job and Workforce Development Council creating an unprecedented institution-based consultation mechanism with the enterprise sector to step up the mainstreaming and relevance of training and employment policies and programs. This mechanism could be used to: (i) conduct sector investment studies and recommend different options for heightening the efficiency and relevance of the training and employment system; and (ii) jointly formulate human capital development strategies, with training initiatives geared to actual employment opportunities; and (iii) analyze labor policy and training and employment strategies.
- 2.26 To maximize the effectiveness of government spending in this sector, MITRADEL could finance the cost of technical assistance services to strengthen INAFORP as recommended in the year 2001 evaluation report. These technical assistance services would primarily bolster: (i) restructuring efforts and the development of operating systems that contribute to operating efficiency.
- 2.27 The program includes provisions for the financing of a pilot study of the labor market, including an analysis of demographic variables, employment patterns and labor market flexibility and the regular monitoring of major labor market indicators. The findings and recommendations emerging from this pilot study could then be used as the basis for financing other studies furnishing relevant information for the formulation of Panamanian labor policy. The pilot market study and all subsequent studies will focus mainly on examining institutional practices and policies designed to promote equal opportunity for disadvantaged groups.
- 2.28 As indicated in paragraph 1.25 above, the government of Panama and the country's goods-producing sector have applied for follow-up MIF funding for skills development programs and the establishment of skill certification systems in four industries, while the proposed program would finance the hiring of international experts and local consultants to bolster the Ministry's participation in consultative processes to provide guidance for the establishment of a regulatory framework for its training and employment system.
- 2.29 It will also finance the establishment of an employment services network interconnecting the public employment service operated by MITRADEL and private employment agencies and efforts to strengthen these **employment intermediation services** (US\$70,000) to boost placement rates for their clients and shorten periods of unemployment. The network will initially include four Public Employment Service offices, three in the Panama City metropolitan area and the fourth in the city of David in Chiriquí Province, and five or so private employment

- agencies. As part of efforts to set up this network, the program will finance the establishment of an on-line employment service.
- 2.30 Private employment services and agencies will be given briefings, training and appropriate tools to: (i) raise and correlate their standards of operation; (ii) serve some 5,500 job seekers, boosting placement rates for employment services by 20% through the mounting of specific activities such as job hunting workshops and the provision of technical assistance services. To this end, the program will finance: (i) the development of work and study materials, employment counseling handbooks and guides and computer software for monitoring their operations; (ii) furnishings and equipment for private placement agencies and employment offices joining the service network; and (iii) training designed to bolster employment service and private employment agency operations and cooperation.
- 2.31 In furtherance of **administrative management modernization** efforts by MITRADEL (US\$159,000), the program will finance: (i) the implementation of a new functional organizational structure for the Labor Ministry; (ii) the development of new procedures underpinning the Ministry's new organizational structure; (iii) the establishment of a new consolidated computerized register of bidders; and (iv) the establishment of accounting records and a budget monitoring system, including all costs associated with the establishment of a financial management system for MITRADEL operations. The program will also finance required technical assistance services for installing the computer system. In addition to these technical assistance services, it will finance the design and delivery of training courses, outside assistance for personnel training in specific areas and to help develop working materials and build in-house expertise in equipment integration and the formulation of labor policy through a continuing training system (regular workshops and technical information bulletins).
- 2.32 The program will finance the following costs associated with the establishment of a register of bidders: (i) design and implementation costs and the cost of setting up a web site to facilitate bidder registration and user access; (ii) the cost of publishing eligibility requirements for listing in the register of bidders; (iii) the cost of conducting instructor training courses for training service providers interested in taking part in the program; and (iv) the cost of maintaining and regularly updating the register of bidders and of monitoring the quality of services rendered by training providers. Since the attendance of instructor training courses is a requirement for prequalification, course offerings will be geared to meet demand from firms seeking to qualify for listing in the register of bidders. Accordingly, necessary arrangements will be made for these courses to be conducted on a quarterly or more frequent basis.
- 2.33 An estimated US\$310,000 will be earmarked for training and technical assistance services and the **development of monitoring and evaluation procedures**. The program will provide funding for: (i) technical assistance for the preparation of

terms of reference and the conduct of surveys; (ii) technical assistance for the development of monitoring and evaluation procedures for these types of programs; (iii) two workshops on evaluation for technical personnel attached to MITRADEL; (iv) the designing of monitoring systems for Components I and II, including the establishment of specific targets and efficiency and impact indicators; and (v) a midterm review and final program evaluation. Selected information system indicators will be used as a baseline for impact assessments to pinpoint the program's impact on targeted population groups compared with similar groups not served by the program.

- 2.34 To heighten its demonstration effect and the impact of envisaged activities, the program will finance the cost of **social marketing activities** (US\$214,000), including: (i) advertising campaigns directed at employers associations and labor organizations; (ii) information activities on employment-related issues of interest to the general public; and (iii) social marketing research, including the financing of focus groups to help the Ministry pinpoint any elements of the program requiring special attention or adjustments and build consensuses by employers, workers, experts and government officials with respect to needed system reforms. All such activities will address diversity and gender issues and will be designed to eliminate any discriminatory or segregative practices.

C. Cost and financing

- 2.35 The aggregate cost of the program is approximately US\$10.5 million, of which the Bank will furnish US\$8.4 million in ordinary capital, in U.S. dollars drawn from the Single Currency Facility, and the Republic of Panama will contribute US\$2.1 million, according to the following breakdown by cost category and source of funding.

| Table II-2 Program costs (US\$000) | | | |
|---|-----------------|-----------------|------------------|
| Cost category | IDB | Local | Total |
| 1 Component 1. PROCAJOVEN | 6,134.00 | 121.00 | 6,255.00 |
| 1.1 Workforce entry | 4,210.00 | 8.00 | 4,218.00 |
| 1.2 School-to-work transition | 1,584.00 | 109.00 | 1,693.00 |
| 1.3 Assistance for disadvantaged groups | 340.00 | 4.00 | 344.00 |
| 2. Component 2. PROCAMYPE | 1,124.00 | 39.74 | 1,163.74 |
| 2.1 In-service training | 766.00 | 10.00 | 776.00 |
| 2.2 Coordination and monitoring | 358.00 | 29.74 | 387.74 |
| 3. Component 3. Institution-strengthening | 968.00 | 297.90 | 1,265.90 |
| 3.1 Institutional development assistance | 215.00 | 8.00 | 223.00 |
| 3.2 Employment intermediation | 70.00 | 265.00 | 335.00 |
| 3.3 Modernization of administrative management procedures | 159.00 | 12.00 | 171.00 |
| 3.4 Monitoring and evaluation | 310.00 | 3.00 | 313.00 |
| 3.5 Social marketing | 214.00 | 9.90 | 223.90 |
| 4. Administration | 0.00 | 1,050.00 | 1,050.00 |
| 5. Outside auditing | 90.00 | 0.00 | 90.00 |
| 6. Financing costs | 84.00 | 591.36 | 675.36 |
| 6.1 Interest | 0.00 | 528.36 | 528.36 |
| 6.2 Credit fee | 0.00 | 63.00 | 63.00 |
| 6.3 Inspection and supervision | 84.00 | 0.00 | 84.00 |
| Total | 8,400.00 | 2,100.00 | 10,500.00 |
| Percentage share | 80% | 20% | 100% |

D. Source of funding and lending terms

2.36 The lending terms and conditions are as follows:

| | |
|---------------------------|---|
| Amortization period: | 25 years |
| Grace period: | 3 years |
| Disbursement period: | 3 years |
| Interest rate: | Variable |
| Inspection & supervision: | 1% |
| Credit fee: | 0.75 % per year on the undisbursed balance |
| Currency: | U.S. dollars, from the Single Currency Facility |

III. PROGRAM IMPLEMENTATION

A. Borrower and executing agency

- 3.1 The borrower is the Republic of Panama. The executing agency is the Ministry of Labor and Workforce Development (MITRADEL).

B. Overall program management and implementation

- 3.2 MITRADEL will have ultimate responsibility for the management and implementation of the proposed program, given its experience managing the MIF project and its leadership in the operation of training programs in conjunction and cooperation with the private sector. It will be backed by a program coordination unit which, under its new organizational structure, will most likely be GDCAL, the Job Training Bureau, which was also in charge of conducting the programs referred to above and whose technical and line staffs have experience in managing internationally funded projects and are familiar with procedures for contracting with private service providers. It will retain the services of COSPAE for the implementation of Component II (Training of workers in micro, small and medium-sized enterprises) and will work with its General Secretariat and General Employment Office (DGE) in mounting modernization efforts and furnishing employment intermediation services under Component III (Institution-strengthening and assistance in active labor market policy analysis).

C. Program organization

- 3.3 The program will operate on two levels: (i) **the national level**, where program funding will be administered by MITRADEL and, in the case of Component II, with the assistance of COSPAE; and (ii) **the provincial and local levels**, where regional MITRADEL headquarters will manage local operations under Component I (Youth training) and operate local employment services under Component III, which services will be accessed through MITRADEL offices and with the assistance of employers associations affiliated with COSPAE. Note that there will be no transfers of funding to the provincial or local level, with all program funds administered by MITRADEL and, in the case of Component II, by COSPAE.
- 3.4 The program has two regulatory instruments developed in a collaborative effort by MITRADEL technical and line personnel with the assistance of the Bank and outside consultants, namely Operating Regulations and a Procedural Manual. Preliminary versions of both instruments have already been reviewed by the Bank and deemed appropriate for program implementation purposes (see the program files). **Both instruments have been examined by the Contraloría General de la República [the Panamanian General Auditing Office], and their operability is**

a condition precedent to the disbursement of program funding. Any changes in either of these regulatory instruments must be cleared by the Bank.

- 3.5 **Operating Regulations.** The Operating Regulations which will be posted on the Internet for information purposes will spell out eligibility requirements for service operators and program recipients, requirements for access to program funding, rules in regard to the provision of economic assistance, payment procedures for services rendered, requirements for program participation, etc. They also contain guidance for the implementation of rules and regulations for the various program components and service delivery mechanisms and establish monitoring and evaluation indicators.
- 3.6 **Procedural manual.** The procedural manual covers the following major areas: (i) the program's organizational structure, line authority and comprehensive implementation schedule; (ii) financial issues, including applicable sources of financing, costs eligible for program funding, disbursement procedures, internal control and auditing procedures; (iii) procurements of goods and services, including registration and control procedures for all such procurements; (iv) monitoring instruments, including procedures in regard to information systems, the register of bidders, mandatory progress reports; and (v) rules in regard to the establishment, location, maintenance and control of supporting documentation, including all technical, financial/accounting and administrative files.
- 3.7 **Register of bidders.** The program will maintain a single, consolidated, computerized register of bidders to ensure better transparency with respect to program participation requirements and facilitate access by prospective service providers to bidding opportunities for contract awards for program-related services. The register of bidders can be accessed on-line by private service providers, clients, business owners and training program operators.
- 3.8 The register of bidders will be used by MITRADEL, for purposes of PROCAJOVEN, and by enterprises participating in the PROCAMYPE program to retain the services of registered private training providers or consultants. Information on registration requirements will be available on the MITRADEL web site and at central and regional MITRADEL headquarters and COSPAE offices. MITRADEL will be responsible for circulating and publishing information on requirements for listing in the register of bidders and issuing procurement notices on a regular basis. To be accepted into the register of bidders, private training providers must satisfy all corresponding registration requirements, including: (i) the submission of required legal and technical documentation; (ii) the presentation of proof of completion of the program orientation course; and (iii) the submission of a declaration of intent to abide by program requirements. The register of bidders may be used as a bidder prequalification system under which prequalification requirements for the presentation of proposals for training services would vary according to the needs of each type of service delivery mechanism. However, all

prospective training service providers must furnish proof of previous experience in conducting the requisite type of training and of the qualifications of their personnel. The Operating Regulations contain more in-depth information on the obligations of all interested parties and on applicable operating procedures for the PROCAJOVEN and PROCAMYPE programs.

- 3.9 **Register of program participants.** MITRADEL will also maintain a single consolidated register of program participants, which will be regularly updated and accessible to all prospective program participants for reference and consultation purposes, including training providers as well as recipients of training services. To this end, COSPAE will be tied into the consolidated information system to enable it to access the system to enter data on participating enterprises and approvals of corresponding training plans.

D. Implementation of Component I: Youth training program (PROCAJOVEN)

- 3.10 The program coordination unit attached to MITRADEL will be in charge of implementing this program component according to the guidelines established in the Operating Regulations.
- 3.11 The following parties are eligible to participate in program activities under this component: (i) **workforce entry training and assistance option:** unemployed or underemployed **youths** other than students between the ages of 18 and 29 actively looking for work; **school-to-work transition assistance option:** youths between the ages of 15 and 23 who have graduated from lower secondary or middle schools and who are neither studying nor working; and (ii) **employers** of all sizes, in any branch of industry, looking to hire trained workers and agreeing to abide by program regulations.
- 3.12 MITRADEL will outsource training and job placement services under this component to private training providers accepted into its register of bidders. To prequalify for the presentation of training proposals under this component, prospective contractors must have a listing of previously solicited job openings, a pre-selected group of eligible program participants, experience in conducting the type of training to be offered under the proposal and qualified personnel for the supervision of internships and the placement of trained youths, with the highest scores going to training providers with previous experience in administering this type of training and consistently higher placement rates. The obligations of all interested parties and applicable operating procedures are spelled out in the Operating Regulations.
- 3.13 With the program's success contingent upon building trust on the part of participating employers and trainees, all necessary precautions have been taken to ensure the timely payment of service providers and program participants. However, should the government feel it necessary to outsource in-house functions associated

with the implementation of this component at the end of the first year of the program implementation period, it may retain the services of a private contractor in pursuant to Bank procurement procedures.

E. Implementation of Component II: Training program for workers in micro, small and medium-sized enterprises (PROCAMYPE)

- 3.14 The program coordination unit will be in charge of conducting this component, to which end it will retain the services of COSPAE (see the section on procurements of goods and consulting services). The PROCAMYPE program has a decentralized structure, with participatory mechanisms and cost-sharing arrangements designed to provide needed built-in flexibility to efficiently and effectively meet the demand for technical assistance and enterprise and workforce training services. COSPAE is a nonprofit organization representing private enterprise established specifically for the purpose of taking on a leadership role within the private business sector in strengthening private vocational training services for the general public. It has a proven ability to administer enterprise training programs, which is why it has been selected to coordinate program activities under this component. According to the provisions of the Operating Regulations, as program coordinator, COSPAE itself may not furnish training services to participating enterprises in the PROCAMYPE program. **The signature of a contract with COSPAE for the implementation of this component is a condition precedent to the first disbursement of program funding.**
- 3.15 Candidates for participation in this program as micro, small or medium-sized enterprises must fit one of the following categories, according to payroll reports filed with the Social Security Administration: (i) **microenterprises:** 1 to 5 employees; (ii) **small enterprises:** 6 to 15 employees; (iii) **medium-sized enterprises:** 16 to 50 employees. All workers in participating firms registered with the Social Security Administration are eligible for training.
- 3.16 According to the Operating Regulations, participating enterprises may use matching program funds to procure two types of services, namely: (i) **technical assistance** for an assessment of their training needs and the formulation of an enterprise training plan; and (ii) **technical training for company employees in operational, administrative and management areas** designed to address specific problems relating to the performance, productivity, competitiveness and qualifications of their workforce or the quality of their products. Firms taking part in this program will use the register of bidders as the basis for selecting and retaining needed services, issuing requests for quotations and selecting training providers and consultants with the required type of experience based on information furnished in the register of bidders with respect to their performance record in other enterprises. As reflected in the data presented in Table III.1, the amount of allocation payments to participating enterprises to promote spending on training activities will range from as high as 65% of the cost of up to 100 hours of training and 20 hours of

technical assistance services per year for microenterprises, down to 50% for medium-sized enterprises. The ceiling amount payable per hour of training will be US\$50.00. The Operating Regulations spell out the percentage amount of matching funds furnished by the program according to the size of the firm in question and the type of services funded. (The aggregate value of program funding is limited to US\$5,000 per firm per year.)

| Table III.1 PROCAMYPE cost-sharing mechanism | | | | | | | |
|---|-------------------------------------|-------|------------------|-------|-------|--------|--|
| Type of services | Maximum number of hours per year | | Percentage share | | | | Ceiling hourly amount in US\$ |
| | Firm size | | | | | | |
| | Micro | Small | Medium | Micro | Small | Medium | |
| 1. Technical assistance | 20 | 20 | 20 | 65 | 50 | 50 | 50 |
| 2. Technical training | 100 | 100 | 100 | 65 | 50 | 50 | 50 |

- 3.17 The release of matching program funds is contingent on the submission of invoices and evidence of payment of the share of costs allocable to the participating enterprise in question. To this end, private training providers interested in furnishing services to enterprises participating in the PROCAMYPE program must be listed in the register of bidders and will need to submit invoices and evidence of the receipt of payment from participating firms. As program manager, COSPAE will maintain separate accounting records, data files and miscellaneous documentation with respect to the approval of training plans, payment authorizations and the monitoring of training activities under this component.

F. Implementation of Component III: Institution-strengthening and assistance in active labor market policy development and analysis

- 3.18 The program coordination unit will be responsible for the implementation of all activities mounted under this program component, working with corresponding units within MITRADEL or with other agencies and organizations involved in system strengthening efforts, such as INAFORP and job and skills councils. It will work with the General Secretariat on operations relating to the modernization of the Labor Ministry and on the coordination of labor policy and with the General Employment Office (DGE) specifically in regard to employment intermediation activities. The coordination unit will be personally responsible for: (i) maintaining all information systems pertaining to Components I, II and III; and (ii) maintaining all program accounting records. It will also be responsible for maintaining, regularly updating and publishing the register of bidders and issuing procurement notices, training central and provincial level personnel and for social marketing activities.

- 3.19 As far as INAFORP is concerned, as indicated in paragraph 1.14, its National Committee has undertaken to implement the recommendations presented in the year 2001 evaluation report within a period of 15 months from the effective date of the loan contract. MITRADEL will report on the status of INAFORP strengthening efforts in its semiannual progress reports to the Bank. This evaluation of the progress made by INAFORP in strengthening efforts will overlap with the midterm program review, the report on which will include an examination of the status of its management, budgeting and planning system. Upon approval by MITRADEL and the Bank, the findings of this evaluation will be made available to the appropriate public finance agencies and their inspection units. In addition, they will be posted on MITRADEL's Web site, with a summary of the results being disseminated in another nationally circulated medium of communication. The borrower and the Bank will meet on a mutually acceptable date to discuss the findings from the evaluation and, where applicable, take appropriate measures to ensure its efficient operation.
- 3.20 MITRADEL will hire a consulting firm or individual consultants to design the information systems and operating instruments referred to in paragraph 2.32.
- 3.21 It will also retain the services of an outside contractor to develop an action plan for social marketing activities (paragraph 2.33) and design client and user surveys and advertising materials for each activity mounted under the training and employment system.

G. Monitoring and evaluation mechanisms

- 3.22 The program will be subject to three types of evaluations: (i) a midterm review, where necessary, to be used as basis for adjusting the program design; (ii) a final evaluation to be conducted at the end of the thirtieth month of the program implementation period to assess the program's impact; and (iii) targeted studies of specific issues. It also provides for the design and implementation of a system for tracking progress under its three components and recipients of training services, to monitor and evaluate key program impacts against a baseline to be established at the beginning of the program implementation period.
- 3.23 The **midterm review** will be conducted eighteen months into the program implementation period with the assistance of outside consultants, who will make a full-scale evaluation of program management and of the performance indicators discussed in paragraph 3.27 below. It will evaluate progress in building the training and employment system, including the strengthening of institutions participating in the training system such as INAFORP, COSPAE, and the training agencies, the role of job and skill councils, etc. and the effect of incentives built into the design of its components and program operating mechanisms.

- 3.24 The **final evaluation** will include a cost-benefit analysis of Components I and II, using control groups to more accurately measure their impact on corresponding participants and on the labor market in general based on the logical framework for the proposed program (see Annex I). To this end, it will compare the program's effect on the target population (pilot group) to conditions within a control group not served by the program. The final evaluation will also include an examination of program training and operating costs as input for the formulation of new cost recovery and policy development strategies. In addition to the aforesaid cost-benefit analyses of the PROCAJOVEN and PROCAMYPE programs, it will also examine outputs by institution-strengthening and modernization activities under Component III. The final evaluation will be undertaken beginning in the thirtieth month of the program implementation period, for purposes of issuing preliminary findings prior to the completion of the program. This independent evaluation will be conducted by an international consulting firm and/or individual consultants.
- 3.25 The program **monitoring** system will require the establishment of a baseline containing a series of indicators designed to measure the progress of the envisaged activities described in the Operating Regulations and the program's impact in terms of targeted outputs for Components I and II, including but not limited to the indicators established in the program's logical framework (see Annex I). It will also monitor the progress of institution-strengthening or reform efforts under Component III, including modernization efforts within MITRADEL (i.e. market studies and analyses of proposed labor policy). The executing agency will hire a consultant to collect baseline data within three months from the effective date of the program's qualification for Bank financing. The impact indicators for targeted outputs under each component are established in the logical framework for the program (see Annex I).
- 3.26 This new system is a major improvement over the monitoring system currently used by MITRADEL, which lacks standardized data on the administration of job programs and the characteristics of program participants (i.e. profiles of participating youths, workers and enterprises) and on program impact/outputs.
- 3.27 The following is a representative list of the types of indicators used by this system:
- (i) **Program impact or output indicators.** Indicators for **Component I** measure progress in mainstreaming youths into the labor market by the number of youths placed in jobs and corresponding retention rates 3 and 6 months after completing the program. Indicators for **Component II** measure boosts in spending on training by participating enterprises compared with a control group and improvements in performance in areas of corresponding enterprises benefiting from training services. Indicators for **Component III** include the number of job seekers effectively placed by the employment service (not only registered) and,

to measure the progress of institution-strengthening efforts, the performance of MITRADEL and outputs by labor policy measures.

- (ii) **Program performance indicators.** Performance indicators for Components I and II include the number of youths trained per year, the number of participating enterprises and participating workers per enterprise and the number of occupationally disadvantaged persons served by the program. Indicators for Component III include the number of unemployed receiving job counseling services through the employment services network, the number of studies completed and the number of job hunting workshops conducted for the unemployed. These indicators will measure progress in the attainment of established targets for each program component at different points in the program implementation and loan disbursement period, according to the schedule of program activities available for consultation in the program files.
- (iii) **Program management audit indicators.** The following indicators will be used to measure program operating efficiency: the register of program participants, course attendance, payments to grant holders, the number of payments made to service providers and payment processing times, administrative costs associated with the maintenance of statistical operating data, indicators of the level of disbursements per component and the information system.

- 3.28 Basic terms of reference for the establishment of a baseline and evaluation procedures and for the midterm review and final evaluation can be found in the program files. The terms of reference for the latter two evaluation processes will be expanded and revised once the baseline has been established.
- 3.29 There are also plans to retain a consulting firm or specialized consulting services to assist the Ministry in designing the system, establishing monitoring and evaluation procedures for verifying the attainment of specific targets and in collecting data on efficiency and impact indicators. The semiannual progress reports to be presented to the Bank by the program executing agency will contain a summary of progress in program implementation as measured by program monitoring efforts.
- 3.30 These monitoring system indicators are not the only program supervision mechanisms, which also include: (i) regular inspections; (ii) reviews of semiannual progress reports containing cumulative program performance and impact data; (iii) regular assessments; (iv) annual review meetings; and (v) loan reviews.

H. Procurements of goods and contract awards for consulting services

- 3.31 Procurements of goods and related services and contract awards for consulting services will be made in accordance with Bank procurement procedures. The threshold for the use of international competitive bidding is US\$250,000 for procurements of goods and related services and US\$200,000 for contract awards for consulting services.
- 3.32 Procurements and contract awards valued under the threshold amounts established in the previous paragraph will be treated as follows: (A) Goods and related services: (i) procurements valued at or above US\$10,000, up to US\$250,000, will require the use of local competitive bidding; (ii) procurements valued at or above US\$5,000, up to US\$10,000, will require limited local bidding; and (iii) procurements valued at under US\$5,000 will be made based on local shopping pursuant to the provisions of domestic legislation; (B) Consulting services: (i) contracts valued at or more than US\$100,000 but less than US\$200,000 will be awarded on the basis of local calls for proposals; and (ii) contracts valued at or more than US\$5,000 and US\$100,000 or less will be awarded on the basis of restricted calls for proposals. These procurement procedures will be spelled out in the annex to the resulting loan contract. Table III.2 below contains a procurement plan for the proposed program.

| Table III. 2 Procurement plan | | | | | |
|---|---------|---|--------------------------|---------------------------------|--------|
| Major procurements | Financ. | Description | Procurement value (US\$) | Registration / Prequalification | Year |
| Individual consultants | IDB | Institution-strengthening | 150,000 | Yes | 1,2,3 |
| | IDB | Skill certification system | 72,000 | N/A | 1,2,3 |
| | IDB | Certification and standardization (2) | (ea.) 54,000 | N/A | 1,2,3 |
| | IDB | Program information system | 30,000 | N/A | 1 |
| | IDB/Gvt | Short-term consulting assignments (average cost) | 15,000 | N/A | 1,2, 3 |
| Consulting firms | IDB | Design and monitoring of social marketing activities | 200,000 | Yes | 1, 2,3 |
| | IDB | Concurrent auditing | 150,000 | Yes | 1,2,3 |
| | IDB | Final program evaluation studies | 105,000 | Yes | 3 |
| | IDB | Three labor market studies | 70,000 | N/A | 1,2,3 |
| Training courses For youths, workers and program managers | IDB/Gvt | 400 workforce entry training courses (15-20 youths/course) | 3,200 | Yes | 1,2,3 |
| | IDB/Gvt | 190 school-to-work transition courses (20-25 youths/course) | 2,600 | Yes | 1,2,3 |
| | IDB/Gvt | 10 pilot courses for at-risk groups | 30,000 | Yes | 1,2,3 |
| | IDB/Gvt | 360 training and technical assistance packages for MSMEs | 5,000 | Yes | 1,2,3 |
| Materials and equipment | IDB/Gvt | Systems and computer hardware and supplies | 50,000 | N/A | 2 |

- 3.33 Contract awards for the delivery of envisaged courses under Component I will be made in accordance with the following procedure. Prospective contractors must

- prequalify by applying for acceptance into the register of bidders. The invitation to prequalify will be advertised in a newspaper with a nationwide circulation at six-month intervals. Listing in the register of bidders will be open to all qualified service providers to promote competition by the largest possible number of tenderers. Once the prequalification process is completed, all prequalified contractors will be invited to submit proposals. Among other requirements, all proposals must specify the position for which each given internship will be performed. Bidding documents will contain a provision to the effect that contract awards will be made to firms submitting proposals meeting established requirements under the Operating Regulations for a specified period (one year for example), subject to the commitment of all funding allocated to this activity. Only those proposals drawn up in due and proper form will be accepted and, once accepted, will be evaluated within a period not to exceed five days by a three-member committee. An official record will be made of each contract award.
- 3.34 In a departure from established procedures for the selection of consultants based on competitive bidding, as previously indicated, it is recommended that a direct contract award be made to COSPAE for the coordination of program activities under Component II. While such an award involves the use of direct contracting without competition, COSPAE will not be paid for its services. Such an award is justified by the comparative, institutional and technical advantages offered by COSPAE.
- 3.35 The institutional advantages offered by such an arrangement are as follows: (i) COSPAE is an employers organization providing enterprise training services with a network of 20 employers associations through which the program would be widely advertised and service centers in the nine provinces making up its service area; (ii) it has the operating capacity to mount awareness-building activities and provide networking services to the target population; (iii) it has experience in administering government and international funding; (iv) it has the capability to coordinate efforts to assess training needs and to develop and supervise the delivery of enterprise training services and the administrative staff with which to control the quality of these services.
- 3.36 From the technical standpoint, COSPAE is the only employers organization engaged in these specific types of activities, with the technical expertise to manage in-service training activities based on the demand-driven model envisaged under Component II, which is extremely hard to come by in other firms or agencies accustomed to supply-driven models. As a nonprofit organization representing private enterprise dedicated to improving the quality of training services in Panama, it has good credibility within the enterprise sector. Based on these comparative advantages, it meets requirements under Chapter GS-403 of the Bank's Procurement Manual. All other procurements and contract awards will be made in accordance with Bank procedures.

I. Implementation period and disbursement schedule

- 3.37 The proposed program implementation period is three (3) years, counted from the effective date of the loan contract, as indicated in Table III-3 below. The tentative disbursement schedule is geared to program implementation capabilities and the availability of budget funds.

| Table III-3 Tentative disbursement schedule (in millions of U.S. dollars) | | | | |
|--|---------------|---------------|---------------|--------------|
| Source | Year 1 | Year 2 | Year 3 | Total |
| IDB/OC | 2.1 | 2.9 | 3.4 | 8.4 |
| Local | 0.5 | 0.7 | 0.9 | 2.1 |
| Total | 2.6 | 3.6 | 4.3 | 10.5 |
| % | 24.76 | 34.29 | 40.95 | 100.0 |

J. Retroactive financing

- 3.38 Certain eligible expenditures on key activities under all program components made at the Bank's request and subject to its approval to prevent delays in program implementation will require retroactive financing. Accordingly, it is recommended that the Bank agree to the retroactive financing of up to US\$850,000 in costs associated with the collection and processing of data for the establishment of a register of bidders, the designing of information systems including the consolidation of the register of bidders, technical assistance services for the establishment of a baseline and evaluation procedures, the development of a basic skills profile (Component I), pilot projects for vulnerable groups, training sessions carried out as part of Component 1, the integration of the CU, the hiring of outreach workers for the program, etc. All such outlays are to be made in accordance with procedures substantively similar to those of the Bank. They are subject to review and approval by the Bank and must be made within a period of no more than 12 months prior to the date of approval of the proposed program and no earlier than August 21, 2001, the date of the loan request.

K. Accounting and outside auditing

- 3.39 The executing agency will maintain an appropriate system of administrative and accounting records, establish suitable internal control procedures and furnish the Bank with financial statements and reports according to the general conditions forming part of the loan contract entered into with the Bank.
- 3.40 The executing agency will be accountable to the Bank for: (i) the implementation and maintenance of appropriate internal control, accounting, financial management and supervision systems for the due and proper administration of program funds according to applicable provisions of the general conditions forming an integral part of the loan contract; (ii) the submission of disbursement requests and supporting

- documentation for program outlays meeting Bank requirements; (iii) the submission of semiannual reports on the revolving fund within sixty (60) days from the end of each six-month period; (iv) the preparation and submission of consolidated program financial reports and any other financial reports required by the Bank; and (v) the maintenance of separate special bank accounts for the administration of Bank loan proceeds and local counterpart funds.
- 3.41 The obligations of COSPAE under its contract with MITRADEL for the implementation of Component II will include: (i) the maintenance of separate special bank accounts for the administration of Bank loan proceeds and local counterpart funds; (ii) the maintenance of appropriate accounting and financial records and internal control procedures with respect to program funding; (iii) the maintenance of due and proper files of supporting documentation for procurements and outlays made with Bank loan proceeds and local counterpart funding; (iv) the maintenance of relevant information at the disposal of outside auditors and/or Bank personnel; and (v) the rendering of accounts to MITRADEL on incoming funds and the preparation of any and all requested financial reports.
- 3.42 The executing agency will use Bank funding to retain the services of an independent auditing firm based on competitive bidding procedures for the selection of auditing firms previously agreed on with the Bank to: (i) draw up semiannual auditor's reports on the administration of the revolving fund and review the soundness and adequacy of supporting documentation accompanying disbursement requests; (ii) establish procurement procedures to be submitted by the executing agency to the Bank within sixty days from the end of each six-month period; and (iii) perform annual audits of program financial statements and financial statements presented by COSPAE, as the co-executing agency, due within 120 days from the end of each fiscal year throughout the program implementation period.

L. Supervision, monitoring and evaluation

- 3.43 Program supervision will be an ongoing process in the sense that, in addition to the semiannual progress reports and annual reviews required under standard provisions of Bank loan contracts, the proposed program will include an accessible monitoring system which can be used to check on its progress in the interval between on-site inspections, loan reviews or annual meetings. The Country Office in Panama (COF/CPN) will be in charge of overseeing program implementation, where necessary, backed up by outside consultants and members of the project team.
- 3.44 MITRADEL and the Bank will discuss the progress of program implementation during on-site inspections and at program supervision and loan review meetings. These program monitoring and evaluation activities provide an opportunity for evaluating program outputs and making any necessary and appropriate adjustments in procedures and time lines. The annual plan of operations will review program activities conducted over the course of the previous year and outline scheduled

activities for the following year under each program component, as agreed on with the Bank, along with corresponding targets for that year, problems encountered during the previous year and corresponding solutions. It will also contain a procurement schedule for goods and related services. **The submission of an annual plan of operations for the first year of the program implementation period is a condition precedent to the first disbursement of program funding.**

- 3.45 The Bank will hold annual meetings to discuss: (i) progress in the implementation of each program component; (ii) the efficiency and effectiveness of program activities; (iii) the experience gleaned and problems encountered in conducting the aforesaid activities; (iv) completed and pending courses, consulting assignments and services; (v) the attainment of established targets for each program component; and (vi) any and all other relevant issues in regard to program implementation, to verify progress in furtherance of program objectives.

IV. FEASIBILITY AND RISKS

A. Benefits

- 4.1 Over the medium term, implementation of the proposed program should provide the country with versatile training and employment programs geared to its social and economic development needs, capable of improving workforce performance and strengthening the competitiveness of its goods-producing sector. The program will also bolster efforts to reform and restructure MITRADEL to take on a leadership role in the operation of training and employment services, building a training and employment system matching demand in the goods-producing sector with a supply of services geared to the specific needs of enterprises or of youths and other disadvantaged groups. Implementation of envisaged program activities should help: (i) lay the groundwork for building a training and employment system geared to the country's development needs; (ii) strengthen training and employment programs; and (iii) make government labor policy measures more effective. The main benefit of program implementation is that, together, envisaged program activities would help foster the development of an institutional framework for the conduct of a holistic training policy and to synchronize efforts to reform the present training and employment system, heightening the efficiency of government and private spending in this area. More specifically, expected program benefits include:
- (i) The establishment of a solid structure with the capability to design programs geared to meet strategic economic development needs, supported by employment intermediation mechanisms better attuned to the specific needs of individual enterprises and capable of meeting the special needs of the working population.
 - (ii) Improvements in labor productivity, workforce entry and in the income-earning potential of most segments of the working population.
 - (iii) Improvements in the competitiveness of private enterprises by providing them with a better skilled and more productive workforce to boost their output and profitability.
 - (iv) More specifically, Component II will create the proper demand dynamics to help boost investments in human capital and strengthen company productivity and competitiveness.
 - (v) Evidence of job training outcomes, to be documented and used to demonstrate the benefits of such activities and inspire more firms to invest in training services.

- (vi) The reform and restructuring of MITRADEL to solidify its leadership role in the operation of training services, as well as in labor market research and the design and implementation of labor policy.

4.2 The strengthening of training programs for the unemployed and underemployed has a positive effect on society-at-large by helping to mainstream them into income-producing activities. Likewise, it is a proven fact that in-service training activities strengthen the competitiveness of participating enterprises and the performance of their workforce which, over the medium term, tends to improve working conditions in enterprises served by such programs. The main effect of mounting envisaged pilot assistance projects for female heads of household, indigenous peoples and other high-risk groups is to bolster the formulation of more effective types of interventions designed to break through the barriers faced by these population groups, particularly in more remote areas of the country. The goal is to establish a baseline for each such group by the end of the project implementation period, along with appropriate evaluation procedures and specific indicators for measuring outputs and, where applicable, making adjustments in program activities based on the lessons drawn from these pilot operations. This would furnish necessary guidance for the mounting of appropriate activities designed to boost their participation in the program.

B. Targeted outputs

- 4.3 The proposed program should generate the following outputs by the end of its three-year implementation period: (i) training of 11,000 youths in program activities, hopefully, followed by the successful placement of at least 5,000 of these trainees; (ii) development of new training models for at-risk groups; and (iii) improvement in the performance of some 5,400 actively employed workers through in-service training activities.
- 4.4 The 420 enterprises taking part in the program will allocate a larger percentage of their operating capital to manpower training activities, systematically generating demonstration effects for other enterprises.
- 4.5 MITRADEL will benefit from: (i) an improvement in its operating capacity for the development and conduct of labor policy; (ii) more efficient employment intermediation mechanisms; (iii) in-house training systems; and (iv) improvements in its technical analysis and training program management capabilities.
- 4.6 The goal is to use the Consultative Job and Workforce Development Council to lay the groundwork for: (i) building a consensus for the development of institutional mechanisms making government more responsive to market demand and economic priorities; and (ii) formulating a comprehensive human capital development strategy by the end of the three-year program implementation period providing for larger-scale training and employment initiatives and reforms in government

agencies and institutions to heighten the efficiency and relevance of vocational training, labor education and employment intermediation services.

C. Environmental considerations

- 4.7 The proposed program is environmentally feasible in that: (i) it should not have any negative environmental effects, since most envisaged activities focus on labor and management training, institution-building and research and studies; and (ii) it includes special measures designed to have a positive effect on the environment. For example, training in production processes will explore environmental issues, seeking to mitigate any negative environmental effects of such processes and to maximize the positive effects engendered by the implementation of recommended measures on the part of corresponding workers. Likewise, occupational health and safety issues will be given special consideration to mitigate any occupational risks to trainees performing internships in participating enterprises.

D. Risks

- 4.8 The experience gleaned by MITRADEL in implementing the pilot MIF project (ATH/MH-5739-PN) has strengthened its project implementation capacity. The establishment of a Coordinating Unit called the Gerencia de Capacitación Laboral (GDCAL) [Job Training Bureau] in the Ministry's new structure, has helped reinforce its capacity to operate training programs. Moreover, it has an appropriate administrative structure and a staff capable of conducting the proposed program. However, it is important to prevent the loss of Ministry personnel with the necessary mix of skills for the attainment of its institutional development objectives. Institution-strengthening and technical assistance activities designed to reinforce the current structure of the Coordinating Unit and other MITRADEL units should ensure overall successful program implementation and mitigate the risk of falling short of institutional development objectives whose attainment is crucial to efforts to lay the groundwork for the modernization of its training and employment system over the medium term.
- 4.9 Effective training for workforce entry requires close cooperation and partnerships with the private sector. Government bureaucracy and red tape would only operate as a deterrent to private sector participation and undermine the credibility of the proposed program. The following measures are being taken to mitigate the risk of this potential problem: (i) streamlining of contracting procedures for the outsourcing of training courses to private contractors; (ii) delegation of responsibility for the management of Component II to a private organization to heighten its effectiveness and ease pressure on MITRADEL to ensure the program's successful implementation; (iii) provision of assistance for the development of new technical monitoring systems to improve the monitoring of job programs; (iv) provision of assistance for strengthening management and inter-agency cooperation under employment intermediation programs operated by MITRADEL

as part of the proposed program. Furthermore, part of the funding allocable to institution-strengthening activities under the proposed program will be used to hire international and local experts to provide needed technical assistance services to bolster the Ministry's program implementation capacity.

- 4.10 The success of the pilot MIF project to date has encouraged the current administration to increase MITRADEL's training budget. Despite current budgetary constraints, the government is giving the proposed program top priority and has appropriated necessary counterpart funding.

E. Program impact on women

- 4.11 The program includes special measures designed to create new opportunities for young unemployed women, female entrepreneurs and working women. Special information activities and employment counseling services will encourage women to broaden their job search to target better-paid jobs. Communication activities will help raise public awareness of hiring practices based on the use of stereotyping and publicize examples of success stories of women employed in strategic sectors. Employment counselors and training providers will attend awareness-building workshops dealing with these types of issues. Moreover, the elevation of the role and status of women through social education activities should attract more women-owned businesses and spread program benefits among firms dedicated to improving the productivity of working women employed in nontraditional jobs. As indicated earlier, the program includes provisions for special assistance designed to break through barriers to the participation of women, including childcare services and, where possible, customized training plans geared to their special needs. Envisaged research, studies and surveys under the proposed program will foster a more in-depth study and evaluation of gender-related problems in key areas affecting labor force participation rates for women. In general, there was more participation by women in the pilot project. However, the real challenge is to place working women in better-paid jobs. Accordingly, the proposed program focuses on job placement assistance and on more systematically ensuring equal employment opportunities for women, establishing specific indicators measuring the number or percentage of women served under each component.

F. Program impact on at-risk groups

- 4.12 Another important benefit stemming from the program is more active participation by vulnerable or high-risk groups in programs operated by MITRADEL. The Ministry will make a special effort to extend its programs, not only to women, but also to persons with disabilities, the elderly, victims of abuse, indigenous peoples, illiterate adults, youths at risk and the Afro-Panamanian population in poor areas of the country. MITRADEL has announced its intention of entering into partnerships with civil society organizations, wherever possible, to promote and conduct programs for these at-risk groups.

G. Poverty-targeting and social equity classification

- 4.13 Since so many program participants are among the ranks of the unemployed, including members of high-risk groups such as women and youths, the proposed program qualifies as a social equity-enhancing project as defined under the key areas of Bank activity established in the Report on the Eighth General Increase in Resources (document AB-1704). Accordingly, it will establish specific performance indicators measuring improvements in social equity.

PANAMA
ASSISTANCE PROGRAM FOR THE BUILDING OF A TRAINING AND EMPLOYMENT SYSTEM IN PANAMA (PN-0125)
LOGICAL FRAMEWORK

| Descriptive summary | Performance indicators | Impact indicators | Means of verification | Assumptions |
|---|---|---|---|---|
| Goal: | | | | |
| Assist government in its efforts to boost employment by helping the labor market operate more efficiently. | | Boost in private sector growth and employment. | - National accounts and employment surveys. | Economic conditions remain stable enough for the government to focus on reducing poverty and lowering unemployment by investing in human capital development strategies. |
| Purpose: | | | | |
| Help bolster the efficient operation of job training and employment programs, strengthen labor policy development capabilities and build institutional capacity in this area. | | Lower unemployment rates, boost in labor productivity and evidence of better program planning and of improvements in policy development and analysis capabilities in this area. | - Program placement rate and household survey data. - Program evaluation data. - Studies of competitiveness. - Labor market studies. - Studies of labor policy. | The government is committed to the program and appropriates adequate budget funds to complete the program and ensure its sustainability. Cooperation with private stakeholders bolstering project implementation efforts. |
| Outputs: | | | | |
| 1. Training and workforce entry assistance for youths and other at-risk groups, including: (i) On-the-job training for youths; | 1.1. Delivery of job training services to 7,000 youths, with women accounting for at least 40% of program participants. | 1.1.1. 70% placement rate for program participants. 1.1.2. Program participants take 30% less time to find jobs than the control group. 1.1.3. Youths taking part in the program retain jobs longer than the control group. 1.1.4. Boost in the percentage of business owners using program services to hire youths. | - Program evaluation data. - Comparison of household survey data. - Employer surveys. - Program data. - Performance data for the control group. | - Program employment intermediation, job training and in-service training mechanisms gain increasingly wider acceptance. - There is a growing demand for training and job placement assistance on the part of employers and workers. - Cooperation between public and private stakeholders is feasible. |

| Descriptive summary | Performance indicators | Impact indicators | Means of verification | Assumptions |
|--|--|--|---|---|
| <p>(ii) School-to-work transition assistance; and</p> <p>(iii) Innovative training services for disadvantaged groups</p> | <p>2.1. Delivery of school-to-work transition training services to 4,400 youths, with women accounting for at least 45% of program participants.</p> <p>3.1. Training of 200 occupationally disadvantaged persons.*</p> | <p>2.1.1. 80% of participating youths continue their training or find jobs upon completing the training program.</p> <p>3.1.1. Availability of new instruments designed to improve service to these groups by month 18 of the program implementation period.</p> | | <p>- Private enterprises step up spending on training activities.</p> |
| <p>2. In-service training in private enterprises (micro, small and medium-sized enterprises), assistance in assessing training needs and formulating training plans and provision of matching technical assistance and training funds.</p> | <p>2.1. Participation by 900 enterprises in outreach activities, provision of technical assistance for the performance of assessments and direct funding for training and technical assistance services to 420 business owners, including at least 100 women.</p> <p>2.2. Training of 5,400 actively employed workers.</p> | <p>2.1.1. Evidence of participating enterprises spending 25% more per worker on training activities compared with a control group.</p> <p>2.2.1. Delivered training services meet 80% of established targets.</p> | <p>- Program data, progress reports, evaluations and household survey data.</p> | <p>- Employers focus on human capital development as a means of strengthening their competitiveness.</p> <p>- The development of skill standards takes on increasing importance as part of the agenda for strengthening competitiveness.</p> <p>- Business owners are willing to step up their spending on training activities.</p> |
| <p>3. Institution-strengthening, including:</p> <p>(i) Establishment of a public-private council on labor policy;</p> | <p>1.1. Formation of the National Job and Workforce Development Council.</p> <p>1.2. Submission to the Council of three high-quality labor market studies and baseline</p> | <p>1.1.1. 10% boost in returns on investments in system training activities.</p> | <p>- Executive order by MITRADEL establishing the Council, official documents, budget and reports.</p> <p>- Publications, progress reports.</p> <p>- Program data, progress and</p> | <p>- The government continues to invest in institution-strengthening activities.</p> <p>- The political will to strengthen the training and employment system holds firm.</p> |

| Descriptive summary | Performance indicators | Impact indicators | Means of verification | Assumptions |
|---|---|---|---|-------------|
| <p>(ii) Institutional strengthening of employment services, establishing a pilot network of public and private employment intermediation service providers;</p> <p>(iii) Assistance in the modernization of administrative management procedures;</p> | <p>statistical data (one in the first year of the program period and the other two in year 3 at the latest).</p> <p>1.3. Evidence of the use of objective indicators by program and policy-level officials for project management and policy analysis purposes</p> <p>2.1. Registration of 4,000 job openings with the Employment Service.</p> <p>2.2. 5,500 persons served by workshops for the unemployed.</p> <p>2.3. Establishment of a network of employment services and job placement agencies.</p> <p>3.1. Training of 800 training providers.</p> <p>3.2. Training of 120 MITRADEL employees.</p> <p>3.3. Establishment of regulations for training providers.</p> | <p>2.1.1. 45% of registered job listings are filled by persons referred by the Employment Service.</p> <p>2.2.1. The placement rate for job seekers served by the program is 30% higher than for typical job seekers registered with the Employment Service.</p> <p>2.3.1. 50% boost in participation by private employment agencies in the network of employment services and job placement agencies.</p> <p>3.1.1. Improvement in efficiency, measured by a 30% reduction in operating costs by the end of the program implementation period.</p> | <p>evaluation reports and public opinion polls.</p> | |

| Descriptive summary | Performance indicators | Impact indicators | Means of verification | Assumptions |
|--|---|--|------------------------------|--------------------|
| (iv) Technical assistance for program monitoring and evaluation; | 4.1. Establishment of 3 monitoring and evaluation systems and performance of evaluations. | 4.1.1. Boost in management capacity and reduction in the administrative work load. 4.1.2. Mitradel will draw on new lessons and have new quantitative instruments for measuring program efficiency for the targeting of future spending by month 36 of the program implementation period. | | |
| (v) Assistance in social marketing activities. | 5.1. Expansion and monitoring of social marketing activities. | 5.1.1. By the end of year 3, social marketing surveys show that more than 40% of the target population is familiar with the program and knows how to apply for assistance. | | |

* According to the 2001 population census, the country has an indigenous population of approximately 100,000 persons. Specific targets for indigenous peoples will be set based on the pilot projects for the development of innovative instruments for disadvantaged groups.