

**AGENCY FOR
INTERNATIONAL
DEVELOPMENT**



**COUNTRY DEVELOPMENT
STRATEGY STATEMENT**

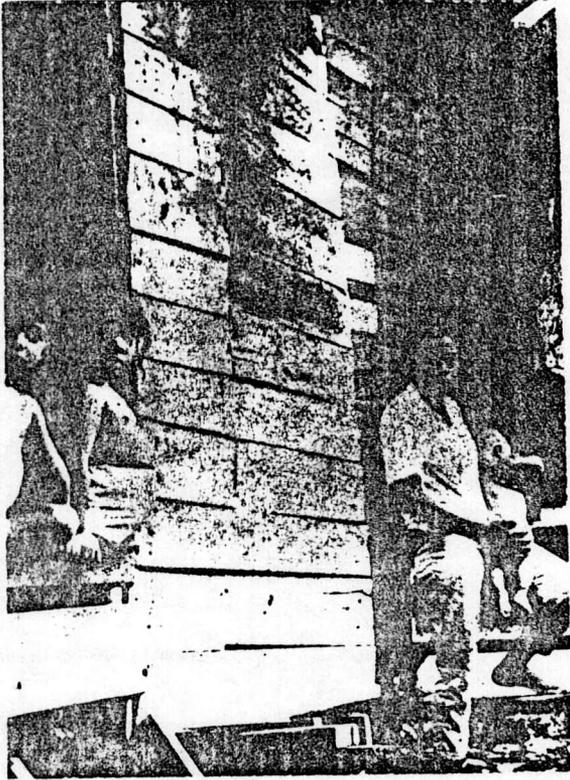
FY 1981

PANAMA

**DEPARTMENT
OF
STATE**

January 1979





PANAMA

Country Development Strategy Statement

1981 - 1985

(with a 1986 - 99 preview)



U.S. Embassy
USAID Panama

Jan. 31, 1979

P A N A M A

COUNTRY DEVELOPMENT STRATEGY STATEMENT

1981-1985

1986-1999

Introduction and Summary

Panama's dominant role in the history of the Americas is common knowledge. Especially recognized is its function as the crucial artery of communications between North and South America and between the eastern and western halves of the hemisphere. When one spends a few hours at the Miraflores or Gatun locks, however, one learns of a lesser known but perhaps still more important fact. Panama and the Canal provide also a vital link between the Atlantic basin and Eastern Asia. With the re-opening of China, this fact assumes tremendous new importance. A quarter of all the world's population is being suddenly brought newly into world commerce, and the Panama Canal is among international trade's most vital organs.

Panama has done well in providing a healthful environment for its heavily travelled path between the seas. From the mid 1950's until 1974, the country achieved an economic growth rate of 8% and during the past decade the benefits of this growth have been remarkably well distributed. Especially noteworthy are Panama's progress in alleviating rural poverty and in reducing the population growth rate.

Since 1974, however, alarming developments have brought heavy clouds down around the earlier achievements which, if not dispersed soon, could put the country into a serious crisis situation. In a word, Panama has for the past four years been the victim of a disease characteristic of semi-developed countries: --growth arrest. The most crucial current fact

PART I: ANALYSIS

A. Analytical Description of the Poor

1. Summary Description of the Poor

Of Panama's 1.8 million people, approximately 715,000 (39%) live in poverty, as will be defined below. Some 385,000 (21%) live in an extreme state of poverty, so extreme that their lives are in a deteriorating condition, similar to the most disadvantaged in the poorest countries in the world. While the poor, and the extremely poor, are found in all areas of the country, they are concentrated in two major areas - the primarily agricultural communities of the country's central and western provinces and the major cities of the Metropolitan region (Panama, Colon, Arraijan, and La Chorrera).

All of the key indicators provide ample evidence of the abject poverty of the rural poor. Illiteracy rates are high; most houses lack electricity, potable water, and sanitary facilities; and access to basic health services is almost non-existent. The incidence of extreme malnutrition among young children is high, and infant mortality, while somewhat lower than that in other nearby countries, remains well above the national average.

While the urban poor have access to some of the basic services that their isolated rural neighbors lack, their housing conditions, too, are highly inadequate. They live in conditions of extreme crowding, with access only to communal water sources and unsanitary waste disposal facilities. Of even more concern is the absolute lack of employment opportunities, compounded by an absence of basic skills needed to compete in the job market. Unlike their rural counterparts, who at least have their

medical services, transport and miscellaneous. Incomes below these three levels for the three geographic areas cannot meet basic human needs.

The second level of income is descriptive of the more than 1/5 of Panama's population living in extreme poverty, or in conditions of serious vital deterioration. This income level has been calculated at \$270 annual per capita for the cities of Panama and Colon, \$210 for other urban areas, and \$160 for the rural areas. The "extreme poverty level" is roughly 48% below the poverty level. It includes the same items in the basket of goods and services but at greatly reduced cost levels. At and below this level, a family of 5 is in no way able to provide for food, clothing or housing at adequate levels.^{1/}

Population living in poverty

Application of the "poverty" and "extreme poverty" lines to the estimated population distribution for 1978 yields the following population living in poverty:

	<u>Pop. Below Extreme Poverty Level</u>	<u>Pop. Below Poverty Level</u>	<u>Pop. Above Poverty Level</u>	<u>Total Population</u>
Total	384,284 (21%)	714,453 (39%)	1,111,047 (61%)	1,825,500 (100%)
Rural	290,067 (16%)	512,485 (28%)	392,755 (22%)	905,240 (50%)
Urban	94,217 (5%)	201,968 (11%)	718,292 (39%)	920,260 (50%)

In absolute terms, the poor are most numerous in the provinces of Veraguas, Panama, Chiriqui and Colon (531,169 or 74%) with the heaviest concentration in the rural areas of Veraguas and Chiriqui and the urban areas of Panama (345,147 or 48%):

1/ A detailed description of the methodology used to both develop these lines and match them up with family income data in order to arrive at estimates of the Panamanian population living in poverty may be found in Annex II.

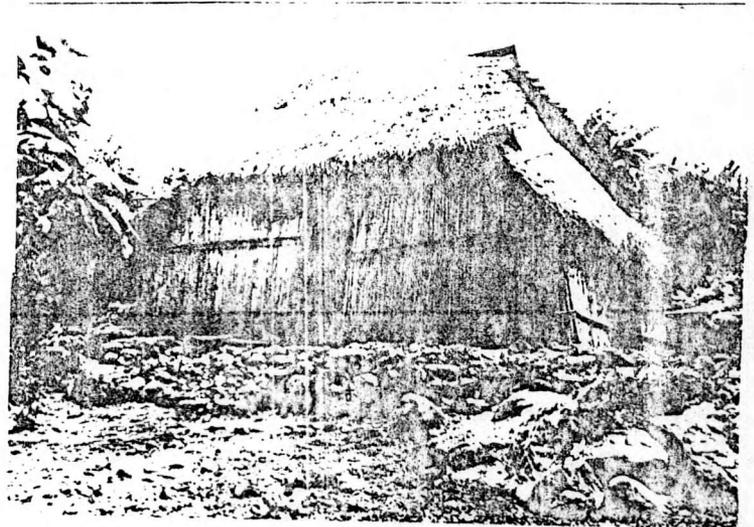
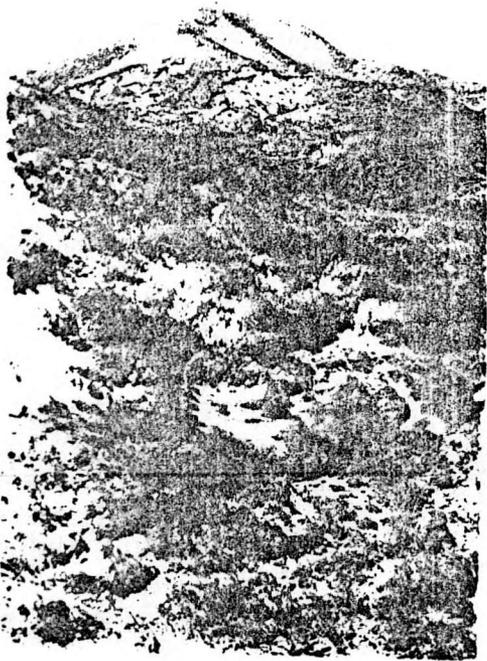
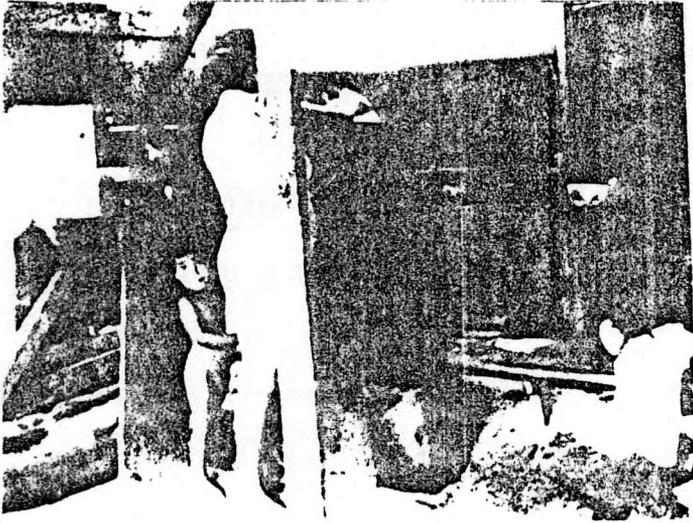
Provinces	Pop. Below Extreme Poverty Level			Population Below Poverty Level		
	Total	Rural	Urban	Total	Rural	Urban
<u>Total</u>	384,284	290,067	94,217	714,453	512,485	201,968
Veraguas	106,298	103,719	2,579	141,090	133,353	7,737
Panama	98,702	34,367	64,335	197,406	68,736	128,670
Chiriqui	49,495	41,562	7,933	106,923	83,124	23,799
Colon	42,873	35,098	7,775	85,750	70,200	15,550
Cocle	25,653	22,361	3,292	62,486	55,900	6,586
Herrera	19,295	16,419	2,876	46,939	38,311	8,628
Bocas del Toro	24,818	20,442	4,376	39,395	30,663	8,732
Darien	9,751	9,588	163	19,666	19,176	490
Los Santos	7,399	6,511	888	14,798	13,022	1,776

The province with the highest incidence of extreme poverty is Veraguas with 61% of its population below the extreme poverty level, almost all in the rural areas (94%).

3. Rural Poverty

In order to move from the more general description of poverty provided by the income distribution and poverty line data to more location specific and qualitative information, the Mission has analyzed social indicators and access to services at the district level.^{1/} For the rural areas, three key indicators - infant mortality, birth rate and illiteracy - were examined for each district in the country. These indicators were then compared to national averages. Those districts where all three indicators are above national norms are considered areas of extreme poverty of a large part of the population. These districts are all located in the provinces which show the largest populations below the poverty line, as described above. Districts where two of the three indicators are above national norms have a lesser prevalence of poverty, although the degree of poverty is similar to that found in the poorest districts.

^{1/} The country is divided into 9 provinces and 65 districts. In addition there is one special district set aside for the Cuna Indian tribe.



The results of the district by district analysis are shown on Map 1. Fourteen districts (shown by cross-hatching) have the "least" level of satisfaction of basic needs - i.e. they are below national averages on all three key indicators. All are in the Central and Western regions. Sixteen additional districts (shown by vertical stripes) fall below the national averages on two of the three indicators and thus have serious deficiencies in the satisfaction of basic needs. Most of these districts also lie in the Central and Western Regions. Tables 1 and 2, Annex 1 summarize the district level data for all 30 districts. The major concentrations of poverty are in Veraguas province and neighboring districts in eastern Chiriqui, Cocle and Colon, Herrera and Los Santos.

Seventeen districts stand out. They have a number of factors in common, including poor soils, mountainous terrain, highly dispersed population and a lack of access roads. The widespread poverty in these districts is further confirmed by a review of other indicators as well, such as housing conditions, water, sanitation and access to health services. These seventeen districts we now believe to be the proper focus for a final rural development effort in Panama. They are illustrated on Map 2 and described in greater detail in the following sections.

Key Population Characteristics

As indicated by 1970 Census data, this area, with a population of 178,821, is primarily rural. The population density is low (an average of 12.3 people per square kilometer) and the inhabitants are highly dispersed. Annual population growth rates are low, due in large part to a tendency of the population to migrate out, especially to Panama City.^{1/}

^{1/} Between 1960 and 1970, 16 of the 17 districts had annual growth rates of less than 2% (the national average for this period was 3.1%). Veraguas and Chiriqui were the provinces with the highest level of outmigration.

WESTERN REGION

CENTRAL REGION

METROPOLITAN
REGION

EASTERN REGION

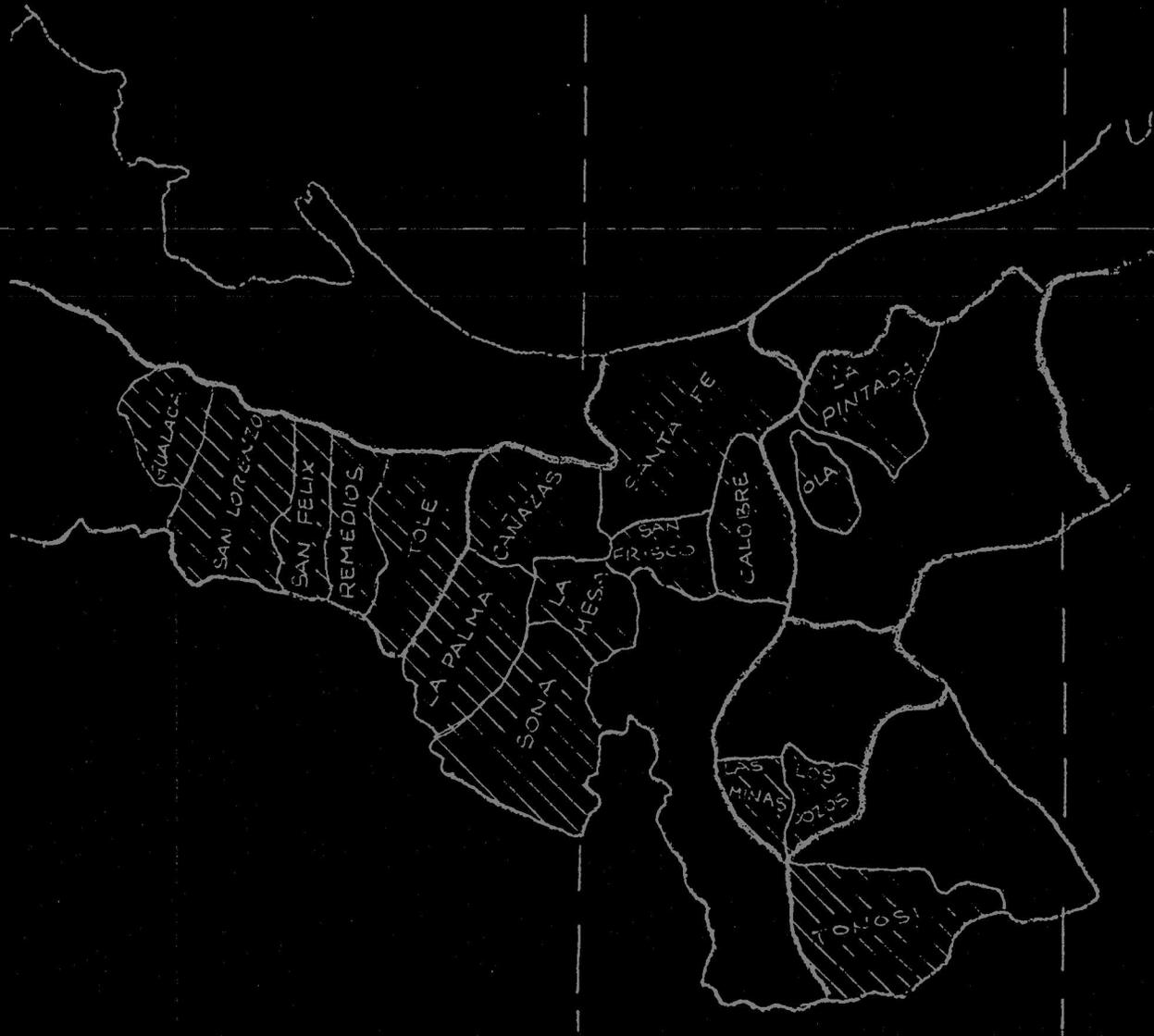


M A P 1

I N C I D E N C E O F R U R A L P O V E R T Y

WESTERN REGION

CENTRAL REGION



MAP 2

FOCUS FOR RURAL DEVELOPMENT

The majority of the population in the eastern districts of Veraguas as well as those of Colon and Cocre is Hispanic. The western districts of Veraguas and the eastern districts of Chiriqui also have the nation's major concentration of the country's 50,000 Guaymi Indians. ^{1/}

Economic Activity of the Population

The vast majority (87%) of the farm population in this predominantly agricultural area are dedicated to subsistence farming. Most subsistence farm families occupy land that is inadequate for cultivation. ^{2/} Very few (less than 10%) have legal title to their land. Most farmers use slash and burn techniques to clear land for cultivation. Seeds are sown by hand without tilling, and no chemical products are utilized. In 1970, only 16% of the farmers in this area received credit and 3% received technical assistance. Virtually none use mechanical power of any kind. While some families change the location of their homestead every few years as they slash and burn further into the frontier area, most stay in the same general vicinity and alternate production on various dispersed plots.

During the off-season male heads of household often obtain off-farm wages for short, intermittent periods on neighbors' cattle ranches. Some also migrate to western Chiriqui, where they obtain seasonal work for several weeks to several months a year on sugar and coffee plantations.

^{1/} Given their extremely limited access to services, the Guaymi are a group that merits study and possibly special attention. A FY 1979 Mission grant project will finance studies of the Guaymi and pilot development activities which should produce considerable new information on the development needs of the Guaymi.

^{2/} Most of the terrain is mountainous and the majority (80%) of the soils are unsuitable for cultivation (e.g. types VI, VII, and VIII).

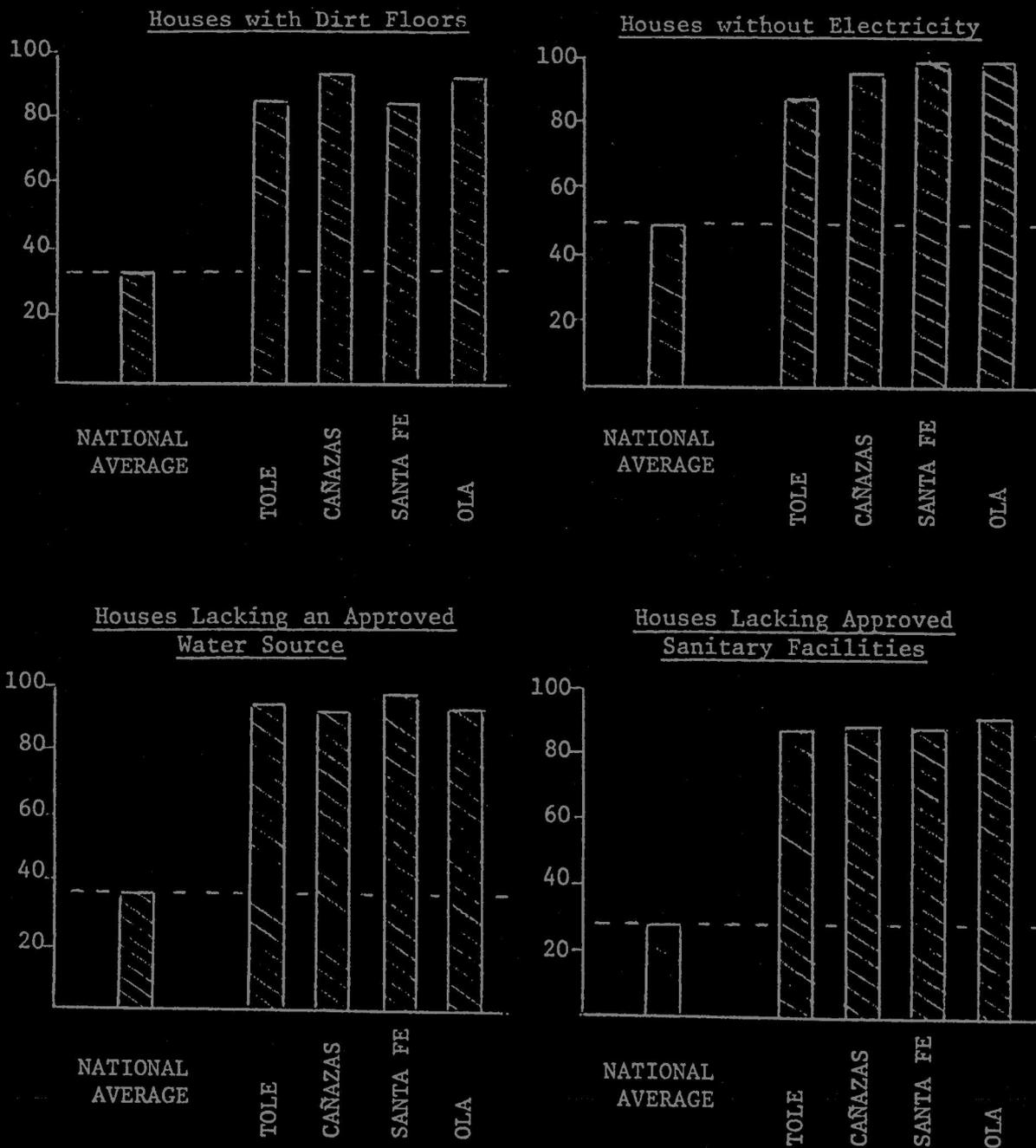
Opportunities for off-farm employment for women are minimal, a factor that contributes to the high incidence of out-migration among younger women, mainly to Panama City. ^{1/}

Future prospects for productive use of the natural resource base in this area are limited. Poor soils and steeply sloping terrain make this area suitable primarily for natural forest and tree crops, with some areas suitable for cattle grazing. However, increasing amounts of land are being converted to unappropriate uses. Forests are being cut and burned by subsistence farmers to make way for small agricultural plots. Once the soils on these lands are exhausted the farmers move on to other areas, often leaving the land open to exploitation by cattle ranchers. Outside of the copper deposits in Tole, there are no other known mineral deposits with marketable potential.

Selected Indicators

The majority of the houses in this area have dirt floors and they still lack electricity, potable water, and sanitary facilities (see Graph 1). Access to health services in this area is also minimal. In 1970 these districts had an average of 0.6 doctors for every 10,000 inhabitants. By 1977 this figure had risen only to 0.8 (the national average for 1977 was 6.0). Most births (67.6%) are still unattended by either a physician or a nurse.

^{1/} Migration data from the 1970 Census reveal that in the province of Veraguas women made up over half (53%) of the migrant population. Over two thirds (65%) of these women were young (ages 15 to 24) and nearly half (48%) either had never been to school or had an incomplete primary education. The majority took extremely low paying jobs in the service sector (as domestics). All or part of the salary earnings were sent back home to help supplement family income.



GRAPH 1

HOUSING CONDITIONS IN FOUR OF THE SEVENTEEN TARGET DISTRICTS, 1970
POPULATION CENSUS

Results of a recent survey of malnutrition in the province of Veraguas indicate that a large proportion of the population (79% of the 1 through 4 year olds and 70% of the 5 through 17 year olds) were malnourished. Malnutrition was particularly severe among the 1 to 4 old group - 29% were found to be in second degree malnutrition and 5% in third degree. These figures were much higher than corresponding national level figures obtained in 1967 (10.8% of the 1 to 4 year old group in second degree malnutrition and 1.1% in third degree) and suggest that malnutrition, rather than decreasing, actually may be increasing.

According to district level projections for 1975, over 45% of the adult population ages 15-39 in this area was illiterate. Of the remaining 55%, most had no more than two or three years of schooling. ^{1/} While it may be assumed that the major portion of this latter group can read and write and do basic calculations, their low level of education hardly prepares them adequately for employment in sectors that require a minimum of certain basic skills.

Although the GOP has made strides in recent years in attending to the educational needs of the primary school age population throughout rural Panama (1977 enrollment data indicate that in this region most primary school age children are in school), GOP activities oriented toward reducing literacy among adults and increasing their skills remain very limited.

^{1/} Opinion of Ministry of Education officials in the absence of statistical data.

4. Urban Poverty

In addition to the poverty line data presented in Section 2, above, three key sets of indicators - unemployment, underemployment, and housing conditions - are used to describe poverty in urban Panama and Colon. Unemployment and underemployment have been chosen as they have a direct bearing on the welfare of the urban poor who depend on cash income to fulfill the majority of their basic needs. General indicators of housing conditions (type of housing, crowding, existence of non-approved or shared water and sanitary facilities) as well as access to housing and employment services help shed further light on the extent to which the urban poor are receiving the assistance they need in order to incorporate themselves into the modern sector.

As is illustrated in the discussion below, urban Panama's number one current problem is unemployment. Faced with a stagnation in the job market plus a rapidly increasing population, Panama City and Colon are confronted with a poverty problem that, if not checked, could reach crisis proportions by the year 2000.

Unemployment and Underemployment

An estimated 790,000 people (43% of Panama's population) currently live in the urban areas of Panama and Colon. Panama's Department of Statistics and Census estimates that by the year 2000 approximately 1,600,000 people, or nearly 57% of the country's estimated population of 2,823,000 will be living in this area. ^{1/}

^{1/} This rapid rate of population growth in urban Panama and Colon is due both to the forces of natural growth and migration. During the 1960's and earlier migrants accounted for the major part of this growth. Attracted by both the jobs and services available in Panama City, migrants flooded

Population Projections for Urban Panama & Colon

<u>Year</u>	<u>Population</u>	<u>Percentage of Total Population</u>
1960	383,000	34.9
1970	597,000	40.8
1980	864,000	45.6
1990	1,203,000	51.2
2000	1,600,000	56.7

In an economy with a rapid rate of economic growth such as Panama enjoyed in the late 1960's and early 1970's, providing jobs for this steadily increasing population is within the realm of the possible. However, since 1974 the number of jobs has actually declined and unemployment has soared. Moreover, equivalent unemployment (unemployment plus estimated underemployment) in the Metropolitan areas is now over 35%. Equally as significant, the non-economically active population has steadily increased.

Labor Force Trends for the Metropolitan Region
1974-1977

	1974	1975	1976	1977
Total population 15 years & over	455,800	478,630	501,060	534,260
Economically Active Population	280,300	284,100	279,760	289,680
Percentage total	61.5	59.4	55.8	54.2
Employed	260,400	259,030	254,920	256,000
Unemployed	19,900	25,070	24,840	33,680
Percentage EAP	7.1	8.8	8.9	11.6
Non Economically Active Population	175,500	194,530	221,300	244,580
Percentage total	38.5	40.6	44.2	45.8

the job market with unskilled labor (in 1970 40% of migrants 15 and over had either no education whatsoever or an incomplete primary education; the comparable figure for Panama district was 33%). While migrants continue to account for a sizable proportion of the population growth, it is estimated that by the end of the next decade, the forces of natural growth alone will be responsible for over 60% of urban Panama's population increase.

Underemployment, a chronic problem among the agricultural labor force in rural areas, has also increased in the Metropolitan area in recent years. In 1975 it was estimated that approximately 70,000 workers (28%) in the Metropolitan labor force were underemployed. A high proportion was concentrated in the service sector which, as is indicated below, is the only major sector where the number of jobs has increased appreciably over the last eight years.

Employment in the Metropolitan Area by Sector

	1970		1978	
	Number	%	Number	%
Services	70,300	31.7	96,720	34.7
Industry	27,100	12.2	32,460	11.6
Commerce	42,800	19.3	48,460	17.4
Construction	14,900	6.7	18,690	6.7

This concentration of employment in services has important ramifications for the poor, as wages in this sector are not only low, they are also not subject to much increase. ^{1/} Areas of the service sector such as domestic services also have the major concentration of unskilled workers. In 1975, 70% of those employed in this area had a sixth grade education or less.

Unemployment and underemployment are particularly high among women and among the young. In 1977 14% of the female labor force was unemployed and approximately 44% was underemployed. (the comparable figures for men were 10% and 18%, respectively). Female employment in urban Panama is

^{1/} Between 1974 and 1976 average weekly wages in the non-government services declined by 1%. Wages in commerce and industry, on the other hand, increased 5% and 16%, respectively.

concentrated overwhelmingly in the service sector, and wages paid to women are both lower than those for males and increase at a much slower rate. Unemployment rates among individuals 15 to 19 and 20 to 24 (1975 figures including both men and women) were 20.9% and 14.7%, respectively. While the data base necessary to calculate underemployment among those 25 and younger is unavailable, it may be assumed that there is a high incidence of underemployment in this group as well.

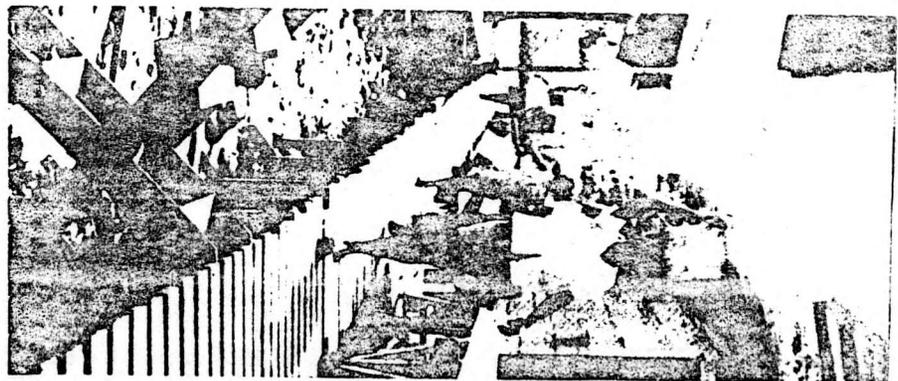
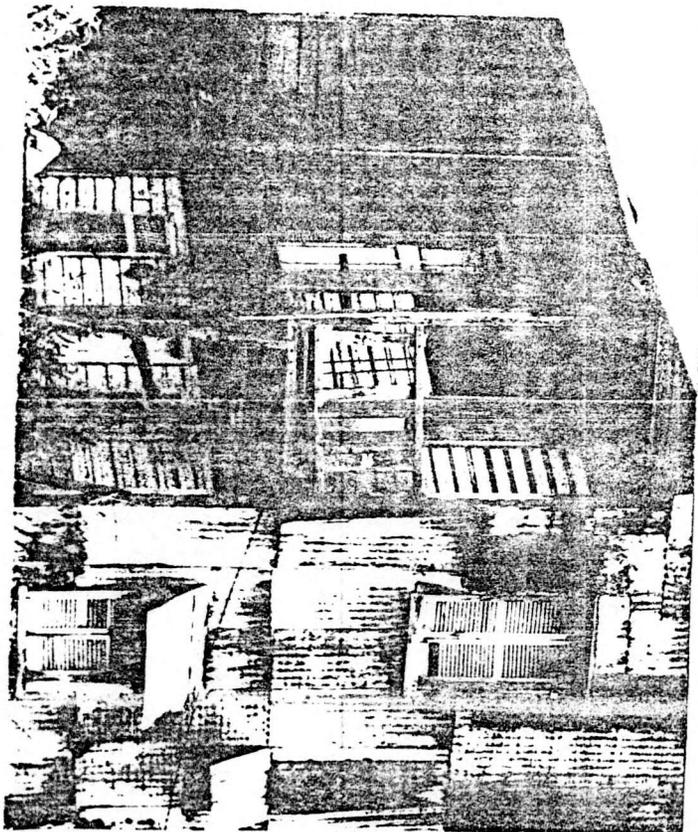
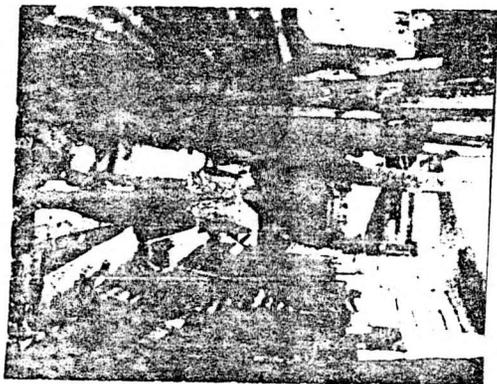
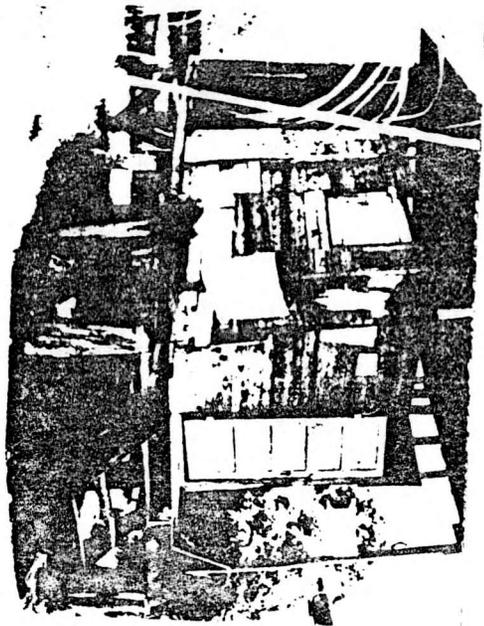
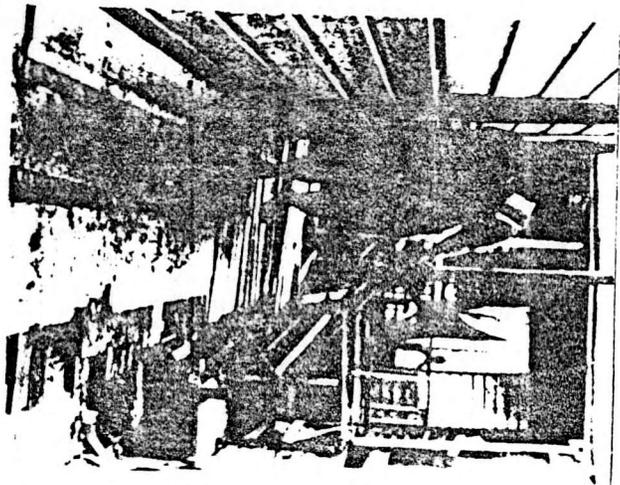
Both women and the young in the Metropolitan area are relatively low participants in the labor force and their participation seems to fluctuate strongly as the job market alternatively expands and contracts. ^{1/} Given the opportunity, however, both groups would join the labor force in far greater numbers. Experience with the GOP's Emergency Employment Program^{2/} provides a case in point with regard to women: 42% of the 16,700 women hired under the Program were not actively seeking employment at the time.

Housing Conditions

According to the 1970 Census, a significant portion of the inhabitants of both cities lived in crowded conditions in shacks or tenements, and over half either had no access to an approved water source or shared

^{1/} The percentage of economically active women in the Metropolitan area rose from 35.1% in 1970 to 40.8% in 1974 and declined to 37.9% in 1978 as a result of Panama's economic recession. The percentage of economically active 15 - 19 year olds in the Metropolitan region declined from 44.8% in 1970 to 25.8% in 1975. (Some of the latter decline is a reflection of increased secondary and post-secondary education opportunities over this period.)

^{2/} The Emergency Employment Plan was initiated in 1977 to serve as a temporary stop gap measure to deal with the unemployment problem. Public service jobs at monthly salaries of \$100 were given to 24,000 individuals. The competition for these jobs was very high.



a communal facility. Significant proportions of both cities' populations lacked sanitary facilities or shared sanitary facilities with their neighbors.

Housing Conditions in Panama & Colon, 1970 Census

	PANAMA		COLON	
	Number	%	Number	%
Total population	444,338	100	67,874	100
Inhabitants living in substandard housing ^{1/}	143,352	32	41,980	61
Inhabitants with non-approved or communal water source	235,499	53	44,660	64
Inhabitants with non-approved or communal sanitary facilities	173,291	39	44,660	65

Summarized in the following table are a number of individual studies carried out by the Ministry of Housing in 1974-75 of typical slum communities of Panama City and Colon, characterized by inadequate housing, water supply and sanitary facilities. The majority of the 8,800 families (36,900 people) living in these barriadas had family incomes below \$200 per month, i.e. below the poverty line. Only about two thirds of the heads of household reported they had full time employment. Informed sources suggest that rather than decreasing the number of people living in these types of communities has actually increased over recent years.

^{1/} Shacks or tenements with a ratio of 3 or more inhabitants per room.

SURVEYS OF LOW INCOME NEIGHBORHOODS IN PANAMA AND COLON

NEIGHBORHOOD	DATE OF STUDY	INHABITANTS	FAMILIES	PERCENT FAMILIES WITH INCOME LESS THAN \$200 A MONTH	PERCENT HOUSEHOLD HEADS EMPLOYED FULL TIME
PANAMA					
Viejo Veranillo	1974	2262	459	59	69
Santa Cruz	1975	4439	1169	55	77
Boca la Caja	1975	939	182	52	--
Brooklyncito	1975	683	139	64	70
Chorrillo 1	1973	6043	1474	55	72
Chorrillo 2	1973	3635	869	58	--
Curundú	1970	7818	1525	72	52
COLON					
Barrio Norte	1975	6557	1663	56	62
Barrio Sur	1975	635	239	65	--
Pueblo Nuevo	1975	1846	504	62	54
La Playita	1974	635	222	61	55
Manzana 44	1974	529	142	61	--
Bamboo Lane	1975	858	239	65	65

Source: Department of Social Affairs, Ministry of Housing

B. Identification of the causes of poverty

The discussion in Section A highlights, for the two target areas selected for special attention, a number of characteristics of the poor which - while themselves descriptive of poverty - are also factors contributing to its existence. Three general causative factors stand out:

- (1) An extremely limited natural resource base.
- (2) Extreme isolation of a large proportion of the rural population.
- (3) Very limited education and skill levels in both rural and urban areas.

The consequences of the above for the poor are obvious:

(1) Low quality soils which are rapidly becoming depleted of what little nutrients they have, in combination with a lack of alternative employment, severely limit the productive potential - both present and future - of the majority of small farmers.

(2) Isolation makes access to vital education and health services difficult. It also inhibits access to support services (e.g. inputs, technical assistance, credit) needed to increase farm productivity.

(3) Low education and skill levels hold down productivity of both the rural and urban poor by limiting opportunities for the rural poor to utilize better technologies and expand into new activities, while locking the urban poor into a limited array of employment opportunities, all in areas where wages and opportunities for advancement are low.

These three factors - limited natural resources, isolation, and low skill levels - are all keys to understanding the causes of poverty in Panama. In order to further unravel the causal chain, it is necessary also to consider a series of factors that are closely linked to Panama's

recent, severe, and continuing economic recession. This recession, which began in 1974, has manifested itself in near zero economic growth since 1974, a trade deficit that climbed to \$500 million in 1974 where it has remained, a 7 percent drop in per capita GDP, and - as already pointed out in Section A - a stagnant job market.

1. Concentration of Panama's economy in the tertiary sector.

Panama's strategic location and the presence of the Canal make it a natural center for commerce and other service activities. Since the turn of the century, Panama has exploited its location, promoting an open, dynamic service sector clustered in the Metropolitan corridor along the Canal. Of Panama's 1977 GDP of \$2254 million, 53% was derived from service activities. Manufacturing accounted for only 20%, agriculture 16%, construction 5%, and the Canal Zone 6%.^{1/} Both commercial and other services activities have benefited from the GOP's liberal banking policies which have made Panama a major regional financial center.^{2/}

Panama's increased reliance on tertiary sector activities in place of the primary and secondary sectors has had three negative consequences

^{1/} The Canal Zone 6% covers only wages of Panamanian employees; the \$261 million direct balance of payments flow from the Canal Zone to Panama in 1977 was 11 percent of GDP. Applying an export multiplier plus inclusion of other indirect benefits result in an overall contribution of the Canal Zone to Panama's economy which is much greater than indicated by the direct benefits.

^{2/} Panama has no central bank. A government owned commercial bank - the National Bank of Panama - performs many of the normal functions of a central bank; however, it does not issue Panama's currency, the "balboa". Instead the main medium - the U.S. dollar - circulates freely. While this provides Panama with the monetary stability it needs both to attract outside private investment (esp. private commercial banks of which there are now some 81 in operation) and to finance many of its large scale development projects, it has the marked disadvantage of restricting Panama's ability to use monetary policy as an effective instrument of economic management.

for the poor: (a) What once represented a plentiful source of low-skilled jobs, and thus a drawing card for rural migrants, has dried up. Nevertheless thousands of migrants continue streaming into the Metropolitan corridor in hopes of getting jobs in these areas. (b) Unlike agriculture and industry, which as a rule tend to generate additional jobs in related activities, new activities in the services sector do not result in the spontaneous generation of secondary employment. (c) As already illustrated in Section A, a significant proportion of services sector jobs pay very low wages, thus further contributing to the underemployment problem.

2. Excessive dependence on imports and limited exports.

In keeping with its tradition of serving as a funnel for world commerce, Panama has allowed goods to move in and out of the country quite freely, keeping import quotas for many articles at a minimum. While this has obviously benefited the commercial sector and permitted it (at least until recently) to thrive, it has served as a deterrent to small, locally oriented industry, and thus limited opportunities for creating additional jobs. Dependence on imports, from basic commodities to finished consumer products, has also had a negative impact on the disposable income of the poor. In 1974, when world oil prices skyrocketed, the consumer price index in Panama leaped upwards correspondingly. Between 1973-1977, consumer prices rose at an annual rate of over 8%. As described in Section A, wage increases in sectors employing a large proportion of the urban poor during this latter period ranged from 0 to only 2.7% per year.

Panama's dependence on a limited array of exports has also in recent years had a negative impact on its balance of payments. Panama's only recourse to date for redressing trade imbalances has been attempts

to increase exports of traditional, largely primary, products such as bananas, petroleum products, shrimp, and sugar. However, the drastic drop in the world price of sugar and declining demand for Panama's petroleum products have made this difficult. Panama is currently making a concerted effort further to expand its export base to include non-traditional (both primary and secondary) products, but identifying appropriate non-traditional exports, markets for these exports, and attracting needed private investment remain a difficult challenge, due in large part to Panama's increasing high wage structure which makes it less competitive with nearby countries. Meanwhile the urban and rural poor are losing out both on past job opportunities that actually crumbled and on future job opportunities that have yet to materialize.

3. Decline in Private Investment

Private investment in Panama has declined steadily over the past five years, to a 1977 level that in real terms was only one third of the peak reached in 1973. This resulted in a stagnation of the economy and a steadily shrinking job market, since the expansion of public sector investment was not sufficient to prevent a drop in overall investment. Private investor interest waned as promising commercial and industrial investment prospects played out. Government policies further discouraged investors.

The Labor Code was made highly pro-labor and more expensive to employers in 1971, further raising Panama's already high cost labor structure. The government took over ownership and operation of all public utilities in recent years and made a few incursions into the normal private sector arena (e.g. sugar, cement), causing private investor

In striving to accomplish these objectives, the government substantially increased its involvement in both the social and economic life of the nation during that time. For example, education and health programs were greatly expanded and extended into the provinces, and an agrarian reform program was initiated. Major investments in economic infrastructure were made, primarily in transportation, power, and communications. A new labor code was instituted which was decidedly pro-labor.

The GOP's overall development strategy was formalized in its National Development Plan for 1976-1980. This plan defines development policies with respect to six major objectives and identifies the means to be employed for their achievement. These policies cover (1) increased popular participation and improved distribution of economic benefits; (2) accelerated, diversified, sustained economic growth; (3) greater regional integration; (4) more effective utilization of public finances; (5) strengthened public sector institutions; (6) more autonomous and independent development.

With strong commitment backed by significantly increased public investment, the Government has made great strides towards achieving many of its objectives. In general, the GOP's social programs have had considerable success, whereas its production programs have produced mixed results.

Performance

With regard to social objectives, progress on the national level as measured by key indicators has been impressive and is especially noteworthy for rural areas. The following table presents data on important health indicators, pointing up some results of the GOP's efforts to reduce rural/urban inequalities.

	1967		1977	
	<u>National</u>	<u>Rural</u>	<u>National</u>	<u>Rural</u>
1. Death rate	6.8	7.7	4.4	4.5
2. Infant mortality	42.7	49.7	28.1	29.3
3. % Population with potable water	64.5	34.7	82.5	63.8
4. % Population with sanitary facilities	73.2	62.2	88.3	78.9

Progress on other indicators for the national level over a similar time frame show illiteracy decreasing from 26.7% to 13.8%, the birth rate declining from 38.9 per thousand to 28.4, and population growth rate from 3.3% to 2.6% per year.

Commitment to improved access by low income agricultural producers has been strong, but progress has been slow. The GOP has established a system of price supports and controlled marketing margins, and a government agency purchases several basic commodities from producers to support the market for their crops. The government has supported some 200 asentamientos with over 7,000 families participating in a program which provides land title, credit, technical assistance and other services to these organized groups. To date, few asentamientos have achieved financial viability, and the GOP absorbs their losses. The GOP also assists the cooperative movement and other group arrangements.

The political system has been designed to increase the participation of the less advantaged segments of the population in the decision-making process. The elected representatives of the smallest political subdivision (the corregimiento) both serve their local area and comprise the

National Assembly. This political/administrative system is intentionally biased towards the rural areas, where the bulk of the poor have traditionally been located.

The data on the key indicators show that most Panamanians are considerably better off as a result of the development which has taken place over the past ten years. There is no indication that development has adversely affected any given group, although the recent economic stagnation has obviously struck hardest at the poor, particularly the urban poor. Further detail on these topics may be found in the Mission's 102(d) report in TOAID A-71 of October 23, 1978.

Development Budget

The GOP's consolidated national budget for 1979 calls for expenditures of \$854 million, comprising about one third of estimated GDP. Central Government current revenues of \$453 million are expected to cover only current expenditures, leaving the investment program to be financed principally by foreign borrowing, as has been the pattern in recent years. Over one third of the current expenditure budget will be taken up by interest and transfer payments. Among the ministries, the largest allocation goes to education -- 18.5%. The health ministry receives 8.3% and agriculture 2.6%. An estimated 7% goes for defense spending, which as usual will come to less than 1% of GDP. The largest allocations in the public sector investment budget are for physical infrastructure -- 18% for electricity (hydropower development) and 17% for transportation (roads, ports, airports). Agriculture receives 15% and commerce and industry 8%.

One of the most noteworthy characteristics of the development plan was the continuing high level of public sector investment. In an attempt to

reorganizations have produced new institutions (e.g., planning and housing ministries) and government training programs are being coordinated. Moreover, the GOP is now developing a major program which will combine administrative reform with stepped up training of middle level public officials.

D. Human Rights

Panama has a record of sustained human rights progress in the last decade. The GOP has responded vigorously to the need to improve the standard of living of the poor including free education, health care at minimal cost, rural credit, price controls on essential foods, and subsidized housing.

As to respect for integrity of person, reports of degrading treatment and arbitrary arrest or imprisonment do occur, but such cases are not common. The inviolability of the home is respected. Respect for civil and political liberties has increased in the last two years, as witnessed by a series of political reforms. In ordinary criminal cases, Panamanians have the benefit of a fair and public trial. In politically sensitive cases, the judiciary appears to have been susceptible to the influence of the Executive Branch. Labor unions are free to organize and operate, and the government frequently solicits labor's views before making domestic policy decisions. While political participation has been limited, political parties are now able to function again, greater freedom of expression is allowed, and there is a genuine give-and-take at the local level. Locally elected representatives comprise the National Assembly which funnels local concerns to the national level and, in the recent past, elected the President and Vice President of the country. Future presidential elections will be by direct popular vote.

E. Other Donors

Over the past few years, other donor activity in Panama has been substantial. IFI lending reached a peak in 1977 when the IDB provided \$122 million for hydroelectric power and tourism development and the IBRD provided \$57.7 million for hydroelectric power, livestock development and improvements in the fishing fleet. Assistance from the IDB and IBRD was more limited in 1978, totalling \$31 million for a pre-investment fund, agricultural credit and highway maintenance. While both banks generally finance capital intensive projects, with a concentration on physical infrastructure, increasing attention is being given to social projects, particularly by the IDB. Projects under development continue this mix, including support of university education, tree crops, industrial credit, urban development, and power distribution. Current plans for 1979 indicate a total lending level of about \$50 million.

The UN system provided in 1977 about \$1.6 million in technical assistance, about evenly divided between the UNDP and the specialized agencies. This assistance went to a number of sectors, with a concentration in the fields of health, agriculture, transportation and communications, and social and economic planning. New UN projects emphasize agriculture, industrial development, and regional planning. UNDP assistance increased to over \$1.3 million in 1978 and is programmed to remain over \$1.0 million through 1981.

Bilateral programs of the DAC countries consist primarily of procurement credits and scholarships, with most programs being under \$100,000 per year, accounting for about \$1.6 million in 1977. OAS and IICA activities consist mainly of advisors and scholarships and represent about \$500,000 per year.

PART II - STRATEGY

A. Long range goals and intermediate targets

Panama is destined either to remain poor with a more urban than rural complexion or to flourish as a hub of international financial, communications and trade services, and as a producer of high technology products for export, with a healthy balance and complementarity of roles among the two main cities, a dozen small cities, and the rural areas.

The immediate goal is to bring all remaining rural poor into the economy. The rural population is now almost evenly divided among those who have crossed over the poverty line and those who have not. There is momentum, however, so that the goal already half-won seems progressively more attainable. The combination of a geographically focused rural development program with an intermediate city-market town program is intended both to complete the integration of all families into the economy and to secure a permanently healthy economic growth posture in the Panamanian countryside. Small, medium and large scale farming on the one hand will interact profitably with flourishing agro-industries and services and with a growing national market on the other.

The long range goals are to return the Panamanian economy to a condition of rapid, sustained growth and, on this basis, to share the benefits of such growth among all Panamanians. Stated another way, the aim is to attain and sustain full employment with the labor force gaining its fair share of the proceeds of production.

Given Panama's size, location and natural and human resources bases, we see no other way for the country to go than to aim to be a high technology economy, strong in international financial trade services, in a diversified program of exports of agricultural and agro-industrial products and in manufactures competitive in world trade. The Hong Kong, Singapore, and Taiwan models come to mind, as each has been highly successful with strategies tailored to its own unique circumstances. Panama and these island economies have much in common, including an intrinsically talented human resource base. While its maturation is yet incomplete, the human potential is there. So is the superb geographic location -- the world's Broadway and 42nd Street.

B. AID Assistance Strategy

1. Areas and Sectors of Development

The Introduction and Summary made clear, and the data on poverty demonstrated that development in Panama will be coursing along 5 main streams over the next 20 years. Two are of short and intermediate term. Three are the long range development efforts necessary to establish and make permanent a good quality of life for all Panamanians. As planned by the GOP and supported by AID and other donors, some have been initiated and all five will be operative during this current CDSS period, 1981-85. How much longer the GOP and other donors may find it necessary to continue with each such program is not now predictable. As for AID, we propose to conclude our participation in Rural Area Development at the end of 1985, and in Rural Growth Centers by the end of 1989. Employment Creation, Environmental Enhancement, and Human Resources Development we see as needing also to be launched

in force now. They are as urgent as the others. But they are more difficult, less is known about how to deal with them, and results will be harder to achieve and slower in coming. By their nature they are complex, conglomerates of problems and opportunities where the best that the sciences have to offer needs to be woven into the designs for their solutions. We see these three assuming growing importance in AID's support activities during the decade of the 1980's and as the principal foci of AID's efforts in the 1990's.

2. Role of Other Donors

We expect bi-lateral aid from other developed countries to be of an ad hoc, targets of opportunity nature. The World Bank and the IDB will continue to be the principal external sources of the capital needed to complete the financing of high cost programs, particularly infrastructure. In both rural development and in employment creation, we would expect these I.F.I.'s to continue to supply substantial external capital for highways, power, water, industries, and transportation. UNDP, both because its funds are limited, like ours, and because it is also similarly interested in experimenting with new projects will be AID's closest collaborator. While we expect the whole external aid complex to be complementary, UNDP-AID collaboration will be from close to intimate, including joint projects.

3. Intended Areas of AID Assistance and the Problems They Address

I. Rural Development

Having made this basic decision, the composition of the program needed to meet the goal is all but self-defining -- credit, extension, marketing, access roads, land tenure rationalization, small farm systems, health, family planning, and nutrition services, role of women, cooperatives, etc. - all applied to the special problems of each of the 17 districts. Two interrelated issues will stand out: (1) the need for many to move to land with better soils -- or through applied research, find ways to make better use of the soils they have; and (2) the need for a more equitable land tenure pattern. There is much so-called "government" land but little not claimed as the "possessory rights" of someone. Five hectares of "possessory rights" land today brings the same price as five hectares of titled land. Not an easy issue to resolve.

II. Rural Growth and Service Centers

This is a proposal to continue the effort to lay a sound economic base in the countryside in order to permit rural, small farm family development to become self-sustaining. Rural development cannot sustain itself where the country has only a single urban market. The effort to bring subsistence farmers into the national economy will die on the vine without the kind of intermediate regional development which the GOP has already started and which AID is assisting in project No. 047, Rural Growth and Service Centers (URBE). This project is just now becoming operational. We propose that a similar project be phased in during the CDSS period and that the whole process of intermediate city development be followed closely to make certain that its objectives are fully met, both those having to do with small farmer

benefits, and those relating to employment generation, including the development of productive enterprises based on appropriate new technologies aimed at producing goods for internal Panamanian markets, now too dependent on imports. We are also interested in the interception at intermediate points of the families who for the foreseeable future will migrate because they continue to produce more of themselves than profitable crops.

III. Employment Creation

Not all of Panama's relative success in dealing with rural poverty is due to virtue and hard work. Many rural families were not saved, nor re-cycled, nor brought into the market as producers. They escaped to Panama City and Colon. They got away, and now Panama has a serious urban poverty and unemployment problem. The population balance has become over one-half urban, mostly in Panama City and Colon, and unemployment levels are high. Unofficial figures which reflect the real situation suggest that unemployment plus underemployment are at 35% of the Metropolitan area labor force. Part I underscores the plight of the unskilled urban poor migrating into the Metropolitan corridor. It is here that we find many of the poorest of the poor. While migration continues, the formation of new jobs stopped 4 years ago when the economy stopped growing and investment came to a halt.

In Part I.B we have suggested that the only known solution is to bring about the resumption of economic growth through the resumption on a massive scale of private investment.

As noted in Part I B, many of the elements for a

resurgence of private investment are already in place. Government policy favors it, assumption of Zone resources should encourage it, there are ample tax and profit repatriation incentives, etc. But we are convinced that all these favorable factors, including the receipt of Canal revenues and Zone resources, will not suffice to create enough permanent new jobs to match the present excess labor supply, nor to keep up with its growth. Why? Because Panamanian industry and commerce as constituted today and as they might be expanded without redesign have too little to sell at internationally competitive prices, and Panama is also as yet not utilizing enough intermediate technology to supply national market needs that are now unnecessarily met by imports.

What is needed, as the Part I B analysis shows, is a new orientation of productive investment toward export oriented, higher technology industries employing large numbers of highly skilled workers and toward intermediate technology industries supplying many potential local markets. Not only do we see that the solution for Panama requires the resumption of a growing GNP, we do see that happening primarily through the creation of high and intermediate technology industries, including agro-industries, and in a diversified export agriculture sector that does not leave out the small farmer.

Yes, it is a long way from here to there. And that is where AID comes in. First, we justify our concern for the macro as well as the micro issues under the mandate because economic stagnation is, and will continue to be the principal creator of poverty in Panama. If AID is really concerned about the poor majority in this country,

it must address the problem of employment creation, first, in the cities, secondarily in the secondary cities, in agro-industry, and in a modernized export agriculture sector.

How can AID address these needs? We propose to do so by assisting with 3 parallel programs. The first is already underway -- small city-market town development integrated with rural development. The second is a program to identify high technology investment opportunities and to promote investment in them. The third is a massive program of skills training tailored to the needs of the first two. The latter would be carried out, with AID help, jointly by the Ministries of Education and Labor in cooperation with the organized Private Sector. The MOE is already actively involved in a massive program designed to provide applied skills training within the formal education system starting in the primary grades. The MOL efforts are complementary with a focus on out-of-school adults who have low skills levels and are unemployed. While the institutions are in place, the program will require careful planning and coordination.

The identifying and securing of investments in high technology enterprises, however, is neither simple of conception nor execution; nor are the necessary institutions in place. We therefore propose the following:

- 1) The creation of the capability in an existing, or possibly new institution to investigate, research, identify and architect new high-technology investment opportunities -- a Panamanian Institute for New Investment and Employment Creation (PINIEC). It would be the joint creation of the Private Sector and the GOP, and it would have AID technical and capital (R & D) assistance. One feasible pattern would

USAID-Private Sector joint ventures. AID and private investors' funds would be made available together to provide joint support to a single project -- notably projects dealing with labor intensive industries and social services. We would explore the commingling of AID and private sector funds and the use of AID guarantees. Potential areas for collaboration include health facilities in poor communities, assistance to small enterprises, day care facilities and other services to facilitate greater participation of women in the labor market, etc.

4) The implementation of a Housing Investment Guarantee program focused on the Metropolitan Corridor. This program will both employ large numbers of people in actual construction and create opportunities for small support businesses, e.g., doors, window frames, furniture.

No strategy for employment creation would be complete without addressing the need to slow the creation of employment seekers. As indicated in Part I.A., the workforce of the Metropolitan Corridor is expected to double by the year 2000. Any action which can hold down this growth enhances the chances of success of the program. Panama has had notable success in reducing the population growth and birth rates. To reinforce the downward trend, USAID will continue a family planning program. A key focus of this program will be on adolescents who have become the prime contributors to Panama's population growth. By collaborating in a vigorous campaign to help young women delay pregnancy, while providing them with opportunities to upgrade their skills, USAID will be helping to reduce both population growth and unemployment.

IV. Environmental Protection and Enhancement

The USAID's Watershed Management Project is only the

beginning of the Environment Program Panama wants to carry out. Panama's natural resources are being depleted rapidly. The specter of resources shrinking to the point of their being inadequate to support the population is very real. Panama intends to reverse this trend. It has 9 critical watersheds, of which the 1979 project deals with only 3. And there are other environmental problems to be attacked, notably water pollution, urban blight, and unsanitary sewage disposal. AID expects to assist in these efforts, concerned about their "pilot" qualities as well as what these projects can do for Panama alone. In this connection, the fact of the ceding of the Zone to Panama creates an environmental enhancement opportunity (or hazard) of great importance. The merger of a protected Zone with an essentially blighted urban corridor needs to be carried out so as to preserve the environmental quality of the Zone while solving the blight problems of the corridor. A HIG program already projected over the CDSS period will be used to deal with the housing and facilities problems of the Metropolitan Corridor in this light, and we will provide specialized T.A. to help the GOP with land use planning.

V. Human Resources Development

Panama's development objectives are ambitious. The re-
invigoration of the economy is a herculean task, and there are no easy
outs. Panama must approximate a Taiwan or a Hong Kong type achievement
by adopting a growth/development strategy suited to its special circumstances.
The private sector needs a quality and quantity of human resources far
beyond that contemplated, until recently. A special element here is the
opportunity Panama has to maximize the use of the resources ceded to it
by the Treaties: the ports, the railroad, the 1,000 square kilometers of

This program will form an integral part of the complex of institutional and human resources required to strengthen the scientific and technological capabilities needed to create and apply new solutions to the causes of Panama's long term poverty problems. We see a natural linkage of this complex to such AID-supported initiatives as science and technology transfer collaboration and Title XII.

Proposal to Alter U.S.G. Organization for Implementing U.S.

Bi-lateral Assistance to Panama, After 1985.

As direct AID concerns with poverty projects per se are replaced, in the next 8-10 years, by programs aimed at sustaining development, at raising permanently the capability level of Panama to grapple with its own problems, and at defending the physical environment and resources base, the less appropriate seems the typical AID Country Mission of the past 28 years. The number and diversity of technical subjects and expertise involved could not be covered even by a very large resident USAID staff. A wide range of pertinent U.S. technical resources would need to be focused on particular Panamanian problems involving short and medium term consultants from a variety of university, industrial, and governmental sources. U. S. technicians needed for extended periods to take part in programs of long duration might better work within the Panamanian establishment, under Panamanian direction. What seems to be needed on the U. S. side is a small unit attached to the U. S. Mission that, on the one hand, performs a U. S. assistance programming function, and, on the other, serves as liaison between U. S. technocracy and Panama's needs for external expertise. It could appropriately be called the Office of the Counsellor for Development Sciences and Technology. This may also

take advantage of the opportunity to help those countries, like Panama, that share our concern for the poor, to move as rapidly as possible to eliminate poverty, especially where achieving this is within our grasp. Countries who join us in this effort can serve as models. Panama's record on commitment and solid, rapid progress is superior. The GOP has clearly and unequivocally committed itself to the elimination of poverty. This is a long term task, but for many components the objective can be reached in a relatively short period of time. Panama merits our assistance in these efforts.

3. Modest inputs at the level we propose can produce highly significant results. Panama has the potential for being a model of how to eliminate rural poverty and for being a laboratory for discovering the means effectively to combat urban poverty. The Agency's broader interests will be served by being able to point to countries like Panama as examples of successful AID programs. Countries like Panama could then be listed along with Taiwan and Korea as success stories, with no caveats about cultural heritage.

1/ With regard to the latter, in addition to their vital importance for Panama's development, the kinds of programs we undertake here are aimed at resolving development problems which other countries will need to address in the next three, five, ten or fifteen years. The proposed efforts in such areas as urban development, environmental management and alternative energy will offer a chance to test new concepts based on recently developed approaches. These concepts call for, inter alia, promotion of labor intensive activities as a key to improving income distribution. These programs offer AID and other countries the benefit of valuable experience in testing these approaches at a time when such experience will be particularly relevant to their own development problems. The growing interest in these problems exhibited by professional societies as well as private interest groups sponsored by concerned citizens strengthens the case for responding to these problems.

4. Our assistance will be well used by Panama. Absorptive capacity is high and will increase as our strategy, with its element of development administration, is carried out. Assistance at the levels proposed here can be accommodated without pipeline increases. We believe that absorptive capacity should be a significant, if not the controlling factor in the determination of the IPA.

5. Finally, we believe no determination of funding levels for a country as vital to the U. S. as Panama can justifiably ignore U. S. interests. We strongly believe the factor of U. S. interests belongs in the calculation of the IPA. The security and economic interests represented by the Canal need no exposition here. The safe and efficient operation of this vital artery of world commerce, of immense importance to the U. S., would be jeopardized by a socially and politically unstable Panama. The proposed AID program can play an important role in assuring the essential economic and social stability and well-being of this key crossroads country.

Proposed Assistance Planning Levels

The following table presents the PAPL required to carry out our strategy. A number of current and proposed FY 1979 and 1980 projects are directly related to the various categories shown on the table. These include ongoing projects in Integrated Rural Development and Rural Growth and Service Centers. FY 1979 projects include Watershed Management and Applied Agricultural Research loan projects and a pilot grant in Alternative Energy Sources. FY 1980 proposals include loans for Workforce Development (skills upgrading) and Development Planning and Management (public sector training).

PROPOSED ASSISTANCE PLANNING LEVELS

<u>Categories:</u>	Fiscal Years (\$ Millions)					TOTAL
	1981	1982	1983	1984	1985	
I. Agriculture and Rural Development						
Integrated Rural Development	--	12	--	--	10	22
Regional Development	--	--	12	--	--	12
Environmental Management	--	--	--	12	--	12
II. Education and Human Resources						
Skills Upgrading	--	10	--	--	14	24
Public Sector Training	--	--	12	--	--	12
III. Selected Development Activities						
Alternative Energy	5	--	--	--	5	10
Investment stimulation/employment creation	15	--	--	15	--	30
TOTALS	20	22	24	27	29	122

In addition to the above amounts, \$1.2 million is needed for continuing implementation during the FY 81-83 period of the FY 1979 authorized Population II project. PL 480 assistance and Housing Investment Guarantees are not included here (see below).

to our strategy of employment creation and economic growth, but absolutely essential. With the ever increasing need for low income housing and the related employment potential, we propose to continue the HIG activities after 1983 at an annual rate of about \$10.0 million for the foreseeable future.

Staffing Implications

During the early years of the period of this CDSS, we view the direct hire requirements as being essentially what they are now - i.e., about 30 USDH and 60 FNDH. As the program emphasis shifts from the more traditional activities (rural development, growth poles) to those which are more in the area of the unknown (urban problems, environmental management, heightened science and technology capability levels, high technology industrial development), we see less need for regular direct hire USAID staff and more need for the use of specialized contract personnel. As discussed in Part II, we particularly see a need for large numbers of consultants in the fields of science and technology. It is probable that USDH staff could decline somewhat by 1985, with a proportional reduction of FNDH, while non-USAID personnel needs would be increasing. When the Panamanian Development Corporation becomes a reality, direct hire staff could be even less, though with a significant number of U.S. technicians assigned to the PDC.