

THE STUDY  
FOR THE FORMULATION  
OF PROJECTS OF SUPPORT  
TO THE PROMOTION  
OF EMPLOYMENT AMONG  
THE YOUTH IN  
THE METROPOLITAN AREA  
OF THE REPUBLIC OF PANAMA

FINAL REPORT  
MARCH 2003

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SOLUCIONES INTEGRALES, S.A.

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**JAPAN INTERNATIONAL COOPERATION AGENCY (JICA)**

**AUTHORITY OF THE MICRO, SMALL AND MEDIUM ENTERPRISE  
(AMPYME)**

**THE STUDY FOR THE FORMULATION OF  
PROJECTS OF SUPPORT TO THE PROMOTION OF  
EMPLOYMENT AMONG THE YOUTH IN THE  
METROPOLITAN AREA OF THE REPUBLIC OF  
PANAMA**

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## PREFACE

In response to the request of the Government of the Republic of Panama, the Government of Japan decided to conduct the Study for the “Formulation of Projects of Support to the Promotion of Employment among the Youth in the Metropolitan Area of the Republic of Panama”, and entrusted the study to the Japan International Cooperation Agency (JICA), under the scheme of Local Development Study.

Official data reveal that forty percent of the country’s urban poor people live in the districts of Panama and San Miguelito and one of the main causes of poverty is unemployment. In particular, unemployment affects young people between 15 and 34 years of age, who generally are not able to get a job because of their lack of experience and the little development of their business capacity. Under these circumstances, it was decided to conduct this study with the purpose of formulating projects that allow to overcoming the problems faced by young people in urban areas.

The Study was conducted, under the supervision of JICA Panama Office, between July 2002 and March 2003, by a Study Team headed by Ms. Isabel Atencio and composed of members of the local consultant company Soluciones Integrales, S.A. in coordination with the counterpart organization, the Authority of the Micro, Small and Medium Enterprise (AMPYME).

The Study Team carried out field surveys and research at the study area, and held discussions with the authorities concerned of the Government of Panama. As a result of these studies, the present report was prepared.

I hope that this report will contribute to the promotion of the employment of young people and the enhancement of friendly relations between Panama and Japan.

I wish to express my sincere appreciation to the officials concerned of the Government of the Republic of Panama for their close cooperation extended to the Study Team.

March, 2003

甲斐直樹

NAOKI KAI  
Resident Representative  
JICA Panama Office

## LETTER OF TRANSMITTAL

Panama, March, 2003

Mr. NAOKI KAI  
Resident Representative  
Japan International Cooperation Agency (JICA)  
Panama Office

Dear Sir,

We are pleased to submit to your consideration the report of the Study for the "Formulation of Projects of Support to the Promotion of Employment among the Youth in the Metropolitan Area of Panama". The report consists of a Main Report, with its respective Executive Summary, and a Statistical Compendium.


This report is the result of the works performed between July, 2002 and March, 2003, including a socioeconomic survey among young people aged 18 to 35 years residing in the district of San Miguelito, a survey on labor demand among businessmen in the districts of Panama and San Miguelito, a Pilot Workshop on "How to create your own Business", the preparation of two guides on "How to plan a Business" and "How to start up a Business", and the formulation of project profiles. This report also includes the advices and suggestions of the agency you are representing, as well as the comments made by the Authority of the Micro, Small and Medium Enterprise (AMPYME) and other authorities concerned in the Republic of Panama. The works were performed by Soluciones Integrales, S.A., in accordance with the contract made with JICA.

The objective of the study is to establish a pilot plan to formulate projects that contribute to improve the employment situation of the young people, so as to reduce the level of informality, to promote the creation of enterprises, to mitigate poverty in the urban areas, and to promote a sustainable economic growth.

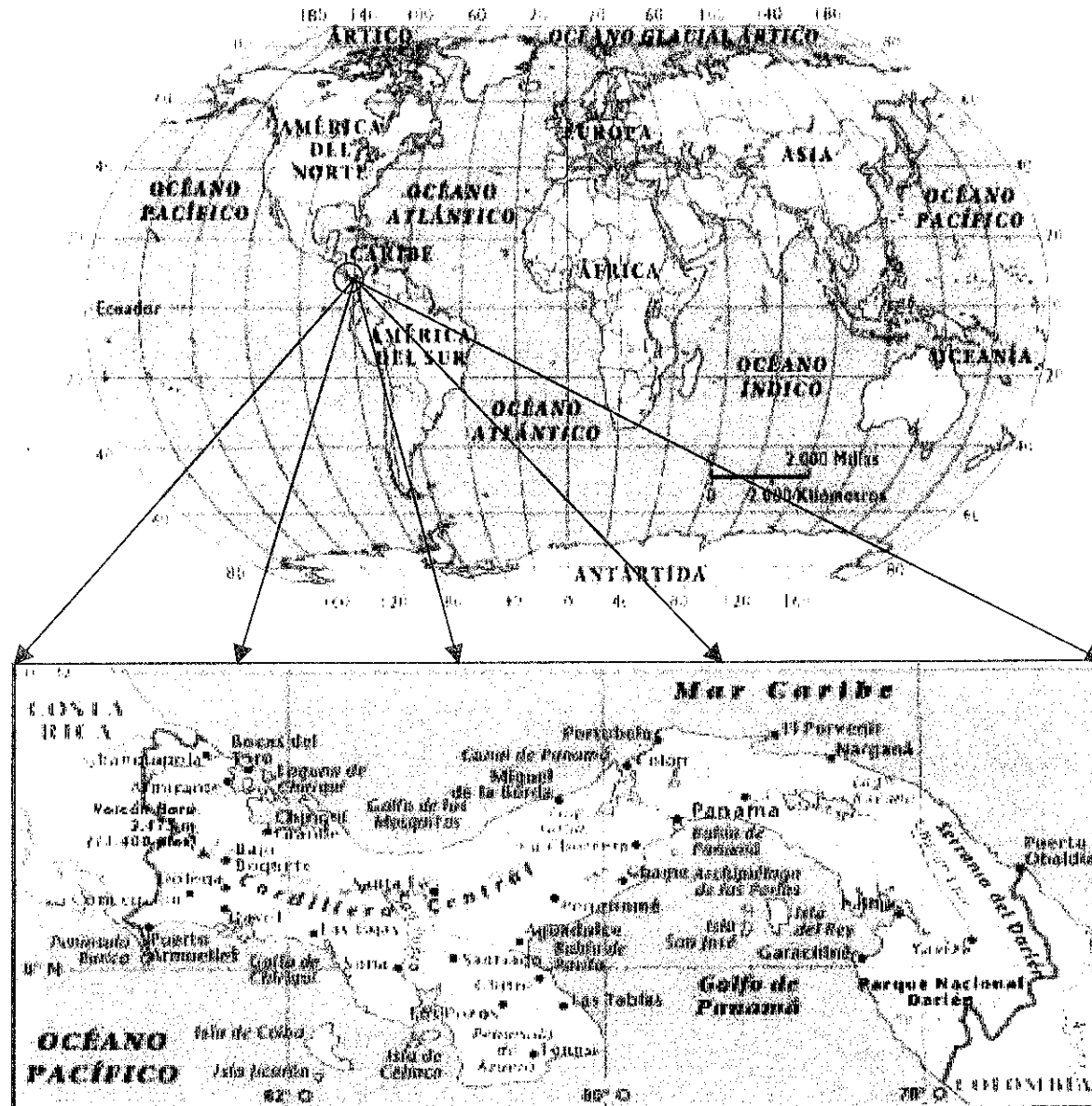
The level of unemployment among young people in the Metropolitan Area is high and tends to get worse because of the little agreement between the skills and knowledge offered by young people and those demanded by the employers, deficiencies in the educative system, and the lack of an entrepreneurial culture. In order to better this situation, some recommendations and a series of project profiles are proposed.

We wish to take this opportunity to express our sincere gratitude to JICA, AMPYME and other organizations concerned, for the collaboration and support in the conduction of this study. We hope that this report will contribute to improve the situation of unemployment and poverty affecting the young people in the urban areas.

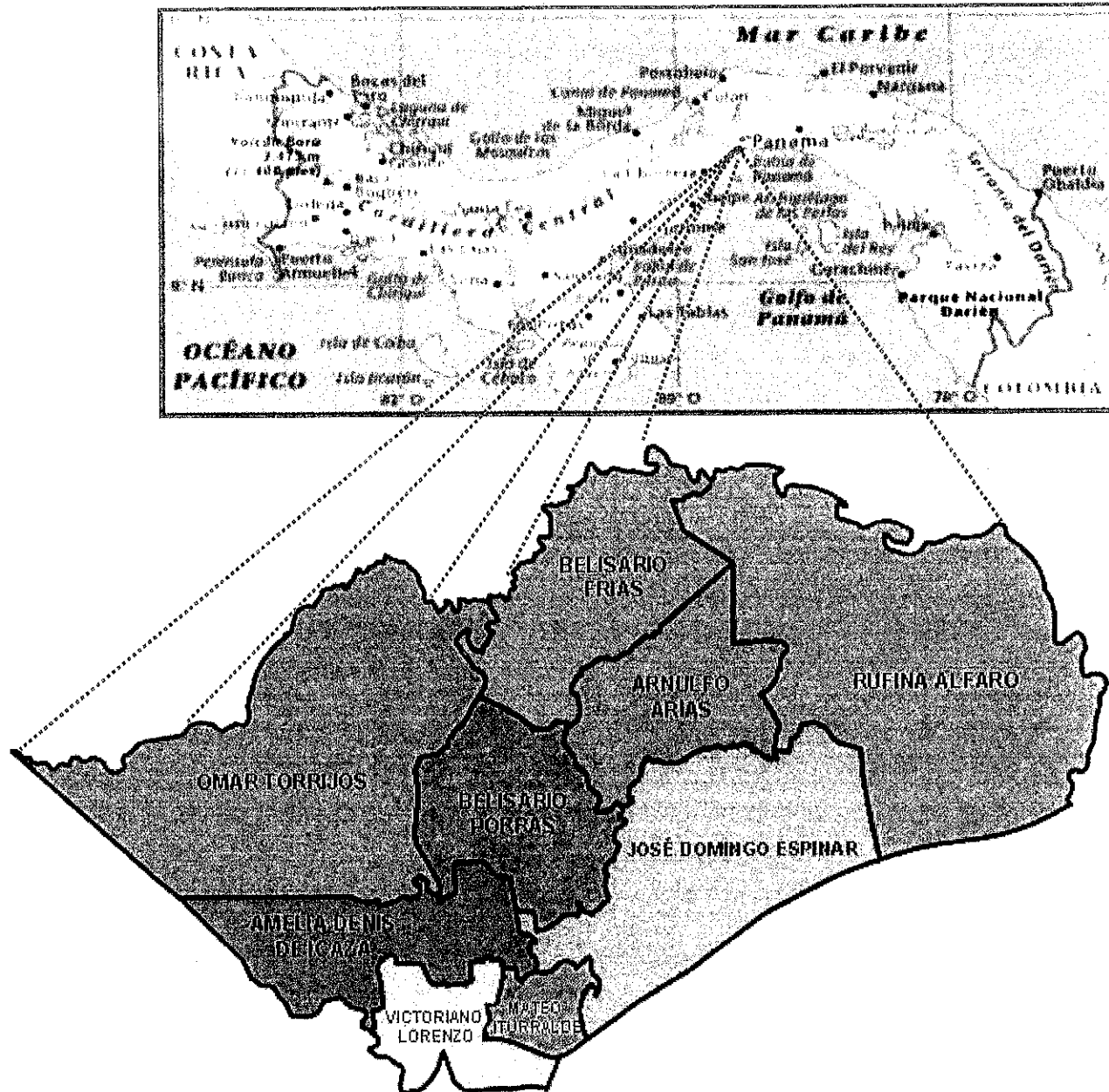
Very truly yours,

  
ISABEL ATENCIO  
Study Team Leader

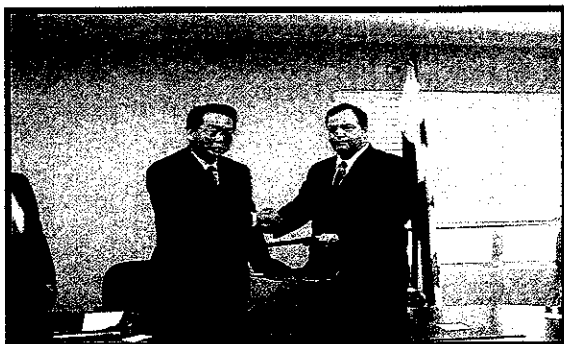
# LOCATION OF THE REPUBLIC OF PANAMA IN THE WORLD



# LOCATION OF THE DISTRICT OF SAN MIGUELITO IN THE REPUBLIC OF PANAMA



## Activities of the Study



Resident Representative of JICA, Mr. Yoshitaka Misawa, and the Director of AMPYME, Mr. Joaquín Fábrega, during the signing of the agreement for the Study.



Training of interviewers for the surveys in the district of San Miguelito.



Young people developing their ideas on business



Instructors and young participants in the workshop “Starting up My Own Business”



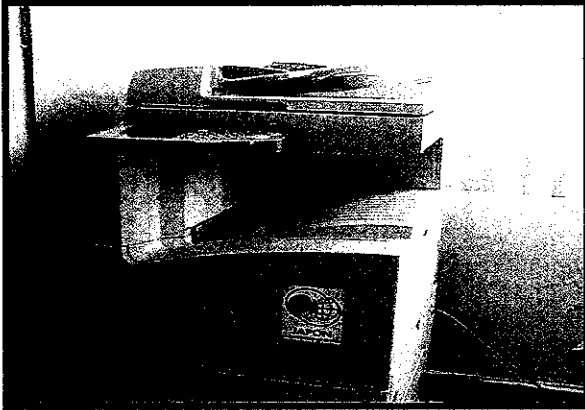
Closing ceremony of the workshop “Starting up My Own Business”



Presentation of the Draft Final Report



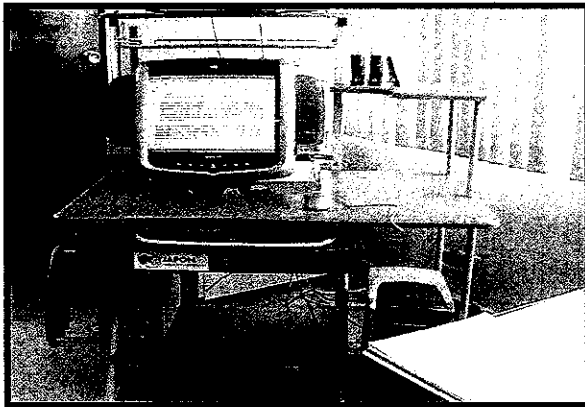
## Part of the Equipment Provided by JICA to AMPYME



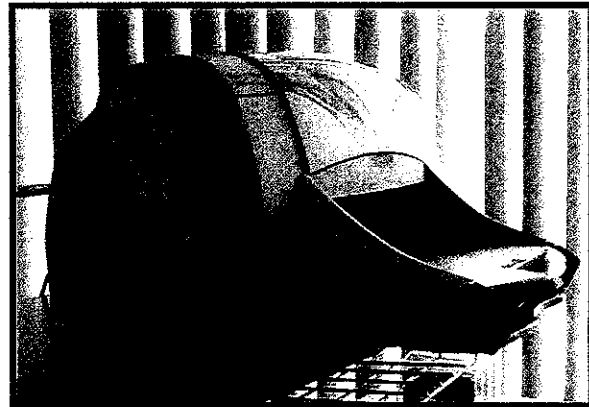
Photocopy Machine



Multimedia Projector



Computer with UPS, Table and Programs



Color Printer



Overhead Projector



Desks, Chairs and Filing Cabinets

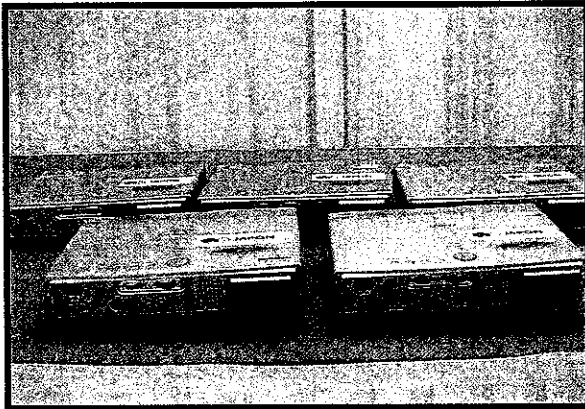
## Equipment Provided by JICA to INAFORP



Ceremony of the provision of the equipment



Total equipment provided by JICA: six multimedia projectors, five laptop computers and an electronic board.



Multimedia projectors



Portable computers or laptops

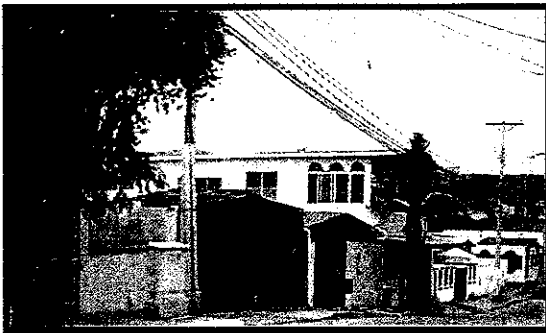
## Houses in San Miguelito



Low.-cost houses in Corregimiento José Domingo Espinar



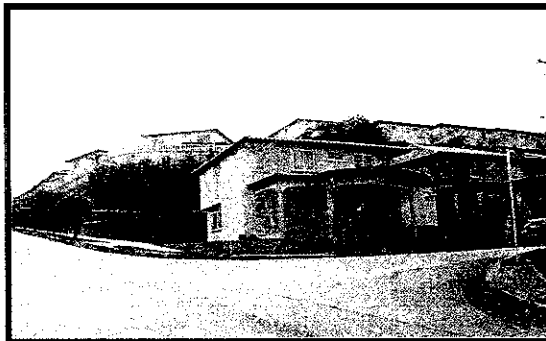
Low-cost houses in Corregimiento Amelia Denis De Icaza



Medium-cost houses in Villa Lucre, Corregimiento José Domingo Espinar



Medium-cost houses in Villa Lucre, Corregimiento José Domingo Espinar

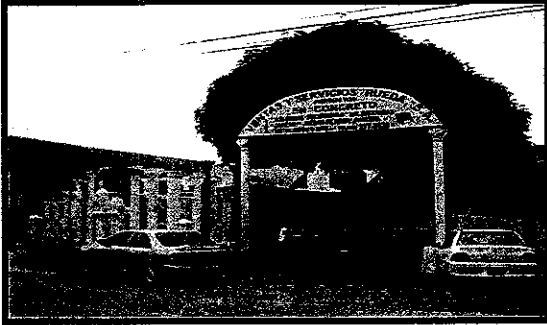


High-cost houses in Brisas del Golf , Corregimiento José Domingo Espinar



High-cost houses in Brisas del Golf, Corregimiento José Domingo Espinar

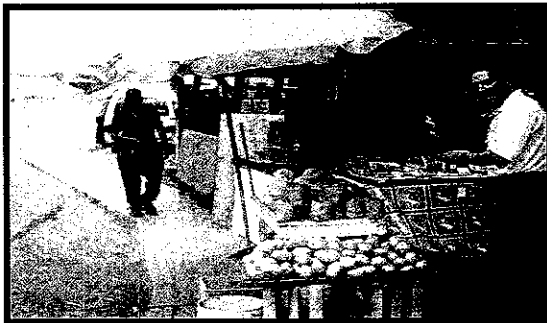
## Economic Activities in the District of San Miguelito



Industrial Activity



Commercial Activity



Vendor of fruits and vegetables



Vendors of trinkets in temporary places



Street vendors



Unemployed youth in San Miguelito

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personnel

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## ABREVIATIONS

ALCA / FTAA:	Free Trade Association of <b>the</b> Americas
AMPYME:	Authority for the Micro, <b>Small</b> and <b>Medium</b> Enterprise
CAPYMER:	Cooperative of the Small <b>and</b> <b>Medium</b> <b>Enterprise</b>
CLICAC:	Commission for Free <b>Competition</b> and <b>Consumer</b> Matters
ENV97:	1997 Living Standard Survey
FUNDES:	Foundation for Sustainable <b>Development</b>
IFARHU:	Human Resources <b>Development</b> Institute
INAFORP:	National Vocational Training <b>Institute</b>
JICA:	Japan International Cooperation Agency
MEDUC:	Ministry of Education
MEF:	Ministry of Economy and <b>Finance</b>
MICI:	Ministry of Commerce and <b>Industry</b>
MINSA:	Ministry of Health
MINJUMNFA:	Ministry of the Youth, <b>Women</b> , <b>Children</b> <b>and</b> <b>Family</b>
MIPPE:	Ministry of Planning and <b>Economic</b> Policy
MITRADEL:	Ministry of Labor and <b>Labor</b> <b>Development</b>
OIT / ILO:	International Labor <b>Organization</b>
PNUD / UNDP:	United Nations <b>Development</b> Program
UNPYME:	Small and Medium Enterprise <b>Union</b>

## **I. INTRODUCTION: GENERAL INFORMATION OF THE STUDY**

### **1.1 Background:**

In 2000, the Government of Panama and JICA jointly defined as one of the high-priority areas or pillars of the technical cooperation of Japan, "the reduction of poverty and the disparities between regions and classes". The incidence of poverty is greater in the rural areas, particularly in the indigenous zones. It is for that reason that traditionally the Japanese cooperation has been directed mainly towards these areas. Little is known about the urban area. More information is needed for supporting future actions, specifically the design and implementation of programs and projects to alleviate this situation of poverty. Nevertheless, it is well known that unemployment is one of the more serious problems faced by the country, both in the rural and urban areas, and this problem is specially affecting young people and women.

In view of this problematic, JICA decided to support this "Study for the Formulation of the Projects of Support to the Promotion of Employment among Young People in the Metropolitan Area", through the signing of a cooperation agreement with the Government of Panama. The Scope of Work was signed on April 5, 2002 by the Director of the Authority of the Micro, Small and Medium Enterprise (AMPYME) on behalf of the government of Panama and the Resident Representative of the Japan International Cooperation Agency (JICA) in Panama, on the part of the Japanese government. The study proposes to establish a Pilot Plan to formulate projects that contribute to improve the employment situation of the young people in this area.

The selected study area was the district of San Miguelito since it is an important district in terms of population, of which there is not an updated diagnostic that will allow to clearly determine the causes of the unemployment that affects young people and that will facilitate the search for alternatives of solution to them.

The Japan International Cooperation Agency (JICA) designated the firm Soluciones Integrales, S.A., as the consultant of the Study.

## **1.2 Study Purpose**

The objectives of the Study are:

In the short run:

- To establish a pilot plan for the formulation of projects that contribute to improve the situation of employment of the young people.

In the long run:

- To improve the environment of employment of the young people.
- To reduce the number of people working in the informal sector.
- To encourage the creation of micro, small and medium-sized enterprises.
- To mitigate poverty in the urban areas.
- To promote a sustainable economic growth.

## **1.3 Study Area**

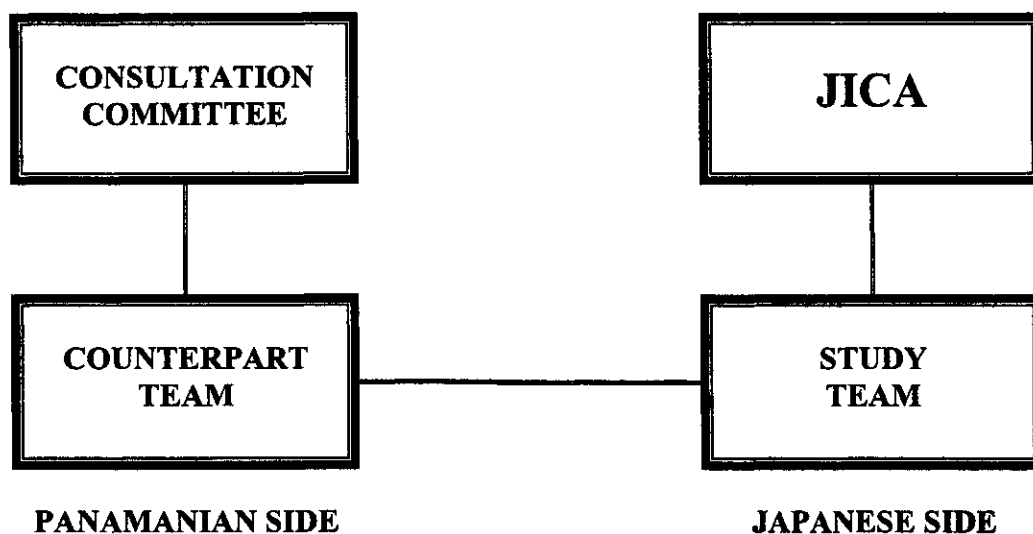
The District of San Miguelito is located in the province of Panama of the Republic of Panama. It is completely inside the district of Panama, although they are two autonomous municipalities, independent from each other (see the Map of Location of the Study Area)

## **1.4 Organization for the Study**

In order to carry out the Study, JICA organized a Study Team, headed by Ms. Isabel Atencio. On the other hand, the Government of Panama made up a Counterpart Team led by Mr. Joaquin Fábrega, Director of the Authority of the Micro, Small and Medium

Enterprise (AMPYME). AMPYME also organized a Consultation Committee to facilitate the implementation and discussion of the results of the Study. The coordination and monitoring were in charge of JICA Panama Office.

**Figure 1. Organizational Structure of the Study**



### 1.5 Persons Involved in the Study

The people who participated in the implementation, discussion and supervision of the Study are the following:

#### Main Consultants:

Name	Position	Organization	Period
Ms. Isabel Atencio	Main Consultant	Soluciones Integrales, S. A.	15 July 2002 to 15 March 2003
Mr. Edgar Cornejo	Assistant Consultant	Soluciones Integrales, S. A.	15 July 2002 to 15 March 2003
Ms. Yamileth Atencio	Administrative Assistant	Soluciones Integrales, S. A.	15 July 2002 to 15 March 2003

**Main Personnel in charge of the Survey:**

Name	Position	Organization	Period
Ms. Silma Pinilla	General Coordinator	Soluciones Integrales, S. A.	15 July 2002 to 15 March 2003
Mr. Carlos Bellido	Head of Field	Soluciones Integrales, S. A.	15 July 2002 to 15 March 2003
Mr. Roberto Castillo	Sample Designers	Soluciones Integrales, S. A.	15 July 2002 to 15 March 2003
Ms. Vilma Me'dica	Demographer	Soluciones Integrales, S. A.	15 July 2002 to 15 March 2003
Mr. Lictor Reina	Programmer	Soluciones Integrales, S. A.	15 July 2002 to 15 March 2003

**Couterpart Personnel:**

Name	Position	Organization	Period
Mr. Joaquin Fábrega	Director General	AMPYME	15 July 2002 to 15 March 2003
Ms. Jenny Pino	Director of Strategic Planning	AMPYME	16 October 2002 to 15 March 2003
Mr. Alcides Lasso	Planner	AMPYME	15 July 2002 to 15 October 2002
Mr. Abraham Escobar	Planner	AMPYME	3 February to 15 March 2003

**Consultation Committee:**

Name	Position	Organization	Period
Ms. Maritza Barría	Planner	AMPYME	18 February to 14 March 2003
Ms. Eira Rosas	Coordinator of Bilateral Cooperation, D.C.T.I	MEF	18 February to 14 March 2003
Ms. Griselda González	Labor Training Manager's Office	MITRADEL	18 February to 14 March 2003
Mr. Edmundo Ortega	National Assistant Director of Youth	MINJUMNFA	18 February to 14 March 2003
Mr. Dinodier Donoso	Projects Coordinator	MINJUMNFA	18 February to 14 March 2003
Mr. José Saldaña	Technical Operations Director	INAFORP	18 February to 14 March 2003
Ms. Rosemary Piper	Entrepreneur	UNPYME (ONG)	18 February to 14 March 2003

## Supervisors:

Name	Position	Organization	Period
Mr. Hiroaki Endo	Assistant Resident Representative	JICA	15 December 2002 to 31 March 2003
Mr. Tomoyuki Oki	Assistant Resident Representative	JICA	15 July to 15 December 2002
Ms. Nanako Takase	Adviser in Project Formulation	JICA	15 July to 30 September 2002
Mr. Carlos Zambrano	Economic Adviser	JICA	15 Julio 2002 to 31 March 2003

## 1.6 Study Schedule

The Study began on July 16, 2002, to under the following Time schedule:

Activity	2002						2003		
	Jul.	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.
Data collection									
Elaboration of Inception Report									
Design of the survey questionnaires									
Interview to Young People									
Interview to Employers									
Analysis of Questionnaires									
Elaboration of the Guide on "Business Plan"									
Elaboration of the Guide on "How to Start Up Your Own Business"									
Elaboration of Interim Report									
Workshop for Young People									
Elaboration of Final Draft Report									
Submission of Final Draft Report, Guide and Business Plan									
Seminar on the Results									
Submission of Final Report									

## **1.7 Study Methodology**

The Study includes the application of a questionnaire to 1,500 young people aged between 18 and 35 years old, residing in the district of San Miguelito. The social survey covers migration, health, and education aspects, employment situation, entrepreneurial management skills and aptitudes of the young people.

The geographical scope for the sample design included the nine corregimientos of the district of San Miguelito, namely: Amelia Denis de Icaza, Belisario Porras, Jose Domingo Espinar, Mateo Iturralde, Victoriano Lorenzo, Arnulfo Arias, Belisario Frias, Omar Torrijos and Rufina Alfaro.

Regarding the demand for labor, the Study also applied a questionnaire to 40 employers in both San Miguelito and Panama districts, since their proximity allows the majority of San Miguelito's population to work in the district of Panama which have a greater number employment opportunities.

The Study included interviews with the directors of employers' unions, the local authorities and specialist in those organizations carrying out job-generation programs throughout the country.

The existing bibliography was revised, as the basis for the conduction of this Study. It also included the data collection in employers' associations, the Office of the General Comptroller of the Republic, and public organizations dealing with young people and unemployment problems.

Actions taken into consideration for the Pilot Plan included:

- Conduction of a orientation workshop on how to start up your own company, with 50 participants, selected among the surveyed young people interested in starting up their

own company, with the purpose of orienting them. The legal, labor, administrative and accounting aspects were explained. Written material was distributed to the participants

- Design of a guide on "How to Plan a Business".
- Design of a guide on "How to Start Up Your Own Business" in Panama.
- Design of profiles of projects, to promote employment among young people in urban areas.

The elaboration of guides on " How to Plan a Business" and " How to Start Up Your Own Business", was carried through consultations to various specialists in this subject.

According to law, the Ministry of Labor (MITRADEL) is responsible for the generation of employment in the country; while the function of the Authority of the Micro, Small and Medium-sized Enterprise (AMPYME) is to support the creation of enterprises throughout the country. Since this Study pursues objectives concerning both organizations with different scope of interest, the research was designed in order to collect useful information for both institutions.

As a strategy to motivate these organizations to get involved in the conduction of this Study and its subsequent implementation, several officials from the organizations involved were interviewed and at the end of the research, a seminar was organized to present the results of the Study, in order to exchange point of views and improve the content of the Study with the contributions of the organizations involved in this topic. The participants in this event were mainly officials from JICA, AMPYME, MEF, MITRADEL, MINJUMNFA, INAFORP and UNPYME, considered as a representative NGO in the sector.



## 1.8 List of Interviewees

The list of interviewed people included to the directive and advisory personnel of the institutions concerned with employment and the youth throughout the country, as detailed below:

Organization	Position	Name
AMPYME	Secretary General	Federico Nieto
AMPYME	Planner, Directorate of Planning	Alcides Lasso
AMPYME	Director of Planning	Jenny Pino
AMPYME	Head of the Department of Relations with the Customers	Krissan Llauradó
INAFORP	Director General	Anel Rodríguez
INAFORP	Director of Planning	Ricardo Grajales
INAFORP	Head of the Department of Technical Assistance to Enterprises	Sonia de Cheng
INAFORP	Head of the Department of Statistical Evaluation	Alexander Patiño
INAFORP	Head of the Department of Studies and Surveys	Betsy de Juárez
MEF	Head of the Department of Municipal Budget, National Budget Directorate	Rodrigo Mejía
MICI	Assistant director of Domestic Trade	Daisy Vásquez
MICI	Department of Licenses Procedures	David Samaniego
MICI	Head of the Department of Licenses	Diana Coronado
MINJUMNFA	Director of Youth	Julius Grant
MITRADEL	Manager of the project of Labor Management	Félix Morales
MITRADEL	Advisor, Labor Training Management	Luis González
OIT	Head of the Office in Panama	Simón Bolívar Pino
PNUD	Program Official	Amael Candanedo
USAID	Program Official	Federico Frederick
MY BANK	Head of Promotion	Teresita William
MICROSERFIN	Promoter of Loans	Jacqueline Rodríguez
CAPYMER/UNPYME	Adviser	Antonio Ducreaux
CAPYMER	General Manager	Delfín Aparicio
UNPYME	General Manager	José Mendoza
Newspaper El Panama America	Journalist	Rosalina Orocú

## II. SOCIOECONOMIC DEVELOPMENT OF THE COUNTRY

This chapter explains the general characteristics of the country and its recent socioeconomic development, with the purpose of getting a better insight into the historical, social and economic framework that has determined to a large extent the present situation of the country and of that district; and that, in one way or another, has had an impact on the unemployment problem of the young people in the Metropolitan Area, particularly in the district of San Miguelito.

### 2.1 General information of the Country

#### 2.1.1 Physical characteristics

The Republic of Panama is located in the narrowest part of the Central American Isthmus. It borders the Caribbean Sea in the north and the Pacific Ocean in the south, Colombia in the east and Costa Rica in the west. Its main physical features are as follows:

**Table 2-1. Main Physical Characteristics of Panama**

Characteristic	Detail
Total Area	75,517 km <sup>2</sup> (the district of San Miguelito has 50,0 km <sup>2</sup> )
Relief	A mountainous chain extends from the west to the east along the country, dividing the main river basins of the Caribbean Sea and the Pacific Ocean. The highest peak (3,475 meters) is Volcan Baru in the province of Chiriqui. Its lower points are in the Canal Area with a maximum altitude of 93 meters (305 feet) above the sea level.
Width	The width of the country is approximately 51 kms. in its narrowest part (from the mouth of the Necategua River to the mouth of the Bayano River) and near 190 kms. in its widest points.
Climate	Tropical Maritime with high temperatures and humidity, as well as an abundant rainfall during most of the year. It has two seasons: the dry season that extends from mid December to April and the rainy season, from May to December.
Temperature	Oscillates between 18.7° C and 35.4° C, with an annual average of 27.9° C (2001)
Humidity	Varies between 40% and 100%, with an average of 73% in 2001.
Pluvial Precipitation	A total of 147.9 millimeters, with a daily average of 4.8 millimeters (year 2001)

Source: Office of the Comptroller General. Panama en Cifras 1997-2001.

### 2.1.2 History

From its discovery in 1501, by **Rodrigo de Bastidas** (one of the captains who accompanied Columbus on his second voyage to America), several events have marked the destiny of the Isthmus as a passing-through country, promoting the development of the commercial activities and services and the concentration of the population around what it is nowadays known as the Metropolitan Area, including the district of San Miguelito. The most relevant facts are mentioned below:

In 1513 Vasco Núñez de Balboa discovered the "Sea of the South" (the Pacific Ocean) after crossing the Panamanian Isthmus through the Darien forest. Later on, in 1519, Panama City was founded, becoming the center of the Spanish explorations and expansion towards both Central and South America, such as the expedition of Francisco Pizarro towards the Conquest of Peru and the incursions of the Davila brothers in Central America.

Also, with the organization of the Fair of Portobelo (on the Atlantic coast) between 1544 and 1731, Panama turned into the most important world commercial center. Nevertheless, the importance of Panama was affected by the constant attacks of the pirates and privateers, and the progress of the navigation that made unnecessary the concentration of the commerce through the route of the isthmus.

Later on, with the construction of the Trans-Isthmian Railroad in 1850 and the so-called "Gold Rush" in California, the transit through the Isthmus expanded again. Many adventurers passed through the Isthmus towards the West, since it was a safer route than crossing the United States from coast to coast

Afterwards, the construction of the Panama Canal starting from 1904 and the beginning of its operation since 1914, turned the cities of Panama and Colon, at both entrances of the Canal, in centers of attraction for both nationals and foreigners in search of job opportunities and business, in detriment to the development of other regions in the country.

### 2.1.3 Government

According to the National Constitution, the government of Panama is unitary, republican, democratic and representative. The country is governed by three powers: the Executive Body is made up by the President, two Vice-presidents and 13 Ministers of State; the Legislative Power is vested in the Legislative Assembly, composed of 71 legislators; and the Judicial Power is exercised by the 9 Magistrates of the Supreme Court of Justice.

### 2.1.4 Administrative Division

Administratively, the country is divided into provinces and indigenous regions or comarcas, which in turn, are divided into districts or municipalities and the latter, into corregimientos. At present, there are 9 provinces (Coclé, Bocas del Toro, Colón, Chiriquí, Darién, Herrera, Los Santos, Panama and Veraguas), 75 districts, 3 indigenous regions or comarca (Kuna Yala, Emberá and Ngöbe-Bugle), 599 corregimientos, including two indigenous corregimientos denominated "Comarca Kuna Madungandi" (district of Pinogana, province of Darién) and "Comarca Kuna Wargandi" (district of Chepo, province of Panama ).

### 2.1.5 Population and Society

The main characteristics of the population are shown in Table 2-2.

**Table 2-2. Main Characteristics of the Population and Society of the Republic of Panama and the District of San Miguelito**

Characteristic	Country	San Miguelito
Population (2000 Census)	Total: 2,839,177 (100.0%)	293,745 (100.0%)
	Men: 1,432,566 (50.5%)	143,374 (48.8%)
	Women: 1,406,611 (49.5%)	150,371 (51.2%)
	Urban: 1,764,771 (62.2%)	293,746 (100.0%)
	Rural: 1,074,406 (37.8%)	--
Structure by age (2000 Census)	Less than 15 years: 909,119 (32.0%)	83,137 (28.3%)
	From 15 to 64 years: 1,758,763 (61.9%)	196,486 (66.9%)
	More than 64 years: 171,295 (6.0%)	14,122 (4.8%)
Median age	25 years. Men: 25 Women: 25	26 years
Density (persons per km2)	37.6 (2000)	5,874.9 (2000)
Rate of growth	1.88% (1990-95); 1.65% (1996-2000)	
Ethnic groups	65% mestizo, 14% black, 10% white, 10% indigenous, 1% others.	
Religion	85% catholic, 15% protestant and others	
Language	Official: Spanish. In the cities of Panama and Colon, many people speak English, and some speak other languages, like Chinese, French, etc.	

Source: Office of the Comptroller General. Panama en Cifras 1997-2001, and 2000 Census. IPAT, General Information on the Republic of Panama.

## 2.2 Macroeconomic Analysis

### 2.2.1 Evolution of Gross Domestic Product (GDP)

In the Eighties, Panama had a poor economic performance with an average annual growth *below one percent due to the crisis of the Latin American debt at the beginning of the decade, and to the economic sanctions imposed by the U.S. Government during 1988-89* which ended up with the U.S. military intervention and the overthrow of the Panamanian military regime. In economic terms, it was a lost decade, with a decrease of  $-1.2\%$  in the per capita GDP (see Table 2-3)

**Table 2-3. Growth Rates of Total and Per Capita GDP:  
1980-2001**

Detail	1980-1989	1990-1994	1995-1999	2000 (P)	2001(E)
Total GDP.....	0.8	6.8	3.3	2.5	0.3
Per Capita GDP (1).....	-1.2	4.8	1.6	0.8	-1.2

(1) Based on estimates of total population in the Republic on July 1 of every year

(P) Preliminary

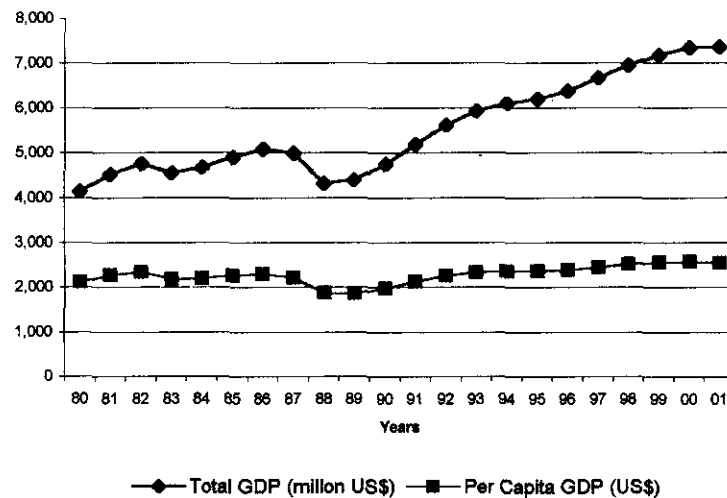
(E) Estimates

Source: Office of the Comptroller General

In the early 1990's (1990-92), the economy registered over-8-percent rates of growth. The economic recovery was favored by the foreign aid received for the recovery of the country and the lifting of the U.S. economic sanctions. Starting from 1992 the economic activity began to show signs of weakness, getting to grow only by 1.8% in 1995, as result of the loss of dynamism in certain key economic activities, such as Construction, Commerce, Real Estate and the Colon Free Zone. However, by the late 1990's, there was a slight recovery of the pace of growth resulting from a rapid increase in investments due to the privatization of the ports and the electricity and telephone companies, the construction of the North and South Corridors, and the widening of the Pan-American Highway. This helped to compensate the losses of income as a result of the withdrawal of the American Army by virtue of the Canal Treaties.

In the last few years, nevertheless, the loss of dynamism of the economy has been evident, partly as a result of the drop in the activity of the Colon Free Zone and in the agricultural product exports, the American Military withdrawal, the rises in oil prices, the conclusion of large road projects and the end of the conjunctural effects of privatizations. Although total GDP has continued growing at very low rates, in 2001 there was a reduction in Per Capita GDP by -1.2%. Graph 2-1 gives a better idea of this trend of the GDP.

**Graph 2-1 Gross Domestic Product in Panama: 1980-2001**



### 2.2.2 Contribution by economic sector

As a result of taking advantage of its strategic geographical location, Panama has traditionally been a country of transit, commerce and services, mainly including the Panama Canal, the Colon Free Zone, container ports, banks, insurance, ship registration, and tourism. At present, the Tertiary Sector generates more than 70% of the Gross Domestic Product and accounts for nearly 65% of the employed population of the country. However, the Primary Sector (agriculture, livestock raising, fishing and mining) contributes with about 8% and the Secondary Sector (construction, manufacturing and generation of electricity, gas and water) with nearly 17% (see Table 2-4).

**Table 2-4. Distribution of the GDP and Employment by Sector: 1997-2001**

Detail	1997	1998	1999	2000	2001 (p)
<b>GDP in real terms</b>					
(Millions of 1982 US\$).....	<u>6,657.5</u>	<u>6,947.2</u>	<u>7,169.9</u>	<u>7,345.7</u>	<u>7,365.2</u>
Primary Sector.....	528.5	564.2	578.2	586.0	588.0
Secondary Sector.....	1,216.8	1,245.5	1292.	1,308.7	1,243.1
Tertiary Sector.....	4,912.2	5,137.5	5,299.1	5,451.0	5,534.1
<b>Distribution of GDP (%)</b>					
Primary Sector.....	7.9	8.1	8.1	8.0	8.0
Secondary Sector.....	18.3	17.9	18.0	17.8	16.9
Tertiary Sector.....	73.8	74.0	73.9	74.2	75.1
<b>Growth Rate of GDP (%)</b>					
Primary Sector.....	<u>4.5</u>	<u>4.4</u>	<u>3.2</u>	<u>2.5</u>	<u>0.3</u>
Secondary Sector.....	1.2	6.8	2.5	1.3	0.3
Secondary Sector.....	4.5	2.4	3.8	1.2	-5.0
Tertiary Sector.....	4.6	4.6	3.1	2.9	1.5
<b>Distribution of Employment (%)</b>					
Primary Sector.....	18.9	17.8	17.5	17.3	18.1
Secondary Sector.....	18.1	18.0	18.1	17.1	17.1
Tertiary Sector.....	63.0	64.2	64.4	65.6	64.7

(P) Preliminary

Source: Own elaboration based on data from the Office of the Comptroller General.

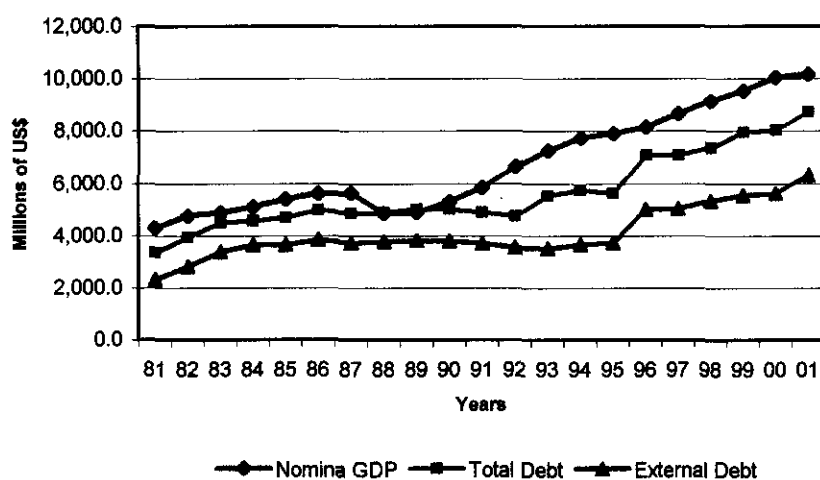
However, **this** situation has caused that the growth of the Panamanian economy is highly dependent on the world economic situation, particularly on the United States of America and the Latin American region. Also, this has contributed to the current unequal income distribution, because the economic activity has been concentrated around the Metropolitan Area (mainly the cities of Panama and Colon). It has also resulted in a constant domestic migration from the countryside to the cities, producing enormous pressures for housing, water and other basic services. Incidentally, San Miguelito is the result of these pressures.

### 2.2.3 Public Finance

One of the biggest fiscal problems faced by the government is the high external debt and the heavy burden of the debt servicing. Most of this debt was contracted during the 1970's and the early 1980's when the government policy was oriented towards the construction of

large infrastructure works financed through external credit, the direct participation of the State in productive activities and the employment of a great number of people as a measure to solve the unemployment problem. The fiscal problems were evident during the debt crisis in the early 1980's and got worse during the political-economic crisis of the 1987-89 period, when the government fell in arrears with its external obligations, and the total debt surpassed the nominal GDP. This increasing trend of the debt continues in the 1990's, as shown in Graph 2-2. In 2001, the external debt represented almost 62% of total GDP.

**Graph 2-2. Evolution of Nominal GDP and Public Debt**



Another main problem faced by the State is the decrease in tax revenue, as a result of the country's poor economic performance. In fact, current revenue of the Central Government has tend to increase very slowly after 1999, basically because of the reduction in tax revenue. On the expenditure side, the debt service represents nearly 40% of total expenses, constituting one of the main expenses of the Central Government, only exceeded by the payroll (see Table 2-5)



**Table 2-5. Some Fiscal Indicators of Panama: 1997-2001**

(In million US\$)					
Detail	1997	1998	1999	2000	2001 (P)
<b>PUBLIC SECTOR</b>					
Total Debt.....	7,069	7,088	7,784	7,732	8,401
External Debt.....	5,051	5,349	5,568	5,604	6,263
Internal Debt.....	1,718	1,739	2,216	2,128	2,138
Total Debt / GDP.....	78.2%	77.5%	81.5%	76.9%	82.6%
External Debt / GDP.....	62.2%	58.3%	58.3%	55.7%	61.6%
Fiscal Deficit / GDP.....	-0.3%	-2.9%	-1.4%	-0.8%	-2.0%
<b>CENTRAL GOVERNMENT</b>					
Total Revenue.....	<u>2,691.3</u>	<u>2,726.3</u>	<u>2,570.2</u>	<u>2,814.9</u>	<u>2,893.2</u>
Current Revenue.....	<u>1,575.1</u>	<u>1,663.3</u>	<u>1,909.0</u>	<u>1,933.4</u>	<u>1,951.1</u>
Tax Revenue.....	1,083.6	1,104.1	1,211.2	1,120.1	1,035.6
Non-Tax Revenue.....	445.2	487.4	575.5	669.5	655.2
Interests and commissions on the Fiduciary Fund.....	20.3	42.7	89.9	107.4	228.4
Other.....	26.0	29.0	32.3	36.4	31.8
Balance in Cash and Bank.....	<u>18.7</u>	<u>33.0</u>	<u>16.8</u>	<u>176.4</u>	<u>43.6</u>
Capital Revenue.....	<u>1,097.4</u>	<u>1,030.0</u>	<u>644.5</u>	<u>704.9</u>	<u>898.5</u>
Credit resources.....	1,006.5	840.9	605.2	626.9	794.0
Other.....	90.9	189.1	39.3	78.0	104.5
Total Expenditures.....	<u>2,557.4</u>	<u>2,586.6</u>	<u>2,454.7</u>	<u>2,671.8</u>	<u>2,683.8</u>
Current Expenditures.....	<u>2,324.9</u>	<u>2,337.2</u>	<u>2,205.8</u>	<u>2,408.2</u>	<u>2,406.4</u>
Debt Service.....	1,139.7	903.8	935.5	1,052.9	1,025.0
% of Total Expenditures...	44.6%	34.9%	38.1%	39.4%	38.2%
Other Current Expenditures...	1,185.2	1,433.4	1,270.5	1,355.3	1,381.4
Investment Expenditures.....	232.4	249.4	248.9	263.6	277.4
Other Expenditures (1).....	85.5	58.9	69.5	68.8	68.8

(1) Includes Expired-Term expenditures and Tax Refund.

(P) Preliminary

Source: MEF, Public Credit Directorate and Office of the Comptroller General.

## 2.2.4 Foreign trade

Traditionally the trade balance or balance of goods of Panama has shown a deficit, as a result of the little development of the productive capacity not only directed to export, but also to the domestic consumption. In addition, it has also been affected by the reduction in goods exports from the Colon Free Zone. The Balance of Rent also shows a deficit which increased with the dismissal of the Panamanian workers of the former American military bases.

**Table 2-6. Data on Foreign Trade: 1997-2001**

(In million US\$)

Detail	1997	1998	1999	2000	2001 (P)
<b>BALANCE OF PAYMENTS</b>					
Current Account.....	<u>-506.7</u>	<u>-1,013.0</u>	<u>-1,210.8</u>	<u>-715.5</u>	<u>-154.1</u>
Balance of Goods.....	-685.2	-1,295.5	-1,340.0	-1,142.9	-675.3
Balance of Services.....	427.5	714.6	713.4	863.9	867.9
Balance of Rent.....	-399.6	-590.7	-755.3	-613.5	-544.6
Current Transfers.....	150.6	158.6	171.1	177.0	197.9
Capital Account.....	<u>703.2</u>	<u>1,507.3</u>	<u>1,549.3</u>	<u>318.0</u>	<u>853.5</u>
Errors and Omissions.....	<u>-196.5</u>	<u>-494.3</u>	<u>-338.5</u>	<u>397.5</u>	<u>-699.4</u>
<b>EXPORTS (F.O.B.).....</b>	<b><u>647.9</u></b>	<b><u>703.9</u></b>	<b><u>709.8</u></b>	<b><u>779.1</u></b>	<b><u>809.5</u></b>
Banana.....	179.9	138.7	188.1	159.8	122.2
Fish.....	36.4	56.4	61.6	81.4	93.2
Shrimps.....	96.5	136.9	69.0	59.4	70.9
Oil Derivatives.....	25.5	24.8	63.9	52.3	57.2
Bovines.....	11.1	2.3	10.2	16.6	37.3
Sugar.....	28.7	25.5	14.5	19.9	13.9
Coffee.....	22.4	24.5	20.1	16.0	11.1
Others.....	247.4	294.8	282.4	373.7	403.7
<b>Countries of Destination</b>					
The United States.....	293.1	281.4	299.1	337.7	388.6
Costa Rica.....	41.5	45.6	35.4	39.2	39.0
Belgium-Luxembourg.....	34.9	30.3	36.0	40.7	36.5
Sweden.....	54.4	50.9	8.0	66.4	30.3
Germany.....	20.2	24.3	75.6	13.4	25.8
Japan (position No. 14).....	5.3	4.4	7.2	11.8	12.1
<b>IMPORTS (C.I.F.)</b>	<b><u>3,006.4</u></b>	<b><u>3,417.8</u></b>	<b><u>3,491.2</u></b>	<b><u>3,405.0</u></b>	<b><u>2,963.6</u></b>
Machinery and appliances...	585.3	780.8	780.5	662.0	566.3
Transportation equipment...	405.2	518.7	505.0	354.5	257.8
Mineral products.....	436.7	357.0	431.3	648.1	621.5
Crude Petroleum.....	262.2	184.6	302.0	447.0	426.0
Chemical products.....	326.6	328.0	352.5	352.6	333.2
Foodstuffs, beverages and tobacco.....	168.9	212.0	232.1	232.8	214.5
Textile materials and their manufactures.....	172.4	187.5	180.1	158.8	136.8
Others.....	649.1	849.2	707.7	549.2	407.5
<b>Countries of Origin</b>					
The United States.....	1,103.8	1,351.0	1,225.4	1,112.2	962.1
Ecuador.....	166.8	100.6	185.2	244.2	236.7
Colombia.....	77.0	64.3	90.6	116.4	167.9
Venezuela.....	116.6	118.0	94.1	224.1	154.1
Japan.....	212.2	308.4	254.5	187.5	128.0
Mexico.....	147.2	164.8	172.3	134.0	118.3
Costa Rica.....	88.1	101.7	114.1	117.6	103.7

(P) Preliminary

Source: Office of the Comptroller General. Panama en Cifras 1997-2001.

The deficit balances have been compensated to a certain extent by the increasing positive results in the balance of services and the net ~~un~~requited transfers. The balance of services is favored by the transport through the Canal ~~and~~ the expenditures of tourists.

Regarding exports, there is an evident ~~decrease~~ in the weight of the exports of bananas, main export good, whose production has ~~been~~ affected by climatic factors (floods and gales), by labor strikes and by barriers to ~~enter~~ the European market. The exports of fresh shrimps that have been affected by the loss of reproduction of the red and white shrimps, species better paid in the international market, and by the problems of the White Spot disease.

On the import side, the main products are the capital goods (machinery and transport vehicles) and mineral products (basically crude petroleum). In general, all the imports have tended to decrease because of the difficult economic situation.

Our main trade partner is the United States. Other important partners are Ecuador, Venezuela, Colombia and Mexico due basically to crude petroleum imports.

### **2.2.5 Foreign Investment**

After the practical finalization of the privatization process, foreign investments have been dwindling since 1999, as shown in Table 2-7.

Another important fact was the hand over of the Canal to the Panamanians in December 1999; after which the Panama Canal Commission was no longer considered as a foreign company. With the outflow of the rents from investments, there has been a negative flow of investment in the last two years.

**Table 2-7. Foreign Direct Investment: 1997-2001**

(In million US\$)

Detail	1997	1998	1999	2000 (p)	2001 (p)
Foreign Direct Investment.....	<u>1,299.3</u>	<u>1,296.0</u>	<u>652.4</u>	<u>603.4</u>	<u>512.6</u>
Panama Canal Commission.....	52.3	88.9	130.9	--	--
General License Banks.....	159.6	42.1	-58.4	98.8	-8.5
International License Banks .....	28.8	-35.0	14.9	55.7	19.5
Companies in Colon Free Zone...	103.8	173.7	206.7	162.6	3.3
Other companies.....	954.8	1,026.3	358.3	286.3	498.3
Rent of Foreign Investment.....	<u>-515.8</u>	<u>-711.9</u>	<u>-791.0</u>	<u>-614.9</u>	<u>-547.6</u>
Panama Canal Commission.....	-52.4	-89.0	-133.9	--	--
General License Banks.....	-189.6	-242.7	-208.9	-169.9	-192.0
International License Banks .....	-71.1	-62.7	-84.8	-93.6	-71.2
Companies in Colon Free Zone...	-164.3	-120.6	-153.9	-175.0	-141.6
Other companies.....	-38.4	-196.9	-209.5	-176.4	-142.8

(P) Preliminary

Source: Office of the Comptroller General, Panama en Cifras 1997-2001.

## 2.2.6 Prices

According to official figures, inflation in Panama has stayed relatively under control during the last years, as shown in. Table 2-8.

**Table 2-8. Variation of the Selected Price Indices: 1997-2001**

(In million US\$)

Detail	1997	1998	1999	2000	2001
Consumer Price Index.....	<u>110.3</u>	<u>110.9</u>	<u>112.3</u>	<u>114.0</u>	<u>114.3</u>
Percent change.....	1.3	0.5	1.3	1.5	0.3
Wholesale Price Index.....	<u>115.5</u>	<u>111.0</u>	<u>114.0</u>	<u>124.0</u>	<u>120.0</u>
Percent change.....	-2.3	-3.9	2.7	8.8	-3.2
Import Price Index.....	121.0	114.1	120.9	136.7	129.7
Percent change.....	-4.1	-5.7	6.0	13.1	-5.1
Industrial Price Index.....	111.2	107.6	107.3	113.9	111.8
Percent change.....	-1.0	-3.2	-0.3	6.2	-1.8
Agricultural Price Index.....	111.7	113.4	114.3	115.0	115.6
Percent change.....	0.6	1.5	0.8	0.6	0.5

(P) Preliminary

Source: Office of the Comptroller General, Panama en Cifras 1997-2001.

The relative price stability is mainly due to the fact that the U.S. dollar is used in Panama as a legal currency and most of Panama's imports come from the U.S.A., where inflation stays relatively under control. Additionally, due to the difficult economic situation and to the world trade liberalization, some import prices have tended to drop.

### **2.2.7 Salaries**

The government does not intervene in the fixing of salary, except for the revision of the minimum wage that, by Law, must be made every two years by a mixed commission (composed of representatives from workers, employers and the government). The minimum wages established in 2000 for the districts of Panama, Colon and San Miguelito (Region 1) are higher than in other major cities of the Interior of the country (Region 2) and the rest of the country (Region 3). In general, the hourly minimum wages are \$1.22, \$1.03 y \$0.90, respectively, with slight variations according to the economic activity and the size of the enterprise. 1/ Construction is the best paid activity (\$1.50 an hour), while the lowest salaries are paid in the agricultural activities (\$0.80 an hour). These salary differences could also be accounting for the lower living standards and higher poverty level in rural and remote areas.

The difference in minimum wages by economic activity is also reflected in the general salary which in 2000, was better for certain activities in the private sector such as Financial Establishment; Electricity, Gas and Water, Transport, storage and communications, and Education services (see Table 2-9)

On the other side, during the last decade, average salary has increased more rapidly in the public sector than in the private sector. It is appropriate to underline the huge difference of the average salary paid in the Canal Area, which exceeds by five times those salaries paid by the government and the public sector in the rest of the country (see Table 2-10).

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<sup>1/</sup> See Executive Decree No. 59 of July 19, 2000.

**Table 2-9 Number of Employees and Average Salary of Private Companies in the Republic of Panama, by Economic Activity: August 2000**

Economic Activity	Total Employees (people)	Total Salary (US\$)	Average Salary (US\$)	Percentage of total average salary (%)
<b>TOTAL</b> .....	<b>362,969</b>	<b>170,086,809</b>	<b>468.60</b>	<b>100.00</b>
Agriculture, livestock raising, hunting and forestry...	17,508	5,136,510	293.38	62.61
Fishing.....	1,911	790,260	413.53	88.25
Mining and Quarrying.....	736	305,258	414.75	88.51
Manufacturing.....	43,300	20,764,641	479.55	102.34
Electricity, gas and water.....	6,362	4,594,481	722.18	154.11
Construction.....	23,369	10,963,018	469.13	100.11
Wholesale and retail trade, motor vehicle repair, motorcycles, personal effects and domestic appliances.....	112,021	48,667,395	434.45	92.71
Hotels and restaurants.....	20,093	6,221,937	309.66	66.08
Transport, storage and communications.....	19,412	12,864,793	662.72	141.43
Financial establishment.....	21,142	16,356,349	773.64	165.10
Real estate, business and renting activities.....	32,741	15,578,785	475.82	101.54
Education.....	21,457	13,740,388	640.37	136.66
Social and health services activities.....	13,673	5,448,586	398.49	85.04
Other community, social and personal services activities.....	16,574	6,049,559	365.00	77.89

Source: Office of the Comptroller General. Labor Statistic

**Table 2-10. Monthly Average Salary in Private and Public Sectors, and in the Canal Area: 1991 - 2000**

Year	TOTAL	PRIVATE			PUBLIC				Canal Area
		Total	Private Companies	Banana Plantation Zones	Total	Central Government	Autonomous and Semi-Autonomous Organizations	Municipalities	
1991	485.96	388.33	384.44	461.40	458.07	426.00	424.13	282.87	1,741.25
1992	488.59	400.39	398.24	459.94	464.26	431.60	533.90	284.72	1,838.45
1993	510.50	416.91	415.66	451.27	488.34	449.46	567.10	290.06	1,912.74
1994	513.26	418.32	420.07	456.36	511.18	462.68	605.34	292.42	1,982.79
1995	568.90	491.49	500.60	556.08	513.67	474.33	594.85	302.01	2,185.98
1996	532.32	465.16	470.83	417.28	502.01	486.00	545.31	317.78	2,101.89
1997	542.23	476.64	482.07	440.03	520.52	493.69	588.23	324.31	2,246.12
1998	538.29	480.08	484.10	449.26	541.14	521.88	600.93	326.14	2,083.09
1999	540.90	488.25	491.92	441.38	514.36	472.80	610.19	353.89	2,755.03
2000	518.93	467.97	468.56	426.82	633.61	530.32	835.07	352.86	n.a.

n. a. Not available.

Source: Office of the Comptroller General. Labor Statistics.

## 2.3 Socioeconomic Situation

### 2.3.1 Employment Situation

Unemployment in the country is very high. In 2001, the unemployment rate reached 14.7% of the economically active population, representing 165,321 people. To this already alarming number of people who represent the so-called open unemployment, must be added the number of Panamanians who engaged in the informal labor sector, constituted by the denominated self-employed or family worker. In general, they are inserted in occupations of very low productivity, with no access to labor benefits, and a large number of them are in poverty situation.

A long-run analysis reveals that the unemployment problem is not new. Between 1985 and 2001, unemployment rate has stayed high, and more than one-third of the employed population is self-employed, denoting the existence of a serious problem in the labor market of a structural nature. The excess regulation in the labor market is counted among the factors leading to high unemployment rates.

**Table 2-11. Population aged 15 Years and over, in the Republic of Panama, by Category of Employment: 1985, 1991, 1995 and 2001**

Category of Employment	1985	1991	1995	2001
Economically Active Population.....	715,224	851,096	1,007,882	1,122,347
Employed Population.....	626,973	715,144	866,658	957,026
Wage earner.....	411,671	447,901	571,559	637,149
Self-employed and family worker.....	215,302	267,243	281,991	319,877
% Wage earner.....	65.7	63.0	67.0	62.9
% Self-employed and family worker.....	34.3	37.0	33.0	33.4
Unemployed Population.....	88,251	135,952	141,224	165,321
% of Unemployed .....	12.3	16.0	14.0	13.7

Source: Office of the Comptroller General. Household Surveys, 1985, 1991, 1995 and 2000

Unemployment does not affect all the Panamanians in the same way. It should be underlined that for young people between 15 and 29 years old, unemployment levels are

extremely high, while for women in the same age group, the situation becomes more alarming. This gap tends to increase as shown in Table 2-12

**Table 2-12. Unemployment Rate in the Country,  
By Sex and Age: 1986, 1991, 1995 and 1999  
(Percentage)**

Sex and age	1986	1991	1995	1999
<b>TOTAL.....</b>	<b>10.5</b>	<b>16.1</b>	<b>14.0</b>	<b>13.3</b>
<b>Men.....</b>	<b>8.7</b>	<b>12.8</b>	<b>10.8</b>	<b>9.7</b>
15-19.....	22.7	29.0	28.9	27.10
20-24.....	18.4	23.7	20.0	18.30
25-29.....	10.2	18.4	11.0	11.10
30-39.....	4.4	7.8	7.0	5.9
<b>Women.....</b>	<b>14.5</b>	<b>22.6</b>	<b>20.1</b>	<b>19.3</b>
15-19.....	33.0	45.7	35.6	39.8
20-24.....	31.3	38.7	27.3	34.9
25-29.....	14.8	30.7	27.3	24.4
30-39.....	8.2	15.1	15.6	18.8
<b>Relation W/M.....</b>	<b>66.7</b>	<b>76.6</b>	<b>86.1</b>	<b>99.0</b>
15-19.....	45.4	57.6	23.2	46.9
20-24.....	70.0	63.3	36.5	90.7
25-29.....	45.1	66.8	148.1	119.8
30-39.....	86.4	93.7	122.9	218.6

Source: Office of the Comptroller General.

### 2.3.2 Income Distribution

The concentration of the economic activity and investments in the area around the Canal has created great disparities between Panama City and the rest of the country. In fact, the poorest areas of the country are in provinces of the Interior of the country, which are farther from the capital city and with a great percentage of indigenous population, such as Darien, Bocas del Toro, Veraguas and the very indigenous regions. The differences between existing infrastructures in these regions and in Panama City are alarming.

Although Panama has a per capita GDP relatively higher than that of other countries in the Region, because of the income generated by the Canal, the Colon Free Zone and the International Financial Center, income distribution is one of the most unequal in Latin America.



In 1997, Gini coefficient was estimated in 0.49 for consumption and in 0.60 for income; whereas Gini ratio is 0.52 for urban areas and 0.56 for rural areas. <sup>2/</sup>

Recent studies have demonstrated the skewed income distribution. <sup>3/</sup> In 1997, the poorest 20% of the population hardly received 1.7% of the total income, while the highest 20% grasped 63% of the income. In 2000, the situation apparently improved since the lowest quintile obtained the 2.37% of the income, while the highest quintile received the 62.27%, as shown in Table 2-13.

**Table 2-13. Average Monthly Income by Decile for Panama: 1997 and 2000**

(In US\$)

Distribution by Decile	1997	2000
First.....	8.7	10
Second.....	23.2	30
Third.....	40.7	52
Quarter.....	60.4	74
Fifth.....	83.5	100
Sixth.....	115.1	132
Seventh.....	158.4	175
Eighth.....	225.8	240
Ninth.....	341.6	360
Tenth.....	855.3	952

Source: UNDP. National report on Human Development Panama 2002.

### 2.3.3 Poverty Levels

According to the 1997 Living Standard Survey, 37% of the population are poor, including 19% of extreme poor, that is, those whose income is not even enough to feed themselves. <sup>4/</sup>

<sup>2/</sup> / UNDP, National Report on Human Development Panama 2002. Page 94.

<sup>3/</sup> / UNDP, Op. Cit. Page 96

<sup>4/</sup> / See World Bank. Panamá: Study on Poverty, 2000.

**Table 2-14. Distribution of Poverty, by Geographic Area: 1997**

(In Thousands of People and Percentage)

Detail	Total Population		Absolute Poverty (1)		Extreme Poverty (2)	
	People	%	People	%	People	%
Total.....	2,732.3	100.0	1,020.1	37.3	514.8	18.8
Urban Area.....	1,518.6	55.6	232.0	15.3	47.3	3.1
Rural Area.....	1,213.7	44.4	788.1	64.9	467.5	38.5
Non-Indigenous.....	1,007.2	36.9	591.1	58.7	289.2	28.7
Indigenous.....	206.5	7.6	197.0	95.4	178.3	86.4
Panama City and District of San Miguelito (3)	778.6	28.5	90.1	11.6	19.5	2.5

(1) People whose consumption is less than US\$ 905 per year.

(2) People whose yearly consumption is less than US\$ 519, necessary to satisfy the minimum average daily calories requirement of 2,280

(3) Only the urban population.

Source: Ministry of Economy and Finances. Living Standard Survey-ENV 1997.

Poverty mainly strikes the rural area, where 65% are poor, particularly affecting the indigenous peoples, with 95% of absolute poverty and 86% of extreme poverty. Geography is a determining factor of this indigenous poverty since the great majority of native people live in the worst lands, in mountainous zones and remote or difficult-to-access areas.

In the urban area, poverty affects 15% of the population, corresponding to 22.7% of total poor people. Approximately 40% of the urban poor live in Panama City and the district of San Miguelito (more than 90.000 people).

One of the main characteristics of the poor is their smaller participation in the labor force. In particular, there exist high rates of unemployment among the urban poor. Urban unemployment is almost double of unemployment in rural and indigenous areas. The unemployment rate among the urban poor (12%) is almost double of that among the nonpoor people (7%). There also exists a strong relationship between poverty and employment in the informal sector. 70% of all the working poor engage in the informal sector (mainly in the agricultural, commercial, and service sectors), where incomes are lower.

Education is another determining factor of poverty condition. The poor have lower schooling level than the nonpoor. The nonpoor have on average 9.5 years of education, while the poor have 5,2 years.

### 2.3.4 Social Expenditure and Investment

A UNDP report reveals that the social expenditure has continuously grown during the 1980-1999 period, both in absolute and relative values, as a share of GDP. The amount has tripled in the last two decades; nevertheless, poverty still prevails. <sup>5/</sup> Some data about social expenditure are shown in Table 2-15.

**Table 2-15. Social Public Expenditure of the Central Government:  
1980, 1990 and 1999**

Detail	1980	1990	1999
<b>Social Public Expenditure (SPE)</b>			
Total (in Million US\$).....	<u>477.1</u>	<u>845.5</u>	<u>1,845.3</u>
Education and Culture.....	161.9	217.1	453.8
Health.....	159.5	249.9	537.4
Labor and Social Protection.....	15.9	70.6	162.8
Pensions and Retirements.....	91.0	249.1	524.1
Housing and Basic Services.....	33.2	43.7	72.2
Community Development Promotion.....	15.6	15.2	95.1
<b>Percentage of Current Expenditure</b>			
Total SPE (%).....	<u>91.4</u>	<u>98.4</u>	<u>91.7</u>
Education and Culture.....	89.9	98.8	98.2
Health.....	96.7	99.1	90.0
Labor and Social Protection.....	99.4	95.6	99.8
Pensions and Retirements.....	100.0	100.0	100.0
Housing and Basic Services.....	52.4	90.2	56.0
Community Development Promotion.....	80.1	89.5	36.7
GDP (in current Million US\$).....	3,810.3	5,313.2	9,556.6
Total population (Thousands of people)....	1,949.7	2,397.5	2,811.7
SPE/GDP Ratio (1) .....	12.5%	15.9%	19.3%
GDP per capita (In US\$) (1).....	1,954	2,216	3,399
SPE per capita (In US\$) (1)	245	353	656

(1) Own calculations based on the information from the Source

Source: UNDP. National Report on Human Development. Panama 2002.

<sup>5</sup> / UNDP. National Report on Human Development. Panama 2002. Page 189

It is pointed out that in spite of having a relatively high level of total social expenditure and basic social services, in comparison with other countries in the same situation, Panama has not achieved similar indicators. This implies that there are problems in terms of coverage, amount, equity, efficiency and impact. In particular, the poor groups have limited access to education, health and other basic services.

### 2.3.6 Education

Education is provided to a large extent by the public sector, mainly at the Primary Education level, accounting for 90% of enrollment (see Table 2-16). Nevertheless, in the last decade there has been an increase in the enrollment of the private educational institutions, particularly at the university level.

**Table 2-16. Enrollment in Pre-primary, Primary, High School and University Education: 1990 and 2001**

Detail	1990			2001 (p)		
	Total	Official	%	Total	Official	%
Preprimary.....	30,719	22,505	73.3	60,471	46,751	77.3
Primary.....	351,021	323,547	92.2	400,408	360,793	90.1
High School.....	195,903	165,062	84.3	234,153	197,410	84.3
University.....	52,510	46,990	89.5	117,806	94,527	80.2

(P) Preliminary

Source: Office of the Comptroller General. Panama en Cifras.

Indicators reflect a great progress in education in the last decade (1990-2000), mainly as a result of the increase of the public investment, that grew in average at an annual rate of 9.7% during the decade. <sup>6/</sup> Nevertheless, in spite of the improvement in the educational indicators, there is still a noticeable inequality between the rural and the urban areas (see Table 2-17).

<sup>6/</sup> / UNDP. National Report on Human Development. Panama 2002. Page 155.

**Table 2-17. Some Indicators of Education in Panama:  
1990 and 2000**

Detail	1990	2000
Average Education level (10 years and over) (years) (1).....	6.7	7.5
Average schooling (15 years and more of age) (years).....	7.7	8.6
Urban.....	9.4	10.0
Rural.....	5.4	5.9
Illiteracy Rate (10 years or more of age) (%).....	10.7	7.6
Urban.....	3.6	2.6
Rural.....	19.7	16.7
Literacy Rate (10 years or more of age) (%).....	89.3	92.4
Urban.....	96.4	97.4
Rural.....	80.3	83.3
Literacy Rate (between 10 and 24 years of age) (%).....	93.5	95.9
Urban.....	97.8	98.9
Rural.....	88.5	91.1
Combined attendance rate (%)..(2).....	62.5	68.2
Urban.....	71.2	72.8
Rural.....	53.1	61.4
<b>Coverage in Education by age</b>		
4-5 years.....	24.3	39.4
6-11 years.....	92.6	99.3
12-17 years.....	65.8	72.1 (1999)
<b>Coverage of primary education</b>		
Urban.....	96	95.5 (1999)
Rural.....	85.4	93 (1999)
<b>Rate of school retention</b>		
Primary.....	64.9	70.2 (1999)
Average.....	40.6	43.9 (1998)
<b>Rate of school reprobation</b>		
First grade.....	17.4	12.5 (1999)
Primary.....	10.6	6.4
High School.....	12.3	8.4 (1999)
<b>Rate of school dropout</b>		
Primary.....	1.9	2.1
High School.....	5.3	4.1 (1999)
<b>Cost of Education by student (in US\$)</b>		
Preprimary and Primary.....	269.74	403.17
High School.....	336.07	595.62
University.....	1,091.00	1,157.86
<b>Percentage of educators with superior education (%).....</b>	55.9	68.3
Urban.....	64.0	74.0
Rural.....	30.7	48.8
Gross rate of primary schooling.....	106.2	109.5
Net rate of primary schooling.....	92.6	97.7
Rate of repetition in first degree.....	14.3	13.5 (1999)
Rate of repetition in primary school.....	6.1	9.1 (1999)
Rate of primary graduation.....	65	75.1 (1999)
Rate of enrollment in first year of high school.....	94	94 (1999)

(1) Average of the highest grade approved.

(2) Attendance to primary, secondary and superior education, of population from 6 to 24 years old

Source: Office of the Comptroller General, Censuses of Population and Housing 1990 and 2000. and UNDP, National Report on Human Development. Panama 2002

### 2.3.7 Health

Concerning health, the country has also achieved a significant progress in the 1990-2000 period leading to an increase in life expectancy at birth, both for men and women, as shown in Table 2-18.

**Table 2-18. Some Indicators of Health in Panama:  
1990 and 2000**

Detail	1990	2000
Life expectancy at birth.....	<u>72.2</u>	<u>74.2</u>
Men.....	69.8	71.8
Women.....	74.7	76.8
Gross Natality rate (thousand inhabitants).....	<u>25.0</u>	<u>22.7</u>
Urban.....	21.2	20.3
Rural.....	29.3	25.8
Gross Mortality rate (thousand inhabitants).....	<u>4.1</u>	<u>4.1</u>
Urban.....	4.1	4.3
Rural.....	4.1	3.9
Infant Mortality Rate (thousand live births).....	<u>18.9</u>	<u>16.7</u>
Urban.....	17.9	15.7
Rural.....	19.7	17.7
Maternal Mortality Rate (thousand live births).....	<u>0.5</u>	<u>0.6</u>
Urban.....	0.3	0.3
Rural.....	0.8	0.9
Percentage of Live Births with professional help.....	<u>86.3</u>	<u>90.5</u>
Urban.....	99.3	99.6
Rural.....	75.4	81.3
Health Facilities.....	669	769
Hospitals.....	55	59
Health Centers and polyclinics.....	181	223
Health sub-centers and posts.....	433	487
Inhabitants per doctor (1).....	872	790
Inhabitants per nurse (1).....	975	869
Inhabitants per dentist (1).....	4,738	3,461
Beds per 1.000 inhabitants.....	3.0	2.6
Total population.....	2,329,329	2,839,177
Population protected by Social Security.....	<u>1,218,660</u>	<u>1,996,825</u>
Active Security contributors.....	398,300	661,285
Pensioned Security contributors.....	82,500	129,761
Employees.....	737,860	1,205,779
% of protected population.....	52.3	70.3
% of dependency.....	60.5	60.4

(1) Based on estimates of total population, on the July 1 of the respective year.  
Source: Office of the Comptroller General, Panama en Cifras, 1995 and 2002

As in the case of education, in the rural area, there exists a large percentage of the population not covered by health services, mainly, among dispersed, indigenous populations. Most of the health facilities are located in the urban areas.

### 2.3.8 Basic Infrastructure

In the last decade there has also been a significant advance in the provision of basic infrastructure to households, although a full coverage is yet to be achieved, especially in the rural areas. The coverage of water supply is 98% in the urban areas and only 74.5% in the rural areas. On the other hand, about 83% of houses in rural areas and 99% in the urban area do have some kind of system for the disposal of human excretes. The coverage of electricity is smaller since it only reaches 81.4% of the houses.

**Table 2-19. Coverage of Basic Services: 1990 and 2000**

Detail	1990	2000
<b>Total of houses in the country</b> .....	<u>525,236</u>	<u>681,799</u>
% Without potable water.....	19.3	10.2
% Without sanitary facilities.....	11.9	6.9
% Without electricity.....	27.2	18.6
<b>Urbana Area</b>		
% Without potable water.....	2.6	2.0
% Without sanitary facilities.....	1.6	1.4
<b>Rural Area</b>		
% Without potable water.....	40.8	25.5
% Without sanitary facilities.....	25.2	16.9
<b>District of Panama</b>		
% Without potable water.....	4.9	2.7
% Without sanitary facilities.....	1.9	1.4
<b>District of San Miguelito</b>		
% Without potable water.....	0.4	0.4
% Without sanitary facilities.....	1.9	1.4

Source: Office of the Comptroller General, Censuses of Population and Housing, 1990 and 2000, and UNDP, National Report on Human Development, Panama 2002

The coverage of basic services in the district of Panama is smaller in comparison with the district of San Miguelito because the district of Panama has rural areas. According to the 2000 census, the population of the district of Panama is of 708,438 people, of whom 679,794 (96%) live in urban areas and 28,644 (4%) in rural areas.

## **2.4 National Development Plan**

### **2.4.1 General Content of the Plan**

The economic and social policy of the government is contained in the "Economic, Social and Financial Development Plan with Investment in Human Capital". This Plan is aimed "to obtain economic growth with social equity and to prepare to all the productive sectors and the society in general, to face the new challenge that constitutes the integration of the regional markets to the Free Trade Association of the Americas (FTAA)". <sup>7/</sup> This plan is divided into three separated but interrelated segments, namely: the Economic Policy, the Social Policy and the Financial Strategy.

#### **1) Economic Policy**

The Economic Policy is based on the principles of a free market economy with social solidarity. Basically, the Economic Policy is directed to solve the main economic problems: unemployment, the wide levels of poverty, the bad income distribution and the high level of indebtedness, through the promotion of the growth of the exports of goods and services, the increase of the efficiency and productivity in the use of the national resources, and the elimination of the distortions and barriers to free competition in order to promote and to attract investment.

#### **2) Social Policy**

The Social Policy is aimed to promote a sustainable human development and to obtain a systematic, lasting reduction in poverty, the integration of the marginalized groups into development and a more equitable distribution of wealth. Additionally, concrete goals of poverty reduction are defined, at the rate of two percentage points per year, with the purpose of reducing the proportion of poor population from 37% to 27% by the year 2004.

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<sup>7</sup> / MEF. Economic, Social and Financial Development Plan With Investment in Human Capital. February 2000. Page 3.



### **3) Financial Strategy**

The Financial Strategy proposes the reduction of the level of the external debt, by using the resources of the Fiduciary Fund for the purchase of Brady Bonds. Also, it proposes to finance the Social Investment Program through the resources originating in the sale of the stocks of the telephone company Cable & Wireless that are currently in the hands of the State. It also stated forward a Tax Reform including the elimination of low-yield taxes, the extension of the coverage of other taxes and the modernization of the tax collection mechanisms.

#### **2.4.2 Review of the Policy related to Employment and the Micro and Small Enterprises. Relevance of this Study**

In the light of the strategy of the present government, this Study on urban poverty, specifically in San Miguelito, and the promotion of the employment of young people, mainly through the creation of their own companies and the promotion of employment, becomes relevant.

Within its Economic Policy, the Government considers, as a key factor, the development of the agricultural, industrial companies and the small enterprise, with the purpose of strengthening domestic production, for which it has set forward some measures regarding import tariff, financing and support to the adoption of technology and the commercial management. Recently, the Authority of the Micro, Small and Medium Enterprise (AMPYME) was created with the purpose of helping to facilitate and to stimulate the creation of enterprises.

In order to increase employment, the Government is also determined to support the formation and operation of the micro-enterprises, mainly in the poorest areas. It will also promote vocational training to increase labor productivity.

With the objective of promoting the sustainable human development and reducing the poverty levels, the government has committed itself “to extend the access to infrastructure, credit, technical assistance, appropriate technology, training, and the commercialization channels, for micro, small and medium enterprise, so as to increase their participation in the creation and distribution of national income”.

Also, Urban Poverty appears as one of the high-priority areas in the Government’s social agenda. In particular, the government plans to reduce it through programs directed "to increase the productivity of the enterprises and activities that are characteristic of the informal sector, so that they improve the quality of the employment that they generate and they can advance gradually towards formality. For this, "the growth of micro, small and medium enterprises will be promoted", through credit and technical assistance, and "deepening their connection with the most modern sectors of the economy, both renders of services and suppliers of final goods and intermediate goods or inputs". <sup>8</sup> /

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<sup>8</sup> / MEF. Op. Cit. Page 12.

### **III. SOCIOECONOMIC CONDITION OF THE DISTRICT OF SAN MIGUELITO**

#### **3.1 General Aspects of the District**

The district of San Miguelito is located in the Province of Panama, with a surface of 50 kilometers square, approximately. It forms a part of the denominated Metropolitan Region. It is completely immersed within the district of Panama, although they are two autonomous municipalities, independent from each other.

The limits of the district are as follows: on the North, it limits with the Corregimiento of Alcalde Diaz and Las Cumbres; on the South, with the corregimientos of Bethania, Pueblo Nuevo, Rio Abajo and Juan Diaz; on the East, the Juan Diaz River; and on the West with the Corregimiento of Ancon (see the Map of Location of the Study Area).

The district of San Miguelito is divided in 9 corregimientos, namely: Amelia Denis De Icaza, Belisario Porras, Jose Domingo Espinar, Mateo Iturralde, Victoriano Lorenzo, Arnulfo Arias, Belisario Frias, Omar Torrijos and Rufina Alfaro. The last four corregimientos were recently created by Law 21 of June 27, 2000.

#### **3.2 Historical Background**

The taking advantage of the geographic position of the country has played an important role in the urban-rural migration and, therefore, in the growth of the population in San Miguelito.

The construction of such major infrastructures as the Trans-Isthmian Railroad and the Panama Canal attracted a great number of immigrants and people coming from the Interior of the country in search of employment. Upon the conclusion of these constructions, the unemployed population was expelled towards the peripheral areas of the terminal cities (Panama and Colon), including the area which is nowadays the District of San Miguelito.

In fact, between 1904 and 1914, because of the works of the construction of the Canal, the government of Panama was forced to relocate the population established in the Canal area, towards the areas of which the District formed part. At that time, the lands where this population was relocated were private, which caused the land expropriation. <sup>1/</sup>

Between 1939 and 1945, there was also a significant inflow of foreigners and peasant people towards the Capital City attracted by the employment opportunities created in the transit area, during World War II. <sup>2/</sup>

According to a research study conducted by ICASE <sup>3/</sup>, other aspects that motivated the displacement of the population towards this sector were the following:

- The tenants' revolt crisis during 1925-1932, caused by an increase in housing rents by 50%.
- The numerous houses condemned in the areas of El Marañón and El Chorrillo
- The high cost of the houses that were constructed in Panama City.

Another fact that helped to consolidate the district was the level of organization achieved. In effect, in 1946 was founded the first association, conformed by 6,000 members under the leadership of Belisario Frias, one of the precursors of the creation of San Miguelito. The objective of this association was to solve the problems related to lands and housing in general. In 1952 this sector was named San Miguelito.

In 1955 the Institute of Housing and Urbanism started a land legalization program and in 1958, an urbanization program.

In the same way, pressures were exerted on the government to turn the community into a Corregimiento of the Capital City, which was created on June 23, 1960 by the Municipal

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<sup>1/</sup> Municipality of San Miguelito, "Memoria 2000" (Yearbook 2000), Page 1

<sup>2/</sup> Herasto Reyes, "Historia de San Miguelito" (History of San Miguelito), 1981.

<sup>3/</sup> ICASE. "Investigation Diagnostica del Distrito de San Miguelito" (Diagnostics of the District of San Miguelito), 1974.

Agreement No. 70 of the Council of the Municipality of Panama. By 1960, San Miguelito already had 12,975 inhabitants and 2,600 houses, of which the majority were considered "witch houses", so called because they were illegally constructed overnight, with materials like wood, cardboard and zinc, generally on invaded lands.

In 1960 the Christian Community of San Miguelito was also organized. In 1963 the Archdiocese Mission of Chicago was established in the area of San Miguelito, having a great influence in the development of the community, and a large number of religious-type organizations was created.

In 1966 new civic organizations were settled down, such as the Altos del Cristo Society, the Housing Committee, the Drivers' Union, Community Watching Committee, and Paraiso Dwellers. The objective of these organizations was to obtain the legal property on lands.

On July 30, 1970, through Cabinet Decree No. 258, the Special District of San Miguelito was created, with a special administrative regime represented by the Community Assembly and a Council of Directors.

### **3.3 Population**

According to the Population and Housing Census conducted in Panama in 2000, San Miguelito has a population of 293,745 inhabitants and comprises an area of approximately 50 square kilometers, which represents an average population density of 5,874.9 per sq. km. This density surpasses the national average, which is only 37.6, by 156 times. This means that district of San Miguelito is characterized by a high population concentration since it houses 21.2 percent of the population of the province of Panama; while it only has 0.4 percent of the province's territory (see the Map of the Study Area).

It is worth mentioning that the density of population presents such extreme cases as the Corregimiento of Mateo Iturralde which has up to 12,607 inhabitants per square kilometer. The following table reveals this situation:

**Table 3-1 Area, Population, and Population Density in the Republic of Panama and in the District of San Miguelito, by corregimiento: 2000**

Country, district, and corregimiento	Area (Km2)	Population	Density
Country.....	75,517	2,839,177	37.7
San Miguelito District.....	50.0	293,745	5,874.9
-Amelia Denis de Icaza.....	3.8	38,522	10,137.4
-Belisario Porras.....	4.0	49,802	12,450.5
-José Domingo Espinar.....	7.1	35,301	4,971.9
-Mateo Iturralde.....	1.0	12,607	12,607
-Victoriano Lorenzo.....	2.0	17,328	8,664
-Arnulfo Arias.....	7.4	30,502	4,121.9
-Belisario Frías.....	4.3	46,794	10,882.3
-Omar Torrijos.....	11.0	37,650	3,422.7
-Rufina Alfaro.....	9.5	25,239	2,656.7

Source: Office of the Comptroller General. 2000 Census.

The district of San Miguelito showed the highest population growth rates during the 1960 and 1970 censuses. However, the last censuses revealed that its trend of growth has slowed down because of the lack of space in the area, less government tolerance to invasions, as well as the development of new areas of attraction for people, in particular the reverted areas in Arraijan. The changes in population are shown in the following table:

**Table 3-2. Population of the Country and San Miguelito, according to the Census: 1950, 1960, 1970, 1980, 1990 and 2000**

Census	Country	San Miguelito			
		Population	Proportion of the country	Growth	
				Absolute	Relative
1950.....	805,285	1,237	0.15	--	--
1960.....	1,075,541	12,975	1.2	11,738	26.5
1970.....	1,428,082	68,400	4.8	55,425	18.1
1980.....	1,805,287	156,611	8.7	88,211	8.6
1990.....	2,329,329	243,611	10.5	87,000	4.5
2000.....	2,839,177	293,745	10.3	50,134	1.89
Average...					11.92

Source: Office of the General Comptroller, Censuses from 1950 to 2000.