United States General Accounting Office

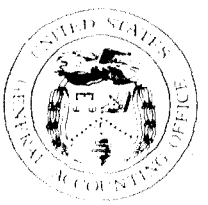
GAO

Report to Congressional Requesters

April 1991

AID TO PANAMA

Status of Emergency Assistance to Revitalize the Economy



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United States
General Accounting Office
Washington, D.C. 20548

National Security and
International Affairs Division

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April 8, 1991

The Honorable Robert C. Byrd
Chairman, Committee on Appropriations
United States Senate

The Honorable Claiborne Pell
Chairman, Committee on Foreign Relations
United States Senate

The Honorable Jamie L. Whitten
Chairman, Committee on Appropriations
House of Representatives

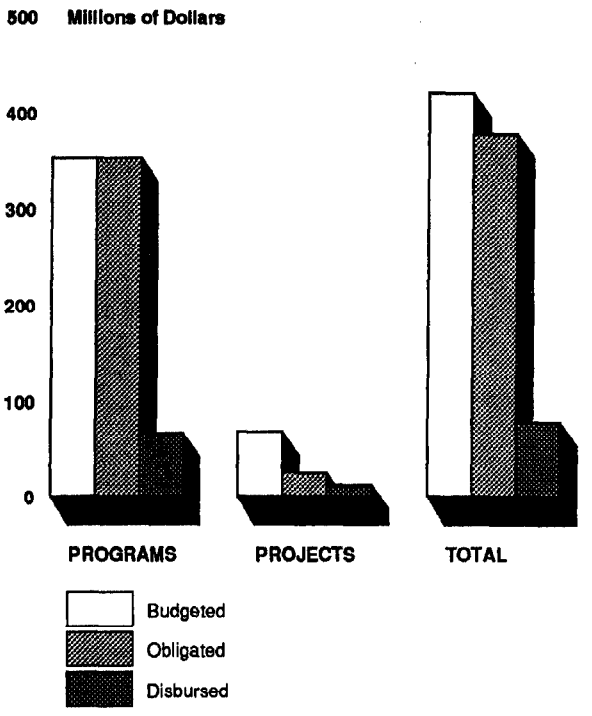
The Honorable Dante B. Fascell
Chairman, Committee on Foreign Affairs
House of Representatives

On January 25, 1990, the President requested $500 million in emergency support for the government of Panama to reverse the effects of more than 2 years of U.S. economic sanctions and of the U.S. military action in December 1989. On May 25, 1990, Congress provided $420 million in the Dire Emergency Supplemental Appropriations Act (P.L. 101-302). The Agency for International Development (AID) allocated these funds to three program areas: economic recovery, private sector reactivation, and development projects. The legislation requires that we report by January 15, 1992, on the effectiveness of this assistance. As requested by your offices, this interim report provides information on the status of the programs and projects underway and being developed.

Results in Brief

Of the $420 million Congress appropriated to "jump start" the Panamanian economy, $377.5 million had been obligated by AID as of February 28, 1991. This included all the $351.8 million planned for cash transfers under the economic recovery and private sector reactivation programs and $25.7 million of the $68 million budgeted for development projects and operating expenses. Although agreements have been signed with the government of Panama and other recipients to obligate nearly 90 percent of the Dire Emergency Act funds, AID has disbursed only about $77.9 million (about 19 percent of the amount appropriated). Even less, about $41.8 million, has actually been spent by the Panamanian government or AID (see fig. 1).

Figure 1: Status of Dire Emergency Funds for Panama



Note: Figures are as of February 28, 1991.

Source: AID mission in Panama.

According to AID officials in Panama, the disbursement of funds to the government of Panama and other recipients has been slowed because

- the Panamanian government has not met certain conditions contained in the grant agreements necessary before cash disbursements can be made,
- the Panamanian government and three international financial institutions have not completed an agreement under which Panama will pay off its arrears to the financial institutions,
- uncertainties over Panama's long-term prospects for recovery have weakened demand for private sector loans, and
- AID projects are still being developed as a result of AID's initial emphasis on the cash transfer programs.

Despite the slow infusion of U.S. assistance into the Panamanian economy, the government of Panama reported that its economy grew by 3.4 percent in real terms during 1990 over the previous year's level.

Almost all economic sectors except transportation and government services experienced increases from the previous year's level; however, the economic output of all sectors except agriculture and domestic services remained below that of 1987—the year economic sanctions were imposed on Panama.

Economic Recovery Program

The Economic Recovery Program is a two-part program costing $244 million. AID and the government of Panama have entered into grant agreements under which all of this amount has been obligated, and which defines the process for making funds available to Panama. According to this process, access to these funds by the government of Panama is dependent upon its satisfying certain conditions. Once the conditions are met, AID authorizes the U.S. Treasury to disburse funds into the government of Panama's account in the Federal Reserve Bank of New York. As funds are needed by the government of Panama, they are transferred to its accounts in U.S. banks in Miami. This process applies also to the private sector reactivation programs.

The first part of the Economic Recovery Program consists of $130 million to help Panama pay off its arrears of $540 million to the International Monetary Fund, the International Bank for Reconstruction and Development (World Bank), and the Inter-American Development Bank. Although this money has been obligated, none has been disbursed because agreements and commitments have not been obtained from other donor countries on the additional contributions needed to pay this Panamanian debt.

The second part of the program includes $114 million to improve services in agriculture, health, education, justice, and other public sectors designated by the government of Panama. About $30 million has been disbursed by AID into a government of Panama account in the Federal Reserve Bank of New York. About $8.7 million of this has been transferred from its account by the government of Panama, and the remaining $21.1 million is available to the government of Panama on request. AID will disburse the remaining $84 million when conditions in the agreement are met by the government of Panama and after the U.S. and Panamanian governments sign the Mutual Legal Assistance Treaty.

Private Sector Reactivation Program

The Private Sector Reactivation Program provides $108 million to the National Bank of Panama for use by Panamanian banks to expand the availability of credit to Panamanian businesses. Although an agreement

has been signed under which all of this money has been obligated, only $36 million has been disbursed to a government of Panama account in the Federal Reserve Bank of New York for eventual transfer to private banks. As of February 28, 1991, about $21.1 million of these funds had been transferred from this account to the National Bank of Panama for loans to Panamanian businesses.

AID will disburse the remaining $72 million to the Federal Reserve account in two additional tranches after the first $36 million has been provided to private banks in Panama. AID officials in Panama said that uncertainties about Panama's future slowed early use of the funds by Panamanian businesses. We were told, however, that this problem has been overcome and more funds were loaned out in this program during February 1991 than in the previous 5 months combined.

Development Projects

AID plans to spend $68 million on various development projects and to cover mission operating expenses in Panama. As of February 28, 1991, $25.7 million had been obligated and $12 million had been disbursed. Some projects, including one aimed at improving police services, two scholarship programs, and four activities related to democratic initiatives, are underway. Other projects, such as those concerning the administration of justice, tax administration, and financial management reform, are awaiting the government of Panama's signature on the agreements. Still other projects, involving natural resource management and trade promotion, are being developed and have not been approved by AID.

AID officials in Panama told us that the mission concentrated its past efforts on the cash transfer programs, slowing its progress on the development projects. The mission has established target dates for implementing these projects, but success in meeting their dates will depend upon the progress of negotiations with the government of Panama and other entities involved in the projects.

Measures of Effectiveness

The AID mission in Panama is developing its Country Development Strategy Statement and expects to complete it by April 1991. The statement is designed to establish a baseline of data from which to measure the effectiveness of the cash transfer programs and the development projects. AID officials in Panama believe sufficient indicators will be available by January 1992 to make an assessment of progress, particularly regarding the cash transfer programs.

The cash transfer programs and development projects are being reviewed by the AID mission in Panama, the AID Regional Inspector General's office, and through an AID contract with the accounting firm Price Waterhouse.

Appendix I shows a breakdown of amounts budgeted, obligated, and disbursed, by program and project. Appendixes II and III contain descriptions of the AID programs and projects and their current status.

Scope and Methodology

To determine the status of the assistance programs and projects, we interviewed officials of the U.S. Embassy in Panama; AID in Washington, D.C., and in Panama; and the U.S. Department of State. We also reviewed program documents from each agency.

We were unable to evaluate accomplishments associated with the programs and projects because they were all in early stages of implementation. We also did not evaluate internal controls in AID's system of management because legislation assigns this responsibility to the AID Regional Inspector General. The Inspector General reported on management weaknesses in February 1991, and although we did not independently validate its findings, we included reported observations as appropriate.

We conducted our review between November 1990 and March 1991 in accordance with generally accepted government auditing standards.

We did not obtain official agency comments; however, we discussed the contents of this report with AID officials in Washington, D.C., and with AID mission and U.S. Embassy officials in Panama. They generally agreed with the information in this report, and we have incorporated their comments where appropriate.

As arranged with your office, unless you publicly announce its contents earlier, we plan no further distribution of this report until 7 days from the date of this letter. At that time, we will send copies to the Secretary of State; the Administrator, Agency for International Development; and the Director of the Office of Management and Budget. We will also make copies available to other interested parties upon request.

The major contributors to this report were Donald L. Patton, Assistant Director; Oliver G. Harter, Evaluator-in-Charge; Luis Escalante, Jr., Site

Senior; and James A. Morgan, Evaluator. Please contact me at (202) 275-5790 if you or your staff have any questions or need additional information concerning this report.

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Director, Foreign Economic
Assistance Issues

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Abbreviations

AID Agency for International Development

Status of the Dire Emergency Assistance Package to Panama as of February 28, 1991

Dollars in thousands

Category of Assistance	Budgeted	Obligated	Disbursed
Program			
Economic Recovery Program			
Payment of arrears	$130,000	$130,000	0
Public investment	113,850	113,850	$29,850[a]
Private Sector Reactivation Program	107,900	107,900	36,000[a]
Total	**351,750**	**351,750**	**65,850**
Project			
Improved Administration of Justice	6,900	0	0
Financial Management Reform	4,500	0	0
Economic Policy Reform	3,100	0	0
Tax Administration Improvement	1,600	0	0
Natural Resource Management	10,000	0	0
Central American Peace Scholarships	6,000	5,450	0
PANAJURU Local Scholarships	500	500	0
Private Sector Scholarships	500	0	0
Improving Police Services	13,200	7,409	4,588
Democratic Initiatives	2,100	1,400	597
Trade Promotion	2,000	0	0
Immediate Recovery Program (Housing)	8,275	6,435	3,214
Reimbursement to Office of Foreign Disaster Assistance	2,500	2,500	2,500
U.S. Information Agency Training	500	500	0
Peace Corps	100	100	40
Labor Union Development	500	500	500
Operating and Project Development Expenses	5,975	932	607
Total	**68,250**	**25,726**	**12,046**
Grand total	**$420,000**	**$377,476**	**$77,896**

[a]Although funds have been disbursed to the government of Panama and other recipients, not all had been used as of February 28, 1991. For example, of the $30 million disbursed for public sector support, only $8.7 million had been used. Of the $36 million disbursed to provide credit in the private sector, only $21.1 million had been withdrawn by Panamanian banks.

Source: AID Panama.

AID's Cash Transfer Programs

AID's cash transfer programs consist of two elements. One element is a two-part cash infusion called the Economic Recovery Program to help pay off the government of Panama's arrears to international financial institutions and to provide funds to improve services in various public sectors, such as health and agriculture. The second element is the Private Sector Reactivation Program, which provides funds through the National Bank of Panama to Panamanian banks to support expansion of medium- and long-term credit to the private sector. A total of $351.8 million has been budgeted and obligated for these activities.

Economic Recovery Program

On July 3, 1990, the government of Panama and AID signed the $243.9 million Economic Recovery Program grant agreement. This agreement provides $130 million in cash transfers as a contribution to a multi-donor support group fund to clear Panama's arrears with international financial institutions. Another $113.9 million is provided under the agreement to support the government of Panama's public sector investment budget.

Four conditions were established in the grant agreement that must be met before funds may be disbursed to the government of Panama for either purpose. The government of Panama must

- provide evidence that the grant agreement has been ratified and executed and that it constitutes a valid and legally binding obligation;
- provide AID with the names of the persons administering the programs;
- establish a separate, interest-bearing dollar account in the Federal Reserve Bank of New York into which AID will disburse the grant funds; and
- describe the mechanism by which funds will be disbursed from the separate account, including requirements for supporting documentation for each withdrawal, financial management and reporting procedures, and provisions for independent financial review.

For both cash transfer programs, the National Bank of Panama handles the banking transactions, and the Ministry of Planning and Economic Policy and the Comptroller General of the Republic jointly order the transactions. On October 3, 1990, AID certified that the government of Panama had complied with these four conditions; however, Panama has not met some other conditions that apply specifically to certain programs.

Normalization of Relations With International Financial Institutions (No. 525-0303)

Amount Budgeted: $130 million
Amount Obligated: $130 million
Amount Disbursed: 0

Panama is $540 million in arrears to the International Monetary Fund, the International Bank for Reconstruction and Development (World Bank), and the Inter-American Development Bank. Clearing these arrears is essential before the government can reestablish credit.

Of this $540 million, $130 million will be paid by AID through this program; the remaining $410 million will be satisfied through a $130 million loan from other donor countries (primarily Japan, Taiwan, France, and Italy), a $150 million U.S. Treasury bridge loan, and a $130 million contribution from Panama.

Conditions to Disbursement

The government of Panama must meet the following conditions before AID will authorize disbursement of the $130 million to the government of Panama account in the Federal Reserve Bank of New York:

- adopt a short-term economic stabilization program that meets International Monetary Fund requirements;
- set aside $130 million to be used as Panama's contribution to the clearing of arrears with the international financial institutions;
- accumulate no additional arrears to the international financial institutions after December 31, 1989, or after another date as agreed to by AID in writing; and
- have all sources of funding in place to repay the entire $540 million in arrears.

Once these conditions are met and AID authorizes the deposit of the funds into the Federal Reserve Bank of New York, the government of Panama will repay the international financial institutions directly from withdrawals from this account.

Status of the Program

As of February 28, 1991, AID had not authorized disbursement of the $130 million into the Federal Reserve Bank of New York because only the first three of these four conditions had been satisfied. AID officials estimated that the donor countries, the international financial institutions, and the government of Panama will reach agreement by June 1991 on the terms that will allow the arrears to be paid.

Public Investment Program (No. 525-0303)

Amount Budgeted: $113.9 million
Amount Obligated: $113.9 million
Amount Disbursed: $29.9 million

Funds from this program support improvements in agriculture; health, education, justice, and other social sectors; natural resources; and infrastructure projects designated by the government of Panama as most necessary for rapid reactivation of the economy and creation of short-term employment.

Funds will be disbursed into the Federal Reserve Bank of New York in three tranches after the government of Panama meets specific conditions for each tranche. Funds are to be withdrawn monthly on the basis of financing needs as determined by the government of Panama. AID officials will review each withdrawal request, and the amount approved will be transferred to the National Bank of Panama to be available for use by the government of Panama. Funds transferred to the account at the National Bank of Panama will be commingled with other government of Panama funds.

Conditions to Disbursement

A first tranche of $29.9 million has been deposited into the Federal Reserve Bank of New York. Before AID authorizes a second tranche of $42 million, the government of Panama must

- reach an agreement on a medium-term economic reactivation program supported by the World Bank and the Inter-American Development Bank;
- make acceptable progress in implementing policy reforms in the areas of public sector finance, privatization, labor policy, and trade and commercial policy; and
- reach an agreement with the U.S. government to exchange records on international currency transactions in connection with narcotics investigations and proceedings and make steady progress toward signing the Mutual Legal Assistance Treaty.

A third tranche of $42 million will be disbursed when the government of Panama

- has received the first tranches of assistance from the World Bank and Inter-American Development Bank in support of a medium-term economic reactivation program;

- makes satisfactory progress toward signing the Mutual Legal Assistance Treaty; and
- makes acceptable progress in implementing policy reforms in the areas of public sector finance, privatization, labor policy, and trade and commercial policy.

Status of the Program

On October 19, 1990, the government of Panama met the conditions necessary to disburse the first tranche of $29.9 million, which was deposited on October 23, 1990, into the government of Panama's account at the Federal Reserve Bank of New York. Of this amount, $8.7 million had been transferred to the National Bank of Panama as of February 28, 1991, for the government of Panama's use. Since the funds are commingled with government of Panama funds for the same purpose, AID is unable to determine how much of the U.S. funds has been spent in this program.

Private Sector Reactivation Program (No. 525-0304)

Amount Budgeted: $107.9 million
Amount Obligated: $107.9 million
Amount Disbursed: $36.0 million

The Private Sector Reactivation Program provides $107.9 million in assistance to increase bank credit to the private sector in Panama. In addition, an unspecified portion of the funds is available to help banks remain solvent if a run on deposits occurred as a result of the lifting of U.S. sanctions that initially froze certificates of deposit. None of the funds have been needed for this latter purpose.

These funds have been or will be disbursed in three tranches to a government of Panama account in the Federal Reserve Bank of New York. Private Panamanian banks wishing to expand their loan portfolios submit to the National Bank of Panama a description of new loans for investments in new plants and equipment, incremental working capital, and mortgages for newly constructed houses and buildings. If the loans meet the requirements of the program, the National Bank of Panama requests the direct transfer of funds from its account in the Federal Reserve Bank of New York to the participating private banks in Panama. The program finances up to 50 percent of the credit expansion, with the other 50 percent provided from private sector resources.

Conditions to Disbursement

The government of Panama met four conditions before the first tranche of $36 million was deposited into the Federal Reserve Bank of New York. Specifically, the government of Panama

- provided evidence that the grant agreement had been ratified and executed by the government of Panama and that it constituted a valid and legally binding obligation;
- provided AID with the names of the persons administering the program;
- established a separate interest-bearing dollar account at the Federal Reserve Bank of New York into which AID will disburse the grant funds; and
- established and staffed the Program Management Unit in the National Bank of Panama to assist in administering this program.

Before the second tranche of $36 million and third tranche of $35.9 million can be disbursed, the funds previously provided must be used.

Status of the Program

On July 24, 1990, the government of Panama and AID signed a grant agreement. On September 5, 1990, AID mission officials certified that the conditions had been satisfied and disbursed the first tranche of $36 million. As of February 28, 1991, $21.1 million had been withdrawn from the separate account and provided to private banks in Panama. According to AID officials in Panama, Panamanian businesses are increasingly taking advantage of the credit provided under this program. We were told that the credit provided in February exceeded all that had been provided in the previous 5 months combined. AID officials attributed the sluggish interest in the program during the initial months to uncertainties in the minds of Panamanian businessmen about the country's economic future.

Control and Oversight of Cash Transfer Programs

We did not evaluate the internal controls of the cash transfer programs. However, the AID Regional Inspector General issued a report in February 1991 that examined these controls.[1] The AID Regional Inspector General observed the following:

- The controls over the two cash transfer programs of $130 million to clear arrears with international financial institutions and the $113.9 million for public sector investment appear generally adequate given

[1] Audit of USAID/Panama's Economic Support Fund Program, Funded by Public Law 101-302, for the Period May 25, 1990 Through November 30, 1990 (No. 1-525-91-005, Feb. 8, 1991).

AID's plans to track the funds only to their deposit into designated bank accounts.

- Because the $113.9 million for public sector support is commingled with other government of Panama funds to be used for the same purpose, the funds cannot be traced to their final expenditure, even though the grant agreement specifies prohibited uses of these funds and further procedural requirements. However, AID will fund an independent review by external auditors contracted by the government of Panama Comptroller General to assist the Comptroller General in ensuring that sound management and controls are being applied in the use of these funds.
- Regarding the $108 million provided for private sector support, AID has defined the end use of the funds as the point where the National Bank of Panama requests transfer of funds from the Federal Reserve Bank of New York to the accounts of participating Panamanian banks. At this point, AID stops tracking the funds, including the repayments of program funds into and out of a reflow fund established in Panama. In addition, the funds provided to a private bank are secured on the basis of that bank's solvency, a practice that is tantamount to providing unsecured loans.

AID's Development Projects

Approximately $68 million of the economic assistance appropriation for Panama is financing the design, supervision, and implementation of a portfolio of 16 AID development projects, involving public administration, human resources development, trade and investment promotion, protection of the Panama Canal watershed, and other areas. The AID mission is working with the government of Panama and others to design and implement these projects.

Compared with the cash transfer programs, less progress has been made in the development projects because, according to AID officials in Panama, the mission initially concentrated its efforts on the cash transfer programs. About 38 percent of the planned project funds have been obligated, and about 18 percent have been disbursed. Although AID could not provide firm dates on when some of the projects will be started or when funds will be obligated and disbursed, it has established target dates. However, meeting these dates depends upon the progress in negotiations with the government of Panama and others involved in the projects. AID officials in Panama expected that the grant agreements for most projects would be signed and funds obligated by the end of March 1991.

The following is a description of each project and its status, based on information available as of early March 1991.

Improved Administration of Justice (No. 525-0312)

Amount Budgeted: $6.9 million
Amount Obligated: 0
Amount Disbursed: 0

This $12 million, 5-year project, which will receive $6.9 million under the Dire Emergency Act, addresses the operations of and coordination within the justice sector of the government of Panama, focusing on the roles of the courts and the Public Ministry in the investigation and trial stages of the criminal justice process. AID funding will be spent primarily for commodities, technical assistance, training, and local support contractors.

This agreement was signed on March 8, 1991. AID will now initiate contracts for commodities and technical assistance requirements.

Financial Management Reform (No. 525-0306)

Amount Budgeted: $4.5 million
Amount Obligated: 0
Amount Disbursed: 0

This project is designed to improve the government of Panama's financial management and audit systems and to promote accountability of government officials in managing public resources. AID will provide primarily technical assistance and a limited amount of commodities.

The 5-year project, which will receive a total AID contribution of $6.3 million, of which $4.5 million comes from this act, will develop an integrated financial management system and a comprehensive audit system. A draft project authorization document was completed in November 1990, and a draft project agreement was submitted to the government of Panama in January 1991. AID expected to sign the agreement in late March 1991.

Economic Policy Reform (No. 525-0313)

Amount Budgeted: $3.1 million
Amount Obligated: 0
Amount Disbursed: 0

This project is aimed at enhancing the Panamanian Ministry of Planning and Economic Policy's technical ability to implement policy reform. U.S. contractors will provide analytical support in areas such as public investment and fiscal planning. AID officials in Panama explained that the project was not difficult to design, but that it needed to be coordinated with the Inter-American Development Bank and the World Bank to avoid duplication of objectives. AID officials expected this coordination and further negotiations to be completed in April 1991 and expected to sign the grant agreement by the end of April 1991.

Tax Administration Improvement (No. 525-0314)

Amount Budgeted: $1.6 million
Amount Obligated: 0
Amount Disbursed: 0

This 2-year project, which is to be administered by the U.S. Internal Revenue Service, is intended to create a self-sufficient, consistent, and honest tax administration system for Panama. The project, with activities based on a June 1990 needs assessment, resulted in a Survey and Tax Assistance project proposal that was forwarded to Panama's Director General of Income on October 7, 1990. AID and the Minister of

Planning and Economic Policy signed the grant agreement on March 1, 1991.

Natural Resource Management (No. 525-0308)

Amount Budgeted: $10 million
Amount Obligated: 0
Amount Disbursed: 0

This $20 million project, of which $10 million will come from this act, will require future funding to complete. It has three components: (1) protecting the Panama Canal watershed, (2) managing national parks, and (3) establishing a conservation foundation. Much of the initial planning for this project was completed prior to AID's departure from Panama in December 1987. The current project paper is nearly completed and includes arrangements for a debt-for-nature swap whereby Panama will be relieved of a small portion of its commercial debt in exchange for using certain resources for environmental purposes. AID officials told us that a grant agreement should be signed by the end of March 1991 and that the funds will then be obligated.

Central American Peace Scholarships (No. 525-1000)

Amount Budgeted: $6.00 million
Amount Obligated: $5.45 million
Amount Disbursed: 0

This project, the result of an amendment to a program that was started in March 1985 and suspended in March 1988, offers full academic scholarships to selected Panamanian students and is coordinated through Georgetown University in Washington, D.C. The project's main objectives are to provide students with the opportunity to acquire professional or technical skills and to expose students to democratic and pluralistic values, with the intent of inspiring positive attitudes toward the United States.

AID has obligated $5.45 million to send 43 Panamanian students to attend U.S. universities on full scholarships in August 1990 and for 17 Panamanian teachers to attend a 4-month program in the United States to improve their English skills. The remaining $550,000 will finance the first year of a 5-year contract with the Panama Canal College to provide English lessons to students before their departure to the United States. AID officials expected that these funds would be obligated in March 1991.

A February 8, 1991, AID Regional Inspector General report on this activity noted that AID officials in Panama had not been exercising administrative approval over the contractor's expense vouchers and had not known if the costs of its contract had been audited.

PANAJURU Local Scholarships (No. 525-0281)

Amount Budgeted: $0.5 million
Amount Obligated: $0.5 million
Amount Disbursed: 0

The PANAJURU Local Scholarships project provides for 290 local scholarships in fiscal year 1991 and 200 in fiscal year 1992 for economically disadvantaged Panamanian rural youths who come from families with annual incomes of $1,250 or less. The project enables these students to attend professional and technical agricultural institutes, preparing them for future academic training or to work in the agriculture sector as farm managers, supervisors, or agriculture extension agents.

The project originally began in August 1985, was suspended, and then was reactivated in April 1990. The current grant agreement was signed in September 1990, and the first disbursement was expected to be made in March or April 1991.

Private Sector Scholarships (No. 525-0258)

Amount Budgeted: $0.5 million
Amount Obligated: 0
Amount Disbursed: 0

This project, first introduced in June 1984 and reactivated in April 1990, targets middle managers and technicians from Panama's private sector industries and provides training to improve their technical and supervisory skills. AID and Panama's Council for Private Sector Educational Assistance work together on the project and share project costs.

As of early March 1991, a grant agreement had not been signed with the government of Panama. The agreement and the subsequent obligation of $500,000 allocated to the program are contingent upon the expenditure of the $500,000 left over from a previous grant and the Council's submission of a 5-year plan for the project. AID expected the agreement to be signed and funds obligated sometime in March 1991.

A February 8, 1991, AID Regional Inspector General report on this project noted that AID's contractor had not proven its ability to contract and

account for training activities conducted through U.S. organizations and might not be able to adequately control and account for funds. In addition, commenting on the $500,000 matching grant, the Inspector General noted that the AID mission had not monitored these contributions as required by the grant agreement.

Improving Police Services (No. 525-0305)

Amount Budgeted: $13.2 million
Amount Obligated: $7.4 million
Amount Disbursed: $4.6 million

This program is designed to improve police services in Panama. Assistance is directed toward, among other things, establishing basic police skills training, developing a model precinct, developing professional training cadres and a police academy, and establishing offices of professional responsibility within the National Police and the Technical Judicial Police.

The $13.2 million budgeted for this project has been transferred through an interagency agreement to the Department of Justice. The project is being implemented by the U.S. Department of Justice's International Criminal Investigative Training Assistance Program, which has an office in Panama.

The AID Regional Inspector General reported in February 1991 that funds had been transferred to this program without going through the analytical and review processes that would normally be required for a project of this magnitude.

Democratic Initiatives (Nos. 525-0307-01, -02, -03, -04)

Amount Budgeted: $2.1 million
Amount Obligated: $1.4 million
Amount Disbursed: $0.6 million

This project is designed to assist Panamanian efforts to reestablish and consolidate a representative democratic government with full public participation, including a free press. The project includes $500,000 for a series of journalism seminars, $240,000 for a civic education project, $660,000 to train and provide commodities to strengthen the capacity of the new Electoral Tribunal, and $700,000 to improve the capability of the legislative assembly. As of February 28, 1991, AID had obligated $1.4 million for these activities and had disbursed $597,000 for this project.

Trade Promotion (No. 525-0309)

Amount Budgeted: $2 million
Amount Obligated: 0
Amount Disbursed: 0

This 5-year project is designed to help diversify the service-oriented Panamanian economy by introducing export opportunities. The cost of the project is $5 million, of which $2 million will come from the fiscal year 1990 economic assistance appropriation. The remaining $3 million is expected to be appropriated in fiscal years 1992 and 1993. Internal AID decision documents have not been completed, but AID expected the grant agreement to be signed by May 1991.

Immediate Recovery Project (Housing) (No. 525-0302)

Amount Budgeted: $8.3 million
Amount Obligated: $6.4 million
Amount Disbursed: $3.2 million

This project funds replacement housing and living allowances for households in the El Chorrillo District of Panama City and in other areas that lost housing during the U.S. military intervention of December 1989. A total of $16.3 million has been budgeted for this project, including $8.3 million from the economic assistance appropriation. As of February 28, 1991, 1,228 replacement homes had been delivered. Our report, Foreign Assistance: Resettlement of Panama's Displaced El Chorrillo Residents (GAO/NSIAD-91-63BR, Dec. 20, 1990), provides a detailed analysis of this project.

Reimbursement to Office of Foreign Disaster Assistance (No. 525-0300)

Amount Budgeted: $2.5 million
Amount Obligated: $2.5 million
Amount Disbursed: $2.5 million

This project reimbursed the AID Office of Foreign Disaster Assistance for costs associated with the rehabilitation of the "24 de Deciembre" apartment complex that suffered damage during the U.S. military operation in Panama. The work was completed in July 1990.

U.S. Information Agency Training (No. 525-0311)

Amount Budgeted: $0.5 million
Amount Obligated: $0.5 million
Amount Disbursed: 0

The U.S. Information Agency acts as a liaison between the Panamanian press and the U.S. government. This $500,000 has been transferred through an interagency agreement to send Panamanian legislators to the United States to observe legislative operations. Other activities include conducting legislative seminars and training for Panamanian judges and prosecutors to expose them to the U.S. system of justice.

Peace Corps (No. 525-0310)

Amount Budgeted: $0.10 million
Amount Obligated: $0.10 million
Amount Disbursed: $0.04 million

The project supports Peace Corps volunteers assisting in the Natural Resource Management project. Peace Corps activities include agriculture extension, environmental education, small business development, community development, and related activities. Of the $100,000 transferred to the Peace Corps, $40,000 had been spent for these purposes as of February 28, 1991.

Labor Union Development (No. 598-0790)

Amount Budgeted: $0.5 million
Amount Obligated: $0.5 million
Amount Disbursed: $0.5 million

This project, designed to assist the labor union movement in Panama, will finance training in trade union organizing, collective bargaining, labor management relations, and financial management for labor leaders and members of democratic unions throughout the region. A modification to the cooperative agreement, for activities specific to Panama, between AID and the American Institute for Free Labor Development, was signed on September 28, 1990.

Operating and Project Development Expenses (No. 525-0000)

Amount Budgeted: $6.0 million
Amount Obligated: $0.9 million
Amount Disbursed: $0.6 million

These funds are available to pay for AID's operating expenses, including project design and evaluation. As of February 28, 1991, $600,000 had been disbursed for such expenses.

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